

City of Sacramento

California

**COMPREHENSIVE ANNUAL
FINANCIAL REPORT**

Fiscal Year Ended June 30, 2005

**Prepared by the Department of Finance,
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CITY OF SACRAMENTO, CALIFORNIA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended June 30, 2005

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Introductory Section



OFFICE OF THE
CITY MANAGER

CITY OF SACRAMENTO
CALIFORNIA

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November 29, 2005

Honorable Mayor, Members of the City Council
and Citizens of the City of Sacramento, California:

We are pleased to submit to you the Comprehensive Annual Financial Report (CAFR) of the City of Sacramento (City) for the fiscal year ended June 30, 2005. Sound fiscal policy and practice supports the City's vision that "Sacramento will be the most livable city in America." The City Council's sustainable budget policy coupled with responsible financial management and reporting provides the City with a strong financial foundation.

The City charter and state law require that the City issue annually a report on its financial position and activity, and that this report be audited by an independent firm of certified public accountants. Macias, Gini & Company, LLP, a state-wide certified public accounting firm, performed the audit for the fiscal year ended June 30, 2005. Their unqualified ("clean") opinion has been included as the first component of the financial section of this CAFR.

Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that it has established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

Management's discussion and analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview, and analysis of the basic financial statements. MD&A complement this letter of transmittal and should be read in conjunction with it.

PROFILE OF THE CITY

The City of Sacramento, established in 1849, serves as the capital for the state of California and is the center of state government. Sacramento also serves as the seat of

Sacramento County government. It is the seventh largest populated city in California and continues to see a migration of people from the San Francisco Bay Area and Southern California. The State of California, Department of Finance, estimates the population on January 1, 2005 at 452,959 for the City and 1,369,855 for the County of Sacramento. Sacramento encompasses 99 square miles and is located in the northern section of California's burgeoning Central Valley. Sacramento is a charter city and operates under a Council-Manager form of government.

The City provides a full range of municipal services including police, fire, solid waste, water, sewer, storm drainage, construction and maintenance of parks, roads and highways, planning and zoning, recreation and cultural activities, and general administration.

This CAFR presents the financial status of the City and its component units, which are separate legal entities that are included in this report because of the significance of their operational or financial relationships with the City. The following component units are reported on a blended basis as part of the primary government because their boards are composed of all City Council members or they are, in substance, part of the City's operations:

- Sacramento Housing and Redevelopment Agency (SHRA)
- Sacramento City Employees' Retirement System (SCERS)
- Sacramento City Financing Authority (SCFA)

The services provided by SHRA include low income and elderly housing and assistance, social services and redevelopment projects within the City. The SCERS is a single employer closed pension plan for certain City employees. The SCFA is an entity created to issue bonds to finance City and SHRA projects.

Discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize they are legally separate from the primary government and to differentiate their financial position and results of operations from those of the primary government. The following organizations are reported as discretely presented component units:

- Sacramento Hotel Corporation
- Sacramento Regional Arts Facilities Financing Authority

The Sacramento Hotel Corporation provides for the operation of a convention center hotel. The Sacramento Regional Arts Facilities Financing Authority was created for the purpose of financing the expansion of a theater complex.

The Sacramento City Charter requires that the City Manager submit a proposed budget to the City Council at least 60 days prior to the commencement of each fiscal year. Once approved by City Council, this annual budget serves as the foundation for the City of Sacramento's financial planning and control. Budgetary control is maintained at the

department level, by fund. Budgetary control for capital improvement projects is maintained at the individual project level, by fund. Additional budgetary information can be found in Note 1 to the financial statements or at the City of Sacramento's web site, <http://www.cityofsacramento.org/budget/fy2004-05/operating/approved/>.

LOCAL ECONOMY

The Sacramento region provides a spectrum of diverse economies and is now home to many high-tech manufacturers, software development companies, biotechnology and medical research laboratories, food processors and medical equipment manufacturers. The region is also a transportation hub served by air cargo airports, an international airport, a deep water shipping port, two major interstate freeways, freight and passenger rail lines, and an extensive regional commuter bus and light-rail system. These key industries interface with Sacramento's service, government, and retail employers.

The Sacramento area continues to have diverse employment opportunities, with the largest three employment sectors identified as services, government and retail trade. Although the real estate sector represents approximately 10 percent of the Sacramento job market, employment in the real estate sector accounted for nearly 46 percent of the 24,000 jobs created in the region over the past 2 years. Overall, Sacramento has seen a 2 percent to 3 percent increase in employment, with strengthening in the private sector and weakening in the government sector. Sacramento County's unemployment rate was 4.9 percent at June 30, 2005 compared with 5.7 percent at June 30, 2004.

CITY'S STRATEGIC PLAN

The City of Sacramento has recently updated its strategic plan with the following goals that are consistent with long term financial planning and its sustainable budget policy:

- Improve and expand public safety.
- Achieve sustainability and enhance livability.
- Increase opportunities for all Sacramento residents to live in safe and affordable housing.
- Expand economic development throughout the City.

CITY'S SUSTAINABLE BUDGET POLICY

The City of Sacramento has adopted and maintained a sustainable budget policy that has resulted in fiscal stability for the City in times when many other jurisdictions are facing serious budget deficits. Among its objectives are to:

- Assure that on-going costs do not exceed on-going revenues.
- Use one-time funding opportunities for one-time projects and expenditures.

- Maintain an economic uncertainty reserve for use in economic downturns to minimize impact on services to the community.
- Use reserves when appropriate and necessary.
- Develop a balanced budget.

MAJOR INITIATIVES

On June 21, 2005 the City Council adopted the FY2006 budget, which totals \$788 million from all funding sources. Some of the major budget initiatives are as follows:

- Implement the State Water Meter Initiative (AB2572), which requires the installation of water meters on all residential and commercial properties by 2025. The estimated program cost is \$350 million, with costs paid by customers of the City's water system through rates, fees or charges established by the City.
- Issue approximately \$60-\$70 million of General Fund bonds to support a variety of neighborhood and citywide projects.
- Issue approximately \$100 million of Redevelopment bonds to support important downtown projects in the Downtown Redevelopment Area.
- Continue to utilize the three grants awarded from the Federal Department of Homeland Security totaling \$20 million. Sacramento was one of nine urban areas in the State identified as large, high-threat urban areas. Coordinated by the City, the initiative features regional partners (local, state, and federal law enforcement) in a program to provide planning, equipment, training, exercises, assessments and operational needs related to preventing, responding to, and recovering from threats or acts of terrorism.
- Expand after-school programs, teen centers, and preschool programs. New funding has been provided to the Parks and Recreation Department to expand these programs. The number of sites providing these programs is being expanded and a greater number of young people are being served.
- Conclude negotiations with the unions representing City employees; implement labor agreements that are both long-term and within the City's budgeted resources.

AWARDS AND ACKNOWLEDGMENTS

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 of Sacramento for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2004. This marks the 16th consecutive year the City has received this award. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local

government financial reports. The City also received the Award for Outstanding Financial Reporting from the California Society of Municipal Finance Officers (CSMFO) for the same report.

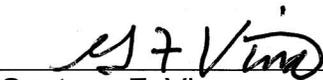
In order to receive these awards, the City published an easily readable and efficiently organized CAFR. The report satisfied accounting principles generally accepted in the United States of America and applicable legal requirements. Both awards are valid for a period of one year only. We believe that our current CAFR continues to meet the requirements of both programs and we are submitting it to the GFOA and CSMFO to determine its eligibility for another certificate.

The Department of Finance takes great pride in the preparation of this report. The professionalism, commitment and effort of each member of the Accounting Division have made this presentation possible. We also want to thank the other members of the Department of Finance as well as those in other City departments who assisted and contributed to the preparation of this report. Finally, we thank you for your interest and continuing support in planning and conducting the City's financial operations in a responsible manner, consistent with the City's mission to protect, preserve and enhance the quality of life for present and future generations.

