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Members of the City Council Woodland, California

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Woodland, California (the City), as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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

As discussed in Note 1 to the financial statements, effective July 1, 2004, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 40, Deposit and Investment Risk Disclosure, an amendment of GASB Statement No. 3.

In accordance with Government Auditing Standards, we have also issued our report dated December 8, 2005 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

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

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

Certified Public Accountants

maires Gini + Company LLP

Sacramento, California December 8, 2005

MANAGEMENT'S DISCUSSION & ANALYSIS

This section of the City of Woodland's (City) Comprehensive Annual Financial Report presents a narrative overview and analysis of the financial activities of the City 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 increased over the course of the fiscal year by \$9.3 million to \$91.9 million. The net assets of governmental activities increased by \$6.9 million, or 15 percent, and the net assets of business-type activities increased by \$2.5 million, or 7 percent.
- The General Fund, using the current financial resources basis, reported revenues in excess of expenditures and other financing sources and uses of \$991 thousand. The surplus was the result of unanticipated increases in sales tax and documentary stamp tax revenues, as well as expenditure savings.

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 non-major governmental funds, non-major 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.
 - o Governmental funds statements tell how general government services such as police, fire and public works were financed in the short-term as well as what remains for future spending.
 - o Proprietary fund statements offer short-term and long-term financial information about the activities the City operates like businesses, such as utility services.
 - o Fiduciary fund statements provide information about the financial relationships 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 non-major governmental funds, non-major 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 financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

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

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

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, finance, community development, parks, recreation and community services, police, fire, library, and public works. The business-type activities of the City include water, sewer, storm drain, wastewater pretreatment, parking, recycling, fire training, cemetery, and Dubach Park.

The government-wide financial statements include not only the City itself (known as the primary government) but also the City of Woodland Redevelopment Agency (RDA), Woodland Public Facilities Corporation, and the Woodland Finance Authority. Although legally separate from the City, the component units are blended with the primary government because of their governance or financial relationship to the City.

FUND FINANCIAL STATEMENTS

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

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

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

The City maintains several individual and governmental funds organized according to their type (special revenue, debt service and capital projects). Information is presented separately in the governmental funds balance sheet and in the governmental funds statements of revenues, expenditures and changes in fund balances for the General, City Capital Projects, Spring Lake Capital Projects, Special Sales Tax District, Sewer Development, and Community Development Block Grant funds, which are considered to be major funds. Data from the remaining governmental funds are combined into a single, aggregated presentation. Individual fund data for each of the non-major governmental funds is provided in the form of combing statements elsewhere in this report.

The City adopts an annually appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

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

Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for the operations of water, sewer, storm drain, wastewater pretreatment, parking, recycling, fire training, cemetery and Dubach Park.

Internal Service funds are used to report activities that provide supplies and services for certain City programs and activities. The City uses internal service funds to account for its fleet of vehicles and equipment, management information services, self-insurance and employee benefits. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements. The internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of combining statements elsewhere in this report.

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

Notes to the Basic Financial Statements

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

Required Supplementary Information

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

Combining Statements and Schedules

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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 Woodland Summary of Net Assets As of June 30, 2005 & 2004 (in millions)

	Governmental Activities		Business-Type Activities		Total Primary Government		Total % Change
•	2005	2004	2005	2004	2005	2004	
Current & Other Assets	\$65.3	\$45.9	\$2.0	\$2.9	\$67.3	\$48.8	39%
Capital Assets	<u>83.4</u>	<u>55.5</u>	42.0	<u>39.6</u>	125.4	<u>95.1</u>	31%
Total Assets	148.7	100.7	44.0	<u>42.5</u>	<u>192.7</u>	143.2	35%
Long-term Liabilities	89.6	38.2	4.9	4.9	94.5	43.1	119%
Other Liabilities	<u>5.8</u>	16.1	0.6	1.5	<u>6.4</u>	<u>17.6</u>	-63%
Total Liabilities	<u>95.4</u>	<u>54.3</u>	<u>5.5</u>	<u>6.4</u>	100.9	<u>60.7</u>	66%
Net Assets:							•
Invested in Capital Assets, Net of Related Debt	26.3.	18.5	37.2	34.3	63.5	52.8	20%
Restricted	16.7	25.1	0.9	-	17.6	25.1	-30%
Unrestricted	10.3	<u>2.8</u>	<u>0.5</u>	1.8	10.8	4.6	135%
Total Net Assets	\$53.3	\$ <u>46.4</u>	\$ <u>38.6</u>	\$ <u>36.1</u>	\$ <u>91.9</u>	\$ <u>82.5</u>	11%

ANALYSIS OF NET ASSETS

Net assets represent the difference between the City's resources and its obligations. Over time, net assets may serve as a useful indicator of a government's financial position. For the City, assets exceeded liabilities by \$91.9 million at the close of the fiscal year 2005.

The largest portion of the City's net assets reflects its \$63.5 million (69 percent) investment in capital assets (e.g. land, buildings and equipment), less any related outstanding debt used to acquire those assets. The City uses these capital assets to provide services to citizens. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be liquidated for these liabilities.

Another portion of the City's net assets, \$17.6 million (19 percent) represents resources that are subject to external restrictions on how they may be used. This represents a decrease of \$7.5 million or 30 percent over the prior year, due primarily to the Spring Lake project's fund balance restriction of \$29.4 million. The remaining balance of \$10.8 million represents unrestricted net assets.

Although net assets of business-type activities increased \$2.5 million or 7 percent, the City can generally only use these net assets to finance the continuing operations of the business-type activities.

CHANGES IN NET ASSETS

The City's overall net assets increased by \$9.4 million from \$82.5 million in 2004 to \$91.9 million in 2005, which consisted of a \$6.9 million increase in governmental activities and a \$2.5 million increase in business-type activities. Major reasons for these changes are noted in the government and business-type activities discussion below.

City of Woodland Changes in Net Assets For the Fiscal Years Ended June 30, 2005 and 2004

(in thousands)

	Governmental Activities			Business-type Activities		Total Primary Government	
	2005	2004	2005	2004	2005	2004	change
Revenues							
Program revenues:							
Charges for services	\$ 9,987	\$17,294	\$11,467	\$10,582	\$21,454	\$27,876	-23.0%
Operating grants and contributions	4,253	3,206	192	184	4,445	3,390	31.1%
Capital grants and contributions	115	7,131	-	178	115	7,309	-98.4%
General revenues:							
Property taxes	8,187	7,670		-	8,187	7,670	6.7%
Sales taxes	8,651	7,738	-	-	8,651	7,738	11.8%
Other taxes (including Measure H)	5,591	5,055	-	-	5,591	5,055	10.6%
Franchise fees	1,332	1,417	_	-	1,332	1,417	-6.0%
Motor vehicle in lieu	4,015	2,292	_	-	4,015	2,292	75.2%
Investment earnings	785	407	197	128	982	535	83.6%
Other	1,487	501	· · ·	138	1,487	639	132.7%
Total revenues	44,403	52,711	11,856	11,210	56,259	63,921	-12.0%
Thursday Market				•			
Expenditures							
Governmental activities:	020	1.570			020	1.560	41.407
General government	920 329	1,569 989		-	920 329	1,569 989	-41.4% -66.7%
Finance	3,810	3,644	-	-	3,810	3,644	4.6%
Community development	3,810	3,537		-	3,810	3,537	4.6% 9.6%
Parks, recreation and community service Police	10,661	10,257	-		. 10,661	10,257	3.9%
Fire	6,302	4,966	-	-	6,302	4,966	26.9%
Library	1,361	1,454	-	•	1,361	1,454	-6.4%
Public works	7.934	4,852	-	-	7,934	4,852	63.5%
	1,756	1,648	_		1,756	1,648	6.6%
Interest on long-term debt Business-type activities:	1,750	1,040	7	_	1,730	1,040	0.0 %
Water	_	_	3,050	2,832	3,050	2,832	7.7%
Sewer	_		4,366	3,679	4,366	3,679	18.7%
Storm drain	_	_	800	477	800	477	67.7%
Wastewater pretreatment	_		289	294	289	294	-1.7%
Parking	_	_	317	250	317	250	26.8%
Recycling	_	_	271	172	271	172	57.6%
Fire Training Center	_	_	312	67	312	67	365.7%
Cemetery	_	_	332	301	332	301	10.3%
Dubach Park	-	_	227	201	227	201	100.0%
	36,951	32,916	9,964	8,072	46,915	40,988	14.5%
Total Expenses	7,452	19,795	1,892	3,138	9,344	22,933	-59.3%
Excess before transfers	(566)	<i>'</i>	566	3,138 181	9,3 44	44,933	-37.3%
Transfers		(181)				622.022	£0.22
Changes in net assets Note: Certain amounts from prior year have be	\$ 6,886	\$19,614	\$ 2.458	\$ 3,319	\$ 9,344	\$22,933	-59.3%

Note: Certain amounts from prior year have been reclassified to conform to the current year presentation

REVENUE

The City's total revenue was \$56.3 million for the fiscal year ended June 30, 2005, a decrease of \$7.6 million or 12 percent from 2004. Revenue from governmental activities totaled \$44.4 million and revenue from business-type activities totaled \$11.9 million. Charges for services and operating grants provided 46 percent of the total revenue received during 2005, while taxes (property, sales and other) provided 40 percent of total revenue.