Respectfully submitted,



Ray Kerridge
Interim City Manager

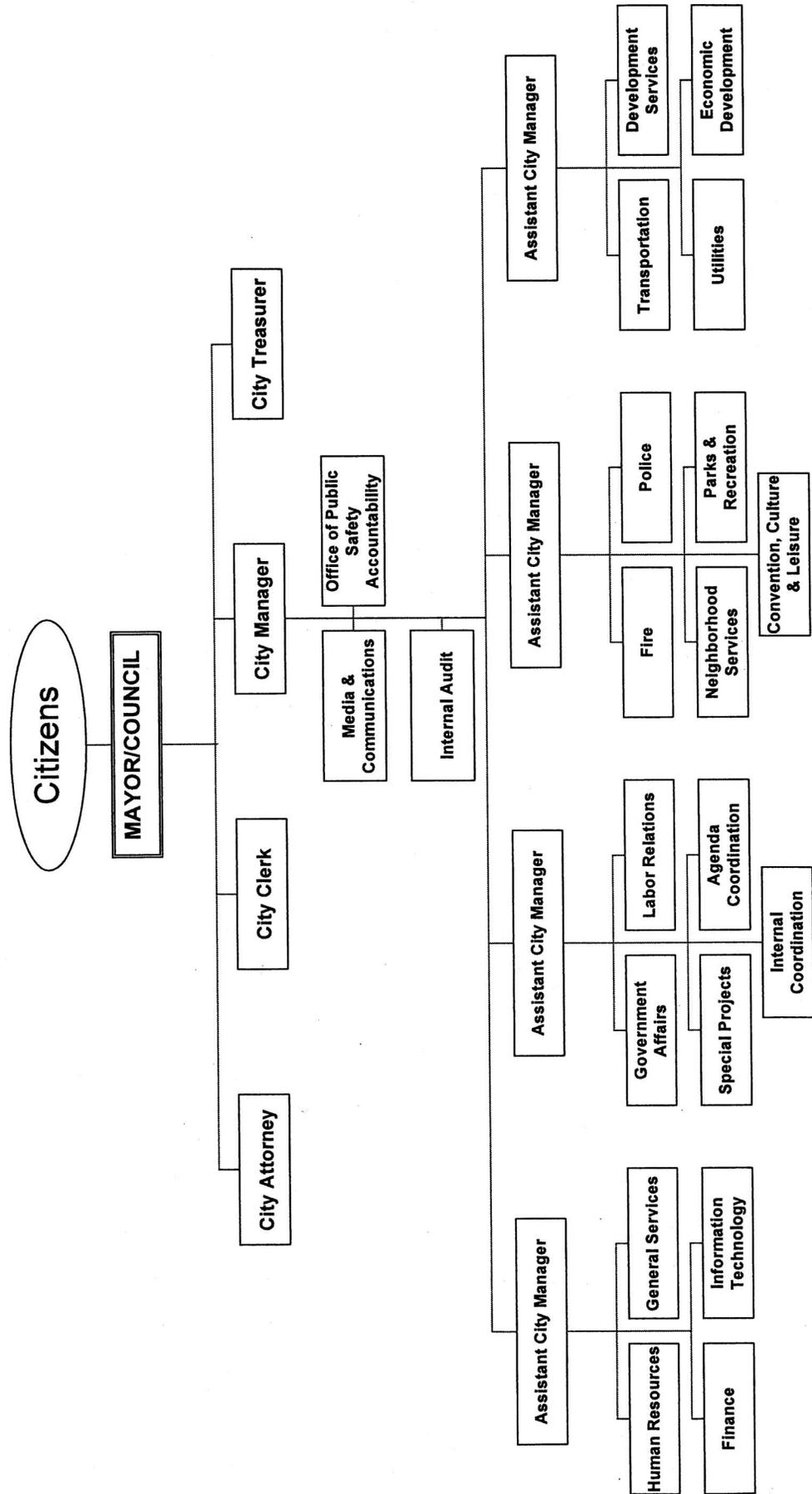


Gustavo F. Vina
Director of Finance



Dennis W. Kauffman, Jr.
Accounting Manager

City of Sacramento Organizational Chart



City of Sacramento

Directory of City Officials

June 30, 2005

Heather Fargo
Mayor

Raymond L. Tretheway III
Vice-Mayor, District 1

Lauren Hammond
Councilmember, District 5

Sandy Sheedy
Councilmember, District 2

Kevin McCarty
Councilmember, District 6

Steve Cohn
Councilmember, District 3

Robbie Waters
Councilmember, District 7

Robert King Fong
Councilmember, District 4

Bonnie Pannell
Councilmember, District 8

Samuel Jackson
City Attorney

Robert Thomas
City Manager

Shirley Concolino
City Clerk

Thomas Friery
City Treasurer

Cassandra Jennings
Assistant City Manager

Ken Nishimoto
Assistant City Manager

Ray Kerridge
Assistant City Manager

Richard Ramirez
Assistant City Manager

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Sacramento,
California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2004

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.



Nancy L. Zelle

President

Jeffrey R. Emer

Executive Director

California Society of Municipal Finance Officers

Certificate of Award

Outstanding Financial Reporting 2003-04

Presented to the

City of Sacramento

*This certificate is issued in recognition of meeting professional standards and criteria in reporting
which reflect a high level of quality in the annual financial statements
and in the underlying accounting system from which the reports were prepared.*

February 24, 2005

William A. Thomas

Bill Thomas, Chair
Professional & Technical Standards Committee



Dedicated to Excellence in Municipal Financial Management

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Financial Section

MANAGEMENT'S DISCUSSION AND ANALYSIS

This is management's discussion and analysis of the financial performance of the City of Sacramento for the fiscal year ended June 30, 2005. Please read this in conjunction with the transmittal letter, which can be found in the introductory section of this report, and with the City's financial statements, which follow this discussion.

FINANCIAL HIGHLIGHTS

- The City's total net assets, excluding discretely presented component units, increased over the course of the fiscal year by \$108 million to \$ 2.5 billion. The net assets of governmental activities increased by \$57 million, or 5 percent, and the net assets of business-type activities increased by \$51 million, or 6 percent.
- The General Fund, using the current financial resources basis, reported revenues in excess of expenditures and other financing sources and uses of \$15.5 million. The surplus was the result of increased revenues and City Council's continued commitment to a sustainable budget concept.
- The increase in net assets of the City's business-type activities was largely due to capital contributions of infrastructure in the Water and Sewer funds and capital contributions to the SHRA Enterprise Fund.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of four parts — management's discussion and analysis (this portion), the basic financial statements, required supplementary information, and optional combining statements for nonmajor governmental funds, nonmajor enterprise funds, internal service funds and agency funds. The basic financial statements include two kinds of statements that present different views of the City.

- The government-wide financial statements provide both long-term and short-term information about the City's overall financial status.
- Fund financial statements focus on individual parts of the City government, reporting the City's operations in more detail than the government-wide statements.
 - ◇ Governmental funds statements tell how general government services such as police, fire and transportation were financed in the short-term as well as what remains for future spending.
 - ◇ Proprietary fund statements offer short-term and long-term financial information about the activities the City operates like businesses, such as utility services.
 - ◇ Fiduciary fund statements provide information about the financial relationships—like the retirement plan for the City's employees— in which the City acts solely as a trustee or agent for the benefit of others, to whom the resources belong.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by the Pension Plans' Schedule of Funding Progress, which is required supplementary information. In addition to these required elements, we have included combining statements that provide details about our nonmajor governmental funds, nonmajor enterprise funds, internal service funds and agency funds, each of which is presented in a column in the basic financial statements.

Government-wide Financial Statements

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the City's assets and liabilities. All current year revenues and expenses are reported in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the City's net assets and how they have changed during the fiscal year. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial health of the City is improving or deteriorating.

The government-wide financial statements of the City are divided as follows:

- *Governmental activities* — Most of the City's basic services are included here, such as the police, fire, transportation, general services, parks and recreation, housing and redevelopment, and general government. Taxes and state and federal grants finance most of these activities.
- *Business-type activities* — certain services provided by the City are funded by customer fees. Among these are the City's utility services, community center, and SHRA assisted housing.
- *Component units* — The City includes two other entities in its basic financial statements which, although legally separate, are important because the City is financially accountable for them. These component units are the Sacramento Hotel Corporation and the Sacramento Regional Arts Facilities Financing Authority.

Fund Financial Statements

A fund is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Fund financial statements provide more detailed information about the City's largest funds, not the City as a whole.

The City has three types of funds:

- *Governmental funds* — Most of the City's basic services are included in governmental funds, which focus on (1) short-term inflows and outflows of spendable resources, and (2) the remaining year-end balances available for spending. Because this information does not encompass the additional long-term focus of the government-wide statements, reconciliations that explain the relationship (or differences) between governmental funds and governmental activities follow the governmental funds statements.
- *Proprietary funds* — Services for which customer fees are intended to finance the costs of operations are generally reported in proprietary funds. Proprietary funds financial statements, like the government-wide statements, provide both long-term and short-term financial information.
 - ◇ Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements.
 - ◇ Internal service funds report activities that provide services for the City's other programs and activities, such as the City's Fleet Fund and Risk Management Fund.