Decrease in total revenue is due primarily to a \$6.4 million decrease in charges for services and a \$7.2 million decrease in capital grants and contributions. The decrease in charges for services stems primarily from loss of development fee revenues resulting from the completion of the Gibson Ranch Project in 2004 and delays in construction of the Spring Lake Project; capital grants and contributions decrease is related to the timing and phases of qualified capital projects and the associated requests and receipts of funding. These decreases were offset by an increase of \$1.0 million, \$2.0 million and \$1.7 million in operating grants and contributions, taxes and motor vehicle in lieu (MVL) revenues, respectively. Similar to capital grants, operating grants are subject to timing differences in project phasing and reimbursement, tax increases are attributable to higher property values and increased sales for home improvements. The MVL increase is attributable to a one-time \$867 thousand reimbursement from the State.

EXPENSES

Expenses of the City for the year totaled \$46.9 million, an increase of \$5.9 million or 15 percent over 2004. This increase is due primarily to staff augmentations in public safety (fire and police), as well as staff augmentations in community development and public works to handle the increased activity related to the Spring Lake Specific Plan project. Governmental activity expenses totaled \$37 million, or 79 percent of total expenses. Business-type activities incurred \$10 million, or 21 percent of total 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 Woodland Net Cost of Governmental Activities As of June 30, 2005 & 2004

(in millions)

	Total Cost Of Services		Percent Change	Net Cost (Benefit) of Services		Percent Change
	2005	2004		2005	<u>2004</u>	
General Administration	\$0.9	\$0.8	12.5%	\$(0.6)	\$0.8	-175.0%
Community Development	3.8	3.6	5.6%	1.4	1.3	7.7%
Finance	0.3 -	0.5	-40.0%	0.3	0.5	-40.0%
Parks, recreation and community service	3.9	3.6	8.3%	3.1	2.0	55.0%
Police	10.7	10.2	4.9%	8.1	9.1	-11.0%
Fire	6.3	5.0	26.0%	6.0	4.5	33.3%
Library	1.4	1.5	-6.7%	1.3	1.3	0.0%
Public Works	7.9	4.1	92.7%	1.2	(16.9)	-107.1%
Interest on long term debt	1.8	1.6	12.5%	1.8	<u>1.6</u>	12.5%
Tota!	\$37.0	\$ <u>30.9</u>		\$ <u>22.6</u>	\$ <u>4.2</u>	

The cost for all governmental activities this year was \$37 million. The City's taxpayers paid for approximately 61 percent of these costs; \$22.6 million. Fees, grants and contributions funded the balance of the costs of governmental activities.

Community Development increase in net cost is due to the addition of three new staff for the Spring Lake development. Parks, recreation and community services net cost increased due to increased maintenance costs for City parks and Lighting and Landscaping Districts and fewer development fees as a result of project delays. The Fire Department net cost increased due to an addition of 12 full time staff, 10 dedicated to a 4th Fire Engine Company. Public Works went from a net revenue to a cost to the City. This change is primarily attributable to a timing difference in the collection of development fees and the work associated with those fees.

BUSINESS-TYPE ACTIVITIES

Revenue for the City's business-type activities, excluding transfers, increased by \$0.7 million from \$11.2 million in 2004 to \$11.9 million in 2005. Charges for services totaled \$11.5 million or 97 percent of total business-type activity revenues. Business-type activities expenses increased by \$1.9 million from \$8.1 million in 2004 to \$10 million in 2005. 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.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

Governmental Funds

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

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$49.0 million, an increase of \$23.8 million over the end of the prior year.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, the unreserved fund balance of the general fund was \$4.3 million, while total fund balance was \$4.8 million, an increase of \$1.0 million over the prior year. This was mainly due to increases in sales and document stamp taxes and expenditure savings. Overall, the general fund's current year performance resulted in revenues in excess of expenditures of \$991 thousand.

As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. For 2005, the unreserved fund balance of \$4.3 million represents 14 percent of total general fund expenditures of \$30.4 million, and the total fund balance represents approximately 16 percent of that amount. For 2004, the general fund's unreserved fund balance of \$3.6 million was approximately 15 percent of the total expenditures of \$25.5 million, and the total fund balance of \$3.9 million represented approximately 16 percent of expenditures.

Proprietary Funds

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

At the end of fiscal year 2005, the unrestricted net assets for the Water and Sewer funds were \$3.7 million and \$3.3 million, respectively. Three proprietary funds had deficits in unrestricted net assets: the Storm Drain fund had a deficit of \$8.0 million, Dubach Park had a deficit of \$158 thousand and the Cemetery had a deficit of \$13 thousand. The internal service funds that are used to account for certain governmental activities had unrestricted net assets of \$1.1 million.