- *Fiduciary funds*—The City is the trustee, or *fiduciary*, for its employees' pension plan. It is also responsible for other assets, reported in an investment trust fund, which because of trust agreements, can be used only for the trust beneficiaries. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the City's fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. We exclude these activities from the City's government-wide financial statements because the City cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS

The government-wide financial statements provide long-term and short-term information about the City's overall financial condition. This analysis addresses the financial statements of the City as a whole.

City of Sacramento
Summary of Net Assets
As of June 30, 2005 and 2004
(in millions)

	Governmental Activities		Business-type Activities		Total Primary Government		Total Percent Change
	2005	2004	2005	2004	2005	2004	
Current and other assets	\$ 1,034	\$ 1,011	\$ 193	\$ 193	\$1,227	\$1,204	1.91%
Capital assets	<u>1,410</u>	<u>1,347</u>	<u>1,290</u>	<u>1,214</u>	<u>2,700</u>	<u>2,561</u>	5.43
Total assets	<u>2,444</u>	<u>2,358</u>	<u>1,483</u>	<u>1,407</u>	<u>3,927</u>	<u>3,765</u>	4.30
Long-term liabilities	721	727	496	472	1,217	1,199	1.50
Other liabilities	<u>204</u>	<u>169</u>	<u>51</u>	<u>50</u>	<u>255</u>	<u>219</u>	16.44
Total liabilities	<u>925</u>	<u>896</u>	<u>547</u>	<u>522</u>	<u>1,472</u>	<u>1,418</u>	3.81
Net assets:							
Invested in capital assets, net of related debt	1,224	1,134	839	783	2,063	1,917	7.61
Restricted	367	425	3	3	370	428	(13.55)
Unrestricted	(72)	(97)	94	99	22	2	1000.00
Total net assets	<u>\$1,519</u>	<u>\$1,462</u>	<u>\$ 936</u>	<u>\$ 885</u>	<u>\$2,455</u>	<u>\$2,347</u>	4.60%

Net assets represent the difference between the City's resources and its obligations. Over time, net assets may serve as an indication of a government's financial position. Combined net assets of the primary government increased by 4.6 percent this year; \$2.347 billion at June 30, 2004 to \$2.455 billion at June 30, 2005. At June 30, 2005, the largest portion of the City's total net assets, approximately 84 percent, reflects the investment in capital assets, less related debt outstanding used to acquire the capital assets. These capital assets are used by the City to provide services to the citizens. Additional capital asset information can be found in the Capital Asset and Debt Administration section of this MD&A. Restricted net assets represent amounts that must be used in accordance with external restrictions. The deficit balance of unrestricted governmental activities net assets is primarily due to the issuance of redevelopment debt by SHRA. Redevelopment debt is used for redevelopment and economic development projects in the community but does not result in assets that are capitalized in SHRA's financial statements. Although the net assets of our business-type activities increased to \$936 million, the City generally can only use these net assets to finance the continuing operations of the business-type activities.

City of Sacramento
Changes in Net Assets
For the Fiscal Years Ended June 30, 2005 and 2004
(in thousands)

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total Primary Government</u>		<u>Total Percent Change</u>
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	
Revenues							
Program revenues:							
Charges for services	\$ 99,999	\$ 94,942	\$ 188,370	\$ 175,160	\$ 288,369	\$ 268,893	6.76%
Operating grants and contributions	77,052	59,821	112,326	99,582	189,378	160,547	18.80
Capital grants and contributions	147,034	204,955	35,318	18,592	182,352	223,612	(18.43)
General revenues:							
Property taxes	70,456	63,877	-	-	70,456	63,877	10.30
Redevelopment tax increment	40,676	35,314	-	-	40,676	35,314	15.18
Utility user taxes	53,893	52,538	-	-	53,893	52,538	2.58
Other taxes	30,668	25,984	14,398	13,436	45,066	39,420	14.32
Sales taxes shared state revenue	55,342	61,822	-	-	55,342	61,822	(10.48)
In-lieu sales tax	15,284	-	-	-	15,284	-	n/a
Motor vehicle license fee	26,393	27,179	-	-	26,393	27,179	(2.89)
Investment earnings	24,751	18,498	4,342	2,229	29,092	20,727	40.36
Other	13,704	11,227	7,906	676	21,610	11,903	81.55
Total revenues	<u>655,252</u>	<u>656,157</u>	<u>362,660</u>	<u>309,675</u>	<u>1,017,912</u>	<u>965,832</u>	5.39
Expenses							
Governmental activities:							
General government	28,759	26,739	-	-	28,759	26,739	7.55
Police	124,204	106,676	-	-	124,204	106,676	16.43
Fire	74,606	65,622	-	-	74,606	57,799	13.69
Public works	-	108,413	-	-	-	108,413	n/a
General services	21,502	-	-	-	21,502	-	n/a
Transportation	71,871	-	-	-	71,871	-	n/a
Economic development	-	4,283	-	-	-	4,283	n/a
Convention, culture & leisure	6,824	6,823	-	-	6,824	6,823	0.01
Parks and recreation	44,534	41,486	-	-	44,534	41,486	7.35
Planning and building	-	18,780	-	-	-	18,780	n/a
Development services	67,852	-	-	-	67,852	-	n/a
Neighborhood services	7,880	6,883	-	-	7,880	6,883	14.48
Housing and redevelopment	64,018	46,774	-	-	64,018	46,774	36.87
Library	8,505	8,185	-	-	8,505	8,185	3.91
Nondepartmental	36,492	32,473	-	-	36,492	32,473	12.38
Interest on long-term debt	31,752	29,306	-	-	31,752	29,306	8.35
Business-type activities:							
Water	-	-	51,950	47,843	51,950	47,843	8.58
Sewer	-	-	13,447	12,734	13,447	12,734	5.60
Storm drainage	-	-	34,988	27,010	34,988	27,010	29.54
Solid waste	-	-	39,260	36,102	39,260	36,102	8.75
Community center	-	-	19,066	18,310	19,066	18,310	4.13
Off-street parking	-	-	14,115	13,580	14,115	13,580	3.94
Golf	-	-	6,719	6,846	6,719	6,846	(1.86)
Child development	-	-	5,092	4,492	5,092	4,492	13.36
Marina	-	-	1,684	1,656	1,684	1,656	1.69
Housing and redevelopment	-	-	135,282	123,892	135,282	123,892	9.19
Total expenses	<u>588,799</u>	<u>502,443</u>	<u>321,603</u>	<u>292,465</u>	<u>910,402</u>	<u>794,908</u>	14.53
Excess before transfers	66,453	153,714	41,057	17,210	107,510	170,924	(37.10)
Transfers	(9,800)	(25,546)	9,800	25,546	-	-	-
Increase in net assets	<u>\$ 56,653</u>	<u>\$ 128,168</u>	<u>\$ 50,857</u>	<u>\$ 42,756</u>	<u>\$ 107,510</u>	<u>\$ 170,924</u>	(37.10)%

Revenue

The City's total revenue was \$1.018 billion for the fiscal year ended June 30, 2005, an increase of 5.4 percent over 2004. Revenue from governmental activities totaled \$655 million and revenue from business-type activities totaled \$363 million. Capital grants revenue, restricted to the construction of capital assets, comprised 18 percent of the total revenue of the City. Taxes provided 21 percent of the total revenue of the City. Charges for services and operating grants provided 47 percent of the total revenue received during 2005.

Expenses

Expenses of the City for the year totaled \$910 million, an increase of 15 percent over 2004. Governmental activity expenses totaled \$589 million, or 65 percent of total expenses. Business-type activities incurred \$322 million of expenses during the year.

Governmental Activities

The following table shows the cost of each of the City's major programs and the net cost of the programs. Net cost is the total cost less fees and other direct revenue generated by the activities. The net cost reflects the financial burden that was placed on the City's taxpayers by each of the programs.

City of Sacramento
Net Cost of Governmental Activities
 For the Fiscal Years Ended June 30, 2005 and 2004
 (in millions)

	Total Cost of Services		Percentage change	Net Cost (Benefit) of Services		Percentage change
	2005	2004		2005	2004	
Police	\$ 124.2	\$ 106.7	14.09%	\$ 102.2	\$ 89.1	14.70%
Fire	74.6	65.6	12.06	55.9	48.2	15.98
Public works	-	108.4	n/a	-	(124.8)	n/a
Transportation	71.9	-	n/a	(3.3)	-	n/a
General Services	21.5	-	n/a	(45.6)	-	n/a
Development Services	67.9	-	n/a	17.2	-	n/a
Parks and recreation	44.5	41.5	6.74	15.0	15.2	(1.32)
Housing and redevelopment	64.0	46.8	26.88	23.2	15.8	46.84
Other	120.2	133.4	(10.98)	100.1	99.2	0.91
Total	\$ 588.8	\$ 502.4	17.20%	\$ 264.7	\$ 142.7	85.49%

The cost for all governmental activities this year was \$589 million. The City's taxpayers paid for approximately 45 percent of these costs, \$265 million. Fees, grants and contributions funded the balance of the costs of governmental activities. The increase in net cost of services for 2005 over 2004 is due to a 28 percent decrease in capital grants and contributions revenue.

Police, Fire, and Parks and Recreation total cost of services increased as a function of increased development in the City. Because of reorganizations in the City, meaningful comparisons can not be made between prior year Public Works costs and the reorganized City functions of Transportation, General Services and Development Services. Increases in population and development did cause an overall cost increase in these areas over comparable costs in last year's public works budget. Housing and Redevelopment costs increased because of greater activities in the CDBG, HOME and CalHOME entitlement programs carried on by SHRA.

Business-type Activities

Total revenue of the City's business-type activities totaled \$363 million. Expenses of business-type activities were \$322 million. Capital grants and contributions in the water, sewer, solid waste and housing and redevelopment activities provided \$35.3 million to finance capital improvements. The costs of capital improvements are reported as capital assets in the statement of net assets, rather than as expenses in the statement of activities. Business-type expenses increased by approximately \$29 million because of increased development in the City and increasing services needs fueled by population growth. The business-type activities had an increase of \$29.5 million in operating and capital grant revenue over 2004, primarily for Housing and Redevelopment programs.

FINANCIAL ANALYSIS OF THE FUND STATEMENTS

The City uses fund accounting to assure and demonstrate compliance with finance-related legal requirements. The fund financial statements focus on individual parts of the City government, reporting the City's operations in more detail than the government-wide statements.

The City's governmental funds provide information on near-term inflows, outflows and balances of spendable resources. The City's governmental funds reported combined fund balances at June 30, 2005 of \$575 million, a decrease of \$29 million over the previous fiscal year. Although the General Fund's fund balance increased by \$15.5 million, a portion of the increase has been used to establish or increase designations of fund balance. The SHRA Capital Projects Fund decreased by \$9.5 million, a result of expenditures for redevelopment projects. Other Governmental Funds contributed to the balance of the decrease in fund balances; a result of expenditures for capital projects, debt service and grant programs.

The City's proprietary funds provide the same type of information as the government-wide financial statements in greater detail. The City's proprietary funds reported combined net assets of \$937 million at June 30, 2005, an increase of \$51 million over 2004. The change in net assets was due to an overall operating loss of \$106 million, offset by net non-operating revenues of \$112 million, the changes due mainly to the SHRA Enterprise fund. Capital contributions and transfers provided an increase to net assets of approximately \$44 million, and again, most of this related to activity in the SHRA Enterprise fund. All major enterprise funds reported positive changes in net assets, after non-operating items and transfers, with the exception of the Storm Drainage fund, which reported a decrease in net assets of \$2.4 million.

General Fund Budgetary Highlights

Over the course of the year, the City Council revised the City budget with adjustments that fall into the following two categories:

- Changes made through the midyear report to adjust current year revenues and appropriations for updated projections, adjust appropriations for the use of prior year department carryover, and establish or release designations of fund balance.
- Other revenue adjustments and appropriations approved after the original budget is adopted, and before or after the midyear report is approved.

The major changes from the approved budget were an increase in the revenue budget to reflect stronger tax collections than originally projected. Expenditure budgets were augmented for capital projects and for programming one-time projects from fund balance designations.

After taking into account these adjustments, actual expenditures were \$37.7 million lower than final budget amounts. Capital outlay expenditures were less than the current year budget appropriations by \$25.8 million because of the carryover of prior-year capital budgets for multi-year projects and unspent current year appropriations. All general government departments except Transportation and Nondepartmental reported favorable expenditure budget variances. The expenditure overrun in Transportation was primarily related to Street Maintenance activities and was funded by excess Transportation Department revenue. The expenditure overrun in the Nondepartmental budget was caused by employee benefit and compensation programs and program support activities. The Nondepartmental overrun was funded by general City revenues.

Revenues were \$26.8 million above the final budgeted amount. All revenue categories except miscellaneous items exceeded budgeted estimates. Revenue exceeded budget because of robust increases in tax collections and the early repayment of the Motor Vehicle License Fee loan by the State of California.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2005, the City had invested \$2.7 billion in a broad range of capital assets, including police and fire equipment, buildings, parks and park improvements, roads, bridges, water, sewer and storm drainage transmission and distribution systems. This represents a net increase for the current fiscal year of \$138 million, or 5.4 percent.

	Capital Assets (net of depreciation, in millions)					
	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Capital assets not being depreciated:						
Land and improvements	\$ 118	\$ 115	\$ 63	\$ 62	\$ 181	\$ 177
Construction in progress	250	280	162	287	412	567
Depreciable capital assets:						
Buildings and improvements	324	253	376	377	700	630
Equipment	5	4	16	14	21	18
Vehicles	41	42	-	-	41	42
Transmission and distribution systems	-	-	673	474	673	474
Road network	557	557	-	-	557	557
Street light network	85	79	-	-	85	79
Parks and park improvements	30	17	-	-	30	17
Total	\$ 1,410	\$ 1,347	\$1,290	\$1,214	\$ 2,700	\$ 2,561

This year's major capital asset additions included:

- Roadway infrastructure and streetlights in the North Natomas area were dedicated to the City by developers at an estimated fair market value of \$13 million.

- Water transmission and distribution systems infrastructure was financed mostly by debt proceeds, private developer contributions and grants, with current year costs of \$191 million, of which the E. A. Fairbairn and Sacramento River water treatment plants expansions added approximately \$175 million.
- Sewer and storm drainage transmission and distribution systems infrastructure was financed mostly by private developer contributions, grants and community facilities districts, with current year costs of approximately \$29 million.
- The construction of the new Civic Center and the refurbishing of the historic City Hall added \$75 million to buildings and improvements of governmental activities.
- The construction of the 911 dispatch and training facility, and fire stations added approximately \$14 million to construction in progress of governmental activities. The Howe Avenue Water Transmission Main project added approximately \$8 million to construction in progress of business-type activities.

More detailed information about the City's capital assets is presented in Note 4 to the financial statements.

Long-term Debt

At June 30, 2005 and 2004, the City had \$1.057 and \$1.051 billion, respectively, in long-term debt outstanding; not including \$116 million of debt for the City's discretely presented component units. More detailed information about the City's total long-term liabilities is presented in Note 7 to the financial statements.

Outstanding debt of governmental activities decreased approximately \$19 million primarily due to principal payments on existing debt during the year. Outstanding debt of business-type activities increased approximately \$25 million primarily due to new debt issued by the redevelopment agency in the amount of \$40 million to acquire, rehabilitate and develop a 182-unit residential housing complex known as Phoenix Park, offset by decreases for principal payments on existing debt of about \$15 million during the year.

**City of Sacramento
Outstanding Debt**
June 30, 2005 and 2004
(in millions)

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Revenue and other bonds, net	\$ 428	\$ 441	\$ 397	\$ 381	\$ 825	\$ 822
Tax allocation bonds	137	144	-	-	137	144
Certificates of participation, net	-	1	-	-	-	1
Notes payable	16	15	75	67	91	82
Capital lease obligations	3	2	1	-	4	2
Total	\$ 584	\$ 603	\$ 473	\$ 448	\$ 1,057	\$1,051

The City continues to maintain excellent credit ratings on all of its debt issues. The following are the ratings at June 30, 2005 as determined by Moody's Investors Service and Standard & Poor's. These ratings have not changed subsequent to year-end.

	<u>Moody's</u>	<u>S & P</u>
Insured issues:		
• 1993 Refunded Lease Revenue Bonds, Series A	Aaa	Aa
• 1995 Gas Tax Revenue Bonds, Series A	Aaa	AAA
• 1996 Lighting and Landscape Bonds	Aaa	AAA
• 1997 Lease Revenue Bonds	Aaa	AAA
• 1999 Capital Improvement Revenue Bonds	Aaa	AAA
• 2001 Capital Improvement Revenue Bonds, Series A	Aaa	AAA
• 2002 Capital Improvement Revenue Bonds, Series A	Aaa	AAA
• 2003 Capital Improvement Revenue Bonds	Aaa	AAA
Uninsured issues:		
• 1991 Marks-Roos Revenue Bonds	A2	A+p
• 1993 Refunded Lease Revenue Bonds, Series B	A1	AA-
• 2000 Capital Improvement Revenue Bonds	Aa3	AA-
• 2002 Refunding Revenue Bonds	A1	AA-

The City's bonded debt per capita is a useful indicator to citizens and investors of the City's debt position. The bonded debt per capita at June 30, 2005 and 2004 was \$2,380 and \$2,454, respectively, a decrease of 3 percent from the prior year. This decrease is due to a modest increase in bonded debt coupled with an increase in the City's population for the year. Bonded debt includes debt issued by SHRA; it does not include special assessment debt, conduit debt, or mortgage insured bonds for which the City is not obligated.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

Economic Factors

The City's financial status and budget outlook continue to improve, yet the City faces significant fiscal challenges. These include:

- The City is facing the challenge of maintaining services levels in the context of unprecedented growth in population and housing. The City must dedicate resources to expanding staffing and budget to provide services to the new residents and development.
- Labor, health care and pension costs continue to increase.
- State budget actions are certain to affect the City. City property tax revenue will be reduced due to the transfer of property tax revenue to school districts; grant funding is at risk as are jail booking fees.
- The City will not be immune from the budget actions of other governmental agencies. City residents depend on County services, and City departments are affected by reductions in County services. The County is largely dependent on the Federal and State governments for program funding. Federal and State budget actions that affect the County may adversely affect the City.

Economic factors that may favorably affect the City in the longer term include:

- In November 2004, the voters of the State approved Proposition 1A which provides for the return, in fiscal year 2006/07, of the annual property tax reduction referred to above. The proposition also greatly reduces the State's ability to permanently tax municipal revenues in the future.
- Local economic conditions are improving. Employment levels are slowly increasing. The real estate market has been very strong for three consecutive years. There has been recent growth in sales tax receipts both within the City and the region.

Next Year's Budget

The General Fund budget for 2006 appropriates \$352 million, an increase of 7 percent over the prior year. General Fund revenue for 2005 is projected to be \$347 million, an increase of 13 percent over 2005. The City plans to draw on fund balance to bridge the gap between projected revenue and appropriations. These increases for 2006 reflect the increasing demand for services that accompany the growth of the City.

The 2006 budget for Utilities includes a second year of rate increases for water and sewer services that will be used to address infrastructure rehabilitation and replacement needs.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances, and to demonstrate the City's accountability for the money it receives. If you have questions about this report, need additional financial information, or would like to obtain component unit financial statements, contact the City of Sacramento Department of Finance, Accounting Division, 915 I Street, Fourth Floor, Sacramento, CA, 95814, or visit the City's web page at www.cityofsacramento.org.

Government-wide Financial Statements

City of Sacramento

Statement of Net Assets

June 30, 2005

(in thousands)

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Cash and investments	\$ 663,259	\$ 118,013	\$ 781,272	\$ 226
Receivables, net	285,939	43,408	329,347	17,257
Internal balances	35,227	(35,057)	170	-
Inventories	1,021	1,700	2,721	119
Prepaid items	437	65	502	84
Restricted cash and investments	42,413	59,211	101,624	19,513
Deferred charges	6,304	6,284	12,588	3,460
Land and other capital assets not being depreciated	368,451	225,275	593,726	4,954
Other capital assets, net of depreciation	1,041,139	1,064,297	2,105,436	70,722
Total assets	2,444,190	1,483,196	3,927,386	116,335
LIABILITIES				
Securities lending obligations	111,214	26,528	137,742	-
Payables	68,429	22,774	91,203	7,758
Unearned revenue	24,667	1,603	26,270	5
Long-term liabilities:				
Due within one year	62,905	13,792	76,697	330
Due in more than one year	658,344	481,845	1,140,189	115,352
Total liabilities	925,559	546,542	1,472,101	123,445
NET ASSETS				
Invested in capital assets, net of related debt	1,223,934	839,889	2,063,823	(14,704)
Restricted for:				
Capital projects	52,573	200	52,773	-
Debt service	9,882	-	9,882	4,744
Housing and redevelopment	274,130	1,776	275,906	-
Trust and endowments:				
Expendable	1,927	-	1,927	-
Nonexpendable	2,920	-	2,920	-
Other	24,801	1,038	25,839	1,339
Unrestricted (deficit)	(71,536)	93,751	22,215	1,511
Total net assets	\$ 1,518,631	\$ 936,654	\$ 2,455,285	\$ (7,110)

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

City of Sacramento

Statement of Activities

For the Fiscal Year Ended June 30, 2005

(in thousands)

Functions/Programs	Program Revenues					Net (Expense) Revenue
	Operating Expenses	Indirect Expenses Allocation	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government:						
Governmental activities:						
General government	\$ 37,210	\$ (8,451)	\$ 4,768	\$ -	\$ 332	\$ (23,659)
Police	124,204	-	3,456	18,559	-	(102,189)
Fire	74,606	-	16,854	1,856	-	(55,896)
General services	24,053	(2,551)	7,600	737	2,960	(10,205)
Transportation	71,871	-	12,097	15,966	47,062	3,254
Convention, culture & leisure	6,824	-	1,970	702	180	(3,972)
Parks and recreation	44,534	-	4,794	8,642	16,110	(14,988)
Development services	67,852	-	43,941	51	62,459	38,599
Neighborhood services	7,880	-	2,714	250	-	(4,916)
Housing and redevelopment	64,018	-	1,311	30,289	9,251	(23,167)
Library	8,505	-	-	-	-	(8,505)
Nondepartmental	36,492	-	494	-	8,680	(27,318)
Interest on long-term debt	31,752	-	-	-	-	(31,752)
Total governmental activities	599,801	(11,002)	99,999	77,052	147,034	(264,714)
Business-type activities:						
Water	49,344	2,606	49,009	-	14,722	11,781
Sewer	12,413	1,034	16,332	-	11,554	14,439
Storm drainage	32,893	2,095	31,336	-	-	(3,652)
Solid waste	35,369	3,891	42,241	484	-	3,465
Community center	18,656	410	6,391	-	-	(12,675)
Off-street parking	13,693	422	16,422	-	-	2,307
Golf	6,375	344	6,408	-	-	(311)
Child development	5,092	-	4,766	597	-	271
Marina	1,484	200	1,745	-	-	61
Housing and redevelopment	135,282	-	13,720	111,245	9,042	(1,275)
Total business-type activities	310,601	11,002	188,370	112,326	35,318	14,411
Total primary government	\$ 910,402	\$ -	\$ 288,369	\$ 189,378	\$ 182,352	\$ (250,303)
Component units:						
Sacramento Hotel Corporation	\$ 35,510	\$ -	\$ 32,197	\$ -	\$ -	\$ (3,313)
Sacramento Regional Arts Facilities Financing Authority	757	-	-	-	-	(757)
Total component units	\$ 36,267	\$ -	\$ 32,197	\$ -	\$ -	\$ (4,070)

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

City of Sacramento

Statement of Activities

For the Fiscal Year Ended June 30, 2005

(in thousands)

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Change in net assets:				
Net (expense) revenue	\$ (264,714)	\$ 14,411	\$ (250,303)	\$ (4,070)
General revenues:				
Taxes:				
Property taxes	70,456	-	70,456	-
Redevelopment tax increment	40,676	-	40,676	-
Utility user taxes	53,893	-	53,893	-
Other taxes	30,668	14,398	45,066	-
Sales taxes shared state revenue	55,342	-	55,342	-
In-lieu sales tax	15,284	-	15,284	-
In-lieu motor vehicle tax	26,393	-	26,393	-
Investment earnings	24,751	4,342	29,093	1,305
Miscellaneous	10,267	1,015	11,282	-
Gain on disposition of capital assets	3,437	6,891	10,328	-
Transfers	(9,800)	9,800	-	-
Total general revenues and transfers	321,367	36,446	357,813	1,305
Change in net assets	56,653	50,857	107,510	(2,765)
Net assets, beginning of year	1,461,978	885,797	2,347,775	(4,345)
Net assets, end of year	\$ 1,518,631	\$ 936,654	\$ 2,455,285	\$ (7,110)

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

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Fund Financial Statements

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City of Sacramento

Balance Sheet

Governmental Funds

June 30, 2005

(in thousands)

	General Fund	SHRA Capital Projects Fund	SHRA Special Revenue Fund
ASSETS			
Cash and investments held by City	\$ 192,403	\$ 141,034	\$ 23,375
Cash and investments held by fiscal agent	-	-	-
Receivables, net:			
Taxes	19,871	-	1,484
Accounts	15,595	315	358
Loans	1,498	49,578	49,960
Intergovernmental	-	2,790	3,561
Interest	1,033	-	-
Due from other funds	-	2,925	2,920
Prepaid items	368	-	-
Restricted assets:			
Cash and investments held by City	115	744	2,693
Cash and investments held by fiscal agent	-	-	-
Advances to other funds	400	7,885	12,378
Total assets	<u>\$ 231,283</u>	<u>\$ 205,271</u>	<u>\$ 96,729</u>

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

City of Sacramento

Balance Sheet

Governmental Funds

June 30, 2005

(in thousands)

	1997 Lease Revenue Bond Fund	Transportation and Development Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and investments held by City	\$ 1,773	\$ 69,793	\$ 176,532	\$ 604,910
Cash and investments held by fiscal agent	119	-	3,107	3,226
Receivables, net:				
Taxes	-	-	6,079	27,434
Accounts	-	646	10,373	27,287
Loans	72,290	-	2,222	175,548
Intergovernmental	-	1,172	44,728	52,251
Interest	952	181	819	2,985
Due from other funds	-	-	-	5,845
Prepaid items	-	14	8	390
Restricted assets:				
Cash and investments held by City	2,490	-	25,740	31,782
Cash and investments held by fiscal agent	-	-	10,126	10,126
Advances to other funds	-	-	1,118	21,781
Total assets	\$ 77,624	\$ 71,806	\$ 280,852	\$ 963,565

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

(continued)

City of Sacramento
Balance Sheet
Governmental Funds

June 30, 2005
(in thousands)

	General Fund	SHRA Capital Projects Fund	SHRA Special Revenue Fund
Liabilities:			
Securities lending obligations	\$ 43,010	\$ 9,841	\$ -
Accounts payable	30,768	1,553	4,094
Due to other funds	-	1,756	723
Matured bonds and interest payable	-	-	-
Deposits	298	227	1,363
Deferred revenue	3,168	590	69,139
Advances from other funds	613	974	1,008
Total liabilities	77,857	14,941	76,327
Fund balances:			
Reserved:			
For noncurrent assets	1,305	57,463	9,708
For encumbrances	10,790	20,054	132
For debt service	-	744	2,432
For housing redevelopment	-	105,627	997
For trust obligations	-	-	-
Unreserved:			
Designated for economic uncertainty	30,000	-	-
Designated for capital projects	20,601	-	-
Designated for future labor costs	12,000	-	-
Designated for future PERS costs	7,800	-	-
Designated for disaster recovery	6,000	-	-
Designated for grant match	2,200	-	-
Designated for growth initiatives	7,500	-	-
Designated for state impacts	2,900	-	-
Designated for subsequent years' expenditures	38,897	-	-
Undesignated	13,433	6,442	7,133
Unreserved, reported in:			
Special revenue funds	-	-	-
Debt service funds	-	-	-
Capital projects funds	-	-	-
Permanent funds	-	-	-
Total fund balances	153,426	190,330	20,402
Total liabilities and fund balances	\$ 231,283	\$ 205,271	\$ 96,729

(continued)

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

City of Sacramento

Balance Sheet

Governmental Funds

June 30, 2005

(in thousands)

	1997 Lease Revenue Bond Fund	Transportation and Development Fund	Other Governmental Funds	Total Governmental Funds
Liabilities:				
Securities lending obligations	\$ -	\$ 7,538	\$ 28,053	\$ 88,442
Accounts payable	-	1,957	17,155	55,527
Due to other funds	-	-	24,335	26,814
Matured bonds and interest payable	-	-	2,894	2,894
Deposits	-	710	954	3,552
Deferred revenue	73,242	2,127	55,790	204,056
Advances from other funds	-	-	4,486	7,081
Total liabilities	73,242	12,332	133,667	388,366
Fund balances:				
Reserved:				
For noncurrent assets	-	-	3,340	71,816
For encumbrances	-	8,105	39,294	78,375
For debt service	2,490	-	19,055	24,721
For housing redevelopment	-	-	-	106,624
For trust obligations	-	-	1,927	1,927
Unreserved:				
Designated for economic uncertainty	-	-	-	30,000
Designated for capital projects	-	30,451	-	51,052
Designated for future labor costs	-	-	-	12,000
Designated for future PERS costs	-	-	-	7,800
Designated for disaster recovery	-	-	-	6,000
Designated for grant match	-	-	-	2,200
Designated for growth initiatives	-	-	-	7,500
Designated for state impacts	-	-	-	2,900
Designated for subsequent years' expenditures	119	6,031	-	45,047
Undesignated	1,773	14,887	-	43,668
Unreserved, reported in:				
Special revenue funds	-	-	16,722	16,722
Debt service funds	-	-	12,067	12,067
Capital projects funds	-	-	51,860	51,860
Permanent funds	-	-	2,920	2,920
Total fund balances	4,382	59,474	147,185	575,199
Total liabilities and fund balances	\$ 77,624	\$ 71,806	\$ 280,852	\$ 963,565

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

City of Sacramento
Reconciliation of the Balance Sheet to the Statement of Net Assets
Governmental Funds

June 30, 2005
(in thousands)

Fund balances - total governmental funds		\$ 575,199
Amounts reported for governmental activities in the statement of net assets are different because:		
Deferred revenue and other resources not available to liquidate liabilities of the current period are not recognized in the funds.		179,854
Deferred charges represent costs associated with the issuance of long-term debt which are deferred and amortized over the period which the debt is outstanding. The costs are reported as expenditures of the current period in the governmental funds.		6,240
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds:		
Governmental capital assets	2,180,386	
Less: accumulated depreciation	<u>(815,998)</u>	
		1,364,388
Certain current liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of the following:		
Interest payable	(3,740)	(3,740)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
Accrued compensated absences	(33,805)	
Financing fee plan credits	(30,976)	
Revenue and other bonds payable, net	(419,348)	
Capital lease obligations payable	(2,549)	
Certificates of participation payable, net	(324)	
Tax allocation bonds payable	(138,029)	
Notes payable	<u>(16,440)</u>	
		(641,471)
Internal service funds are used by management to charge the costs of certain activities, such as insurance and fleet, to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.		<u>38,161</u>
Net assets of governmental activities		<u><u>\$ 1,518,631</u></u>

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

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City of Sacramento
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2005
(in thousands)

	General Fund	SHRA Capital Projects Fund	SHRA Special Revenue Fund
Revenues:			
Taxes	\$ 224,297	\$ -	\$ 8,334
Intergovernmental	48,257	11,493	22,658
Charges for services	49,071	18	1,293
Fines, forfeits and penalties	6,288	-	-
Interest, rents, and concessions	3,867	1,227	2,049
Community service fees	-	-	-
Assessment levies	-	-	-
Contributions from property owners	-	-	-
Donations	-	-	-
Miscellaneous	310	1,468	1,824
Total revenues	332,090	14,206	36,158
Expenditures:			
Current:			
General government	25,440	-	-
Police	104,251	-	-
Fire	71,675	-	-
General services	8,372	-	-
Utilities	219	-	-
Transportation	5,249	-	-
Convention, culture and leisure	3,773	-	-
Parks and recreation	21,796	-	-
Development services	22,379	-	-
Neighborhood services	7,630	-	-
Library	7,997	-	-
Housing and redevelopment	-	22,667	35,732
Nondepartmental	26,952	-	-
Capital outlay	11,294	9,865	364
Debt service:			
Principal	2,007	150	2,469
Interest and fiscal charges	202	60	2,710
Total expenditures	319,236	32,742	41,275
Excess (deficiency) of revenues over (under) expenditures	12,854	(18,536)	(5,117)
Other financing sources (uses):			
Transfers in	21,173	11,336	1,289
Transfers out	(20,656)	(2,944)	(2,219)
Proceeds from long-term debt	2,100	-	-
Proceeds from sale of property	-	656	4,630
Total other financing sources (uses)	2,617	9,048	3,700
Net change in fund balances	15,471	(9,488)	(1,417)
Fund balances, beginning of year	137,955	199,818	21,819
Fund balances, end of year	\$ 153,426	\$ 190,330	\$ 20,402

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

City of Sacramento
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds

For the Fiscal Year Ended June 30, 2005

(in thousands)

	1997 Lease Revenue Bond Fund	Transportation and Development Fund	Other Governmental Funds	Total Governmental Funds
Revenues:				
Taxes	\$ -	\$ 4,722	\$ 32,342	\$ 269,695
Intergovernmental	-	26,737	58,303	167,448
Charges for services	-	7,563	891	58,836
Fines, forfeits and penalties	-	1,513	3	7,804
Interest, rents, and concessions	508	1,683	7,944	17,278
Community service fees	-	984	39,331	40,315
Assessment levies	-	-	18,443	18,443
Contributions from property owners	7,831	-	38,512	46,343
Donations	-	-	63	63
Miscellaneous	-	1	67	3,670
Total revenues	8,339	43,203	195,899	629,895
Expenditures:				
Current:				
General government	-	-	446	25,886
Police	-	-	17,297	121,548
Fire	-	-	1,685	73,360
General services	-	-	7,953	16,325
Utilities	-	-	-	219
Transportation	-	12,798	3,991	22,038
Convention, culture and leisure	-	-	1,074	4,847
Parks and recreation	-	-	17,102	38,898
Development services	-	8,642	35,764	66,785
Neighborhood services	-	-	250	7,880
Library	-	-	-	7,997
Housing and redevelopment	-	-	-	58,399
Nondepartmental	-	149	5,183	32,284
Capital outlay	-	17,136	98,727	137,386
Debt service:				
Principal	420	-	29,192	34,238
Interest and fiscal charges	4,942	-	27,883	35,797
Total expenditures	5,362	38,725	246,547	683,887
Excess (deficiency) of revenues over (under) expenditures	2,977	4,478	(50,648)	(53,992)
Other financing sources (uses):				
Transfers in	-	-	23,746	57,544
Transfers out	-	(3,163)	(24,226)	(53,208)
Proceeds from long-term debt	-	-	12,883	14,983
Proceeds from sale of property	-	-	-	5,286
Total other financing sources (uses)	-	(3,163)	12,403	24,605
Net change in fund balances	2,977	1,315	(38,245)	(29,387)
Fund balances, beginning of year	1,405	58,159	185,430	604,586
Fund balances, end of year	\$ 4,382	\$ 59,474	\$ 147,185	\$ 575,199

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

City of Sacramento
Reconciliation of the Statement of Revenues, Expenditures and Changes in
Fund Balances to the Statement of Activities

Governmental Funds

For the Fiscal Year Ended June 30, 2005

(in thousands)

Net change in fund balances - total governmental funds **\$ (29,387)**

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

Governmental funds report capital outlay as expenditures. In the statement of activities, however, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

Capital outlay	130,289	
Depreciation expense	<u>(61,294)</u>	68,995

The net effect of various transactions involving capital assets (i.e., sales and donations) is to decrease net assets. (1,825)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds - infrastructure dedications. 12,847

Long-term debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Costs associated with the issuance of long-term debt are reported as expenditures in the governmental funds, but deferred and amortized throughout the period during which the related debt is outstanding. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Issuance of long-term debt	(14,983)	
Principal repayments on long-term debt	<u>34,238</u>	19,255

Earned deferred revenue and other resources not available to liquidate liabilities of the current period are not recognized in governmental funds. Revenue in the statement of activities is not limited by availability, so certain revenues need to be reduced by the amounts that were unavailable at the beginning of the year and increased by the amounts that were unavailable at the end of the year. This adjustment records a net increase in revenues - unavailable revenues at the end of the year exceed beginning unavailable revenues by this amount. 6,908

City of Sacramento

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities

Governmental Funds

For the Fiscal Year Ended June 30, 2005

(in thousands)

<p>Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.</p>	
Compensated absences	(3,094)
Accrued interest	(61)
Amortization of issuance costs	(326)
Amortization of bond discount	(46)
Amortization of bond premium	283
Amortization of gain/loss on refunding	(98)
	<hr/>
	(3,342)
<p>Capital assets transferred from governmental activities to business-type activities are reported as transfers in the statement of activities. The transfers are not reported in the governmental funds as the amount did not involve the transfer of financial resources.</p>	
	(11,170)
<p>Internal service funds are used by management to charge the costs of certain activities, such as insurance and fleet, to individual funds. The net revenue (expense) of the internal service funds is reported with the governmental activities.</p>	
	<hr/>
	(5,628)
Change in net assets of governmental activities	<hr/>
	<u>\$ 56,653</u>

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

City of Sacramento
Statement of Revenues and Expenditures -
Budget and Actual (Non-GAAP Budgetary Basis)
with Budget to GAAP Reconciliation
General Fund

For the Fiscal Year Ended June 30, 2005
(in thousands)

	<u>Budgeted Amounts</u>		<u>Actual Amounts - Budgetary Basis</u>	<u>Variance with Final Budget - Positive (Negative)</u>	<u>Budget to GAAP Reconciliation</u>	<u>Actual Amounts - GAAP Basis</u>
	<u>Original</u>	<u>Final</u>				
Revenues:						
Taxes	\$199,690	\$211,680	\$224,297	\$ 12,617	\$ -	\$ 224,297
Intergovernmental	36,951	38,027	48,257	10,230	-	48,257
Charges for services	43,880	45,490	49,071	3,581	-	49,071
Fines, forfeits and penalties	5,462	5,931	6,288	357	-	6,288
Interest, rents, and concessions	3,567	3,583	3,867	284	-	3,867
Miscellaneous	945	550	310	(240)	-	310
Total revenues	290,495	305,261	332,090	26,829	-	332,090
Expenditures:						
Current:						
Charter offices	11,540	12,340	11,159	1,181	103	11,262
Administrative services	16,567	17,372	14,397	2,975	(219)	14,178
Subtotal - General government	28,107	29,712	25,556	4,156	(116)	25,440
Police	106,150	106,151	104,387	1,764	(136)	104,251
Fire	72,848	74,526	71,717	2,809	(42)	71,675
General services	8,484	9,333	8,206	1,127	166	8,372
Utilities	219	219	219	-	-	219
Transportation	5,733	5,824	5,908	(84)	(659)	5,249
Convention, culture and leisure	4,037	4,198	3,782	416	(9)	3,773
Parks and recreation	21,995	22,426	22,168	258	(372)	21,796
Development services	23,205	23,920	21,766	2,154	613	22,379
Neighborhood services	6,836	8,006	7,689	317	(59)	7,630
Library	7,997	7,997	7,997	-	-	7,997
Nondepartmental	23,541	26,184	27,252	(1,068)	(300)	26,952
Capital outlay	26,395	34,766	8,942	25,824	2,352	11,294
Debt service:						
Principal	410	2,231	2,231	-	(224)	2,007
Interest and fiscal charges	117	202	202	-	-	202
Total expenditures	336,074	355,695	318,022	37,673	1,214	319,236
Excess (deficiency) of revenues over (under) expenditures	<u>(45,579)</u>	<u>(50,434)</u>	<u>14,068</u>	<u>64,502</u>	<u>(1,214)</u>	<u>12,854</u>
Other financing sources (uses):						
Transfers in	18,448	18,969	21,173	2,204	-	21,173
Transfers out	(19,106)	(19,606)	(20,656)	(1,050)	-	(20,656)
Proceeds from long-term debt	-	2,100	2,100	-	-	2,100
Total other financing sources (uses)	<u>(658)</u>	<u>1,463</u>	<u>2,617</u>	<u>1,154</u>	<u>-</u>	<u>2,617</u>
Net change in fund balance	<u>\$ (46,237)</u>	<u>\$ (48,971)</u>	<u>\$ 16,685</u>	<u>\$ 65,656</u>	<u>\$ (1,214)</u>	<u>\$ 15,471</u>

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

City of Sacramento
Statement of Revenues, Expenditures and Changes in Fund Balance
- Budget and Actual
SHRA Special Revenue Fund
For the Fiscal Year Ended June 30, 2005
(in thousands)

	Budgeted Amounts		Actual Amounts	Variance with Final Budget-Positive (Negative)
	Original	Final		
Revenues:				
Intergovernmental	\$ 912	\$ 912	\$ 927	\$ 15
Interest, rents, and concessions	172	173	76	(97)
Miscellaneous	-	225	495	270
Total revenues	1,084	1,310	1,498	188
Expenditures:				
General Housing Reserve	379	379	98	281
Local Housing Revenue	2,062	2,222	2	2,220
County Mather Transitional Housing	395	395	410	(15)
City Public Homeownership	816	813	648	165
County Public Homeownership	767	765	268	497
Riverview Plaza Reserve	194	194	124	70
City Local Tax	1,175	1,175	1,173	2
County Local Tax	355	355	354	1
Total expenditures	6,143	6,298	3,077	3,221
Excess (deficiency) of revenues over (under) expenditures	(5,059)	(4,988)	(1,579)	3,409
Other financing sources (uses):				
Transfers in	197	197	197	-
Transfers out	(665)	(665)	(579)	86
Proceeds from sale of property	780	780	521	(259)
Total other financing sources (uses)	312	312	139	(173)
Net change in fund balances for budgeted activities	\$ (4,747)	\$ (4,676)	(1,440)	\$ 3,236
Net change in fund balances for SHRA Special Revenue Fund activities for which annual budgets are not adopted.			23	
Net change in fund balance			\$ (1,417)	

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

City of Sacramento

Statement of Revenues, Expenditures and Changes in Fund Balance

- Budget and Actual

Transportation and Development Fund

For the Fiscal Year Ended June 30, 2005

(in thousands)

	Budgeted Amounts		Actual Amounts	Variance with Final Budget- Positive (Negative)
	Original	Final		
Revenues:				
Intergovernmental	\$ 15,824	\$ 15,824	\$ 16,572	\$ 748
Charges for services	-	-	363	363
Fines, forfeits and penalties	1,500	1,500	1,513	13
Interest, rents, and concessions	884	884	709	(175)
Community service fees	-	-	2	2
Miscellaneous	-	-	1	1
Total revenues	<u>18,208</u>	<u>18,208</u>	<u>19,160</u>	<u>952</u>
Expenditures:				
Current:				
Transportation	14,201	14,201	12,525	1,676
Development services	1,626	4,591	3,090	1,501
Capital outlay	<u>12,290</u>	<u>14,395</u>	<u>5,294</u>	<u>9,101</u>
Total expenditures	<u>28,117</u>	<u>33,187</u>	<u>20,909</u>	<u>12,278</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(9,909)</u>	<u>(14,979)</u>	<u>(1,749)</u>	<u>13,230</u>
Other financing sources:				
Transfers out	<u>(1,737)</u>	<u>(1,852)</u>	<u>(2,984)</u>	<u>(1,132)</u>
Net change in fund balances for budgeted activities	<u>\$ (11,646)</u>	<u>\$ (16,831)</u>	(4,733)	<u>\$ 12,098</u>
Net change in fund balances for Transportation and Development Fund activities for which annual budgets are not adopted.			<u>6,048</u>	
Net change in fund balance			<u>\$ 1,315</u>	

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City of Sacramento
Statement of Net Assets
Proprietary Funds

June 30, 2005
(in thousands)

	Business-type Activities - Enterprise Funds			
	Water Fund	Sewer Fund	Storm Drainage Fund	Solid Waste Fund
ASSETS				
Current assets:				
Cash and investments held by City	\$ 37,481	\$ 11,155	\$ 34,522	\$ 162
Cash and investments held by fiscal agent	-	-	-	-
Receivables, net:				
Taxes	-	-	-	-
Accounts	5,768	5,640	4,907	7,160
Loans	535	103	308	-
Intergovernmental	289	252	198	376
Interest	357	21	282	-
Due from other funds	-	-	-	-
Inventories	1,239	69	178	-
Prepaid items	-	-	-	34
Total current assets	45,669	17,240	40,395	7,732
Noncurrent assets:				
Restricted assets:				
Cash and investments held by City	13,228	394	1,315	3,746
Cash and investments held by fiscal agent	-	-	765	11
Advances to other funds	-	-	-	-
Loans receivable	2,721	1,841	5,522	-
Deferred charges	2,731	-	65	621
Capital assets:				
Land	644	1,137	8,080	1,133
Buildings and improvements	32,431	14,906	7,995	31,191
Machinery and equipment	3,297	1,461	9,502	2,071
Vehicles	-	-	-	-
Transmission and distribution system	450,822	114,733	266,112	-
Construction in progress	30,859	7,660	75,564	3,337
Less: accumulated depreciation	(88,258)	(32,941)	(58,432)	(7,725)
Total noncurrent assets	448,475	109,191	316,488	34,385
Total assets	494,144	126,431	356,883	42,117

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

City of Sacramento
Statement of Net Assets
Proprietary Funds
June 30, 2005
(in thousands)

	Business-type Activities - Enterprise Funds				Governmental Activities - Internal Service Funds
	Community Center Fund	SHRA Enterprise Fund	Other Enterprise Funds	Total	
ASSETS					
Current assets:					
Cash and investments held by City	\$ 5,966	\$ 5,029	\$ 21,573	\$ 115,888	\$ 55,037
Cash and investments held by fiscal agent	2,125	-	-	2,125	86
Receivables, net:					
Taxes	1,799	-	-	1,799	-
Accounts	148	871	1,227	25,721	186
Loans	-	-	-	946	-
Intergovernmental	-	2,640	-	3,755	77
Interest	114	-	154	928	171
Due from other funds	-	755	-	755	25,917
Inventories	-	214	-	1,700	1,021
Prepaid items	2	22	7	65	47
Total current assets	10,154	9,531	22,961	153,682	82,542
Noncurrent assets:					
Restricted assets:					
Cash and investments held by City	92	24,926	2,407	46,108	505
Cash and investments held by fiscal agent	9,804	-	2,523	13,103	-
Advances to other funds	-	19,000	200	19,200	16,579
Loans receivable	50	125	-	10,259	-
Deferred charges	1,796	392	679	6,284	64
Capital assets:					
Land	21,739	17,827	12,569	63,129	-
Buildings and improvements	110,444	239,377	89,666	526,010	5,982
Machinery and equipment	2,695	4,390	5,147	28,563	3,407
Vehicles	-	-	-	-	92,434
Transmission and distribution system	-	-	3,622	835,289	-
Construction in progress	42	43,207	1,477	162,146	1,439
Less: accumulated depreciation	(35,235)	(70,049)	(32,925)	(325,565)	(58,060)
Total noncurrent assets	111,427	279,195	85,365	1,384,526	62,350
Total assets	121,581	288,726	108,326	1,538,208	144,892

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

(continued)

City of Sacramento
Statement of Net Assets
Proprietary Funds

June 30, 2005
(in thousands)

	Business-type Activities - Enterprise Funds			
	Water Fund	Sewer Fund	Storm Drainage Fund	Solid Waste Fund
<u>LIABILITIES</u>				
Current liabilities:				
Securities lending obligations	12,418	-	8,838	-
Accounts payable and accrued expenses	4,282	2,697	1,672	2,296
Accrued compensated absences	125	27	91	77
Due to other funds	-	-	-	2,007
Interest payable	827	124	448	122
Liability for landfill closure	-	-	-	760
Deposits	-	-	-	-
Deferred revenue	-	-	1	174
Accrued claims	-	-	-	-
Revenue and other bonds payable, net, current portion	3,200	-	257	523
Certificates of participation payable, net, current portion	-	-	-	-
Capital lease payable, current portion	-	-	-	227
Notes payable, current portion	-	599	1,797	-
Total current liabilities	20,852	3,447	13,104	6,186
Noncurrent liabilities:				
Accrued compensated absences	1,795	577	1,709	1,086
Advances from other funds	-	-	-	-
Accrued claims	-	-	-	-
Liability for landfill closure	-	-	-	14,430
Revenue and other bonds payable, net	189,167	-	7,965	25,464
Capital lease payable	-	-	-	919
Notes payable	-	10,634	31,901	-
Total noncurrent liabilities	190,962	11,211	41,575	41,899
Total liabilities	211,814	14,658	54,679	48,085
<u>NET ASSETS</u>				
Invested in capital assets, net of related debt	249,828	95,888	268,533	6,499
Restricted for:				
Housing and redevelopment	-	-	-	-
Capital projects	-	-	-	-
Other	-	-	-	-
Unrestricted (deficit)	32,502	15,885	33,671	(12,467)
Total net assets (deficit)	\$ 282,330	\$ 111,773	\$ 302,204	\$ (5,968)

(continued)

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