The total growth in net assets for the enterprise funds was \$2.5 million. Factors concerning the finances of these funds have been addressed previously in the discussion of the City's business-type activities. As in the previous years, the Storm Drain Fund's decrease in net assets is related to a continuing operation deficit. The City intends to move forward with a voter approved rate increase in mid-2006 to address this on-going operational deficit.

The following table show actual revenues, expenses and results of operations (excluding capital contributions and expenses) for the current fiscal year in the City's proprietary funds (in millions):

City of Woodland Proprietary Fund Operations As of June 30, 2005

	Operating Revenues	Operating Expenses	Operating Income (Loss)	NonOperating Revenues(Expense)	Interfund Transfers	Change in Net Assets
Water	\$4.4	\$3.1	\$1.3	\$0.2	-	\$1.5
Sewer	5.5	4.1	1.4	. (0.1)	0.4	1.7
Storm Drain	0.2	0.6	(0.4)	(0.2)	-	(0.6)
Wastewater Pretreatment	0.4	0.3	0.1	-	-	0.1
Parking	0.3	0.3	~	. -	-	-
Recycling	0.2	0.3	(0.1)	-	-	(0.1)
Fire Training Center	0:3	0.3	-	w	-	-
Cemetery	0.1	0.3	(0.2)	· •	0.2	-
Dubach Park	<u>0.1</u>	0.2	(0.1)	<u>-</u>	=	<u>(0.1</u>)
Total:	\$ <u>11.5</u>	\$ <u>9.5</u>	\$ <u>2,0</u> -	\$(<u>0.1</u>)	\$ <u>0.6</u>	\$ <u>2.5</u>

Fiduciary Funds

The City maintains fiduciary funds for the assets held by the City for special assessment. At the end of fiscal year 2005, the total assets and related liabilities of the fiduciary funds totaled \$9.6 million, representing a decrease of \$7.0 million since June 30, 2004.

General Fund Budgetary Highlights

The City's final budgeted appropriations increased by \$895 thousand from the preliminary budget due to carry-forward appropriations on various programs and projects, and supplemental appropriations related to grants approved during the fiscal year.

During the year, actual revenues and other resources were \$114 thousand more than budgeted estimates. While the City realized \$1.4 million more revenue than budgeted for sales, property, hotel, utility and real estate transfer taxes, fines and penalties, intergovernmental revenues and investment earnings, this was partially offset because the City received \$1.3 million less than budgeted in charges for services, licenses and permits and other miscellaneous revenues. This decrease was primarily attributed to delays in the Spring Lake Development.

The \$1.2 million positive variance between the final budget and actual expenditures (budgetary basis) is primarily due to the following factors:

- Budgetary savingss by the City Attorney of approximately \$141 thousand is due to work done on projects for which costs were fully reimbursed and not an expenditure of the City.
- Budgetary savings in the Police Department of approximately \$504 thousand is related to an overstated estimate on the PERS rate for public safety.
- Budgetary savings by the Public Works Department of approximately \$116 thousand is attributed to employee vacancies.

The net effect of the budgetary savings in appropriations and the realization of some revenues greater than estimated, resulted in a positive budgetary fund balance variance of \$1.4 million at the end of the fiscal year.

In creating its budget for the fiscal year ending June 30, 2006, the City used an estimated budgetary fund balance of \$3.7 million.

CAPITAL ASSET & DEBT ADMINISTRATION

Capital Assets

As of June 30, 2005, the City had invested \$125.4 million in a broad range of capital assets, including police and fire equipment, buildings, parks and park improvements, roads and water, sewer and storm drainage transmission and distribution systems. This represents a net increase for the current fiscal year of \$30.4 million, or 32 percent.

City of Woodland Capital Assets

As of June 30, 2005 & 2004 (net of depreciation, in millions)

	Governmental Activities		Business-Type Activities		Total	
-	2005	2004	<u>2005</u>	2004	2005	2004
Capital Assets Not Being Depreciated			·		٠	
Land and improvements	\$12.6	\$7.3	\$5.6	\$5.6	\$18.2	\$12.9
Construction in progress	31.0	9.9	4.7	1.3	35.7	11.2
Depreciable Capital Assets:						٠
Ponds	-	-	0.4	0.4	0.4	0.4
Buildings	16.4	16.8	0.1	0.1	16.5	16.9
Improvements	1.5	1.6	19.2	19.9	20.7	21.5
Machinery and equipment	6.9	6.3	0.8	0.7	7.7	7.0
Sewer treatment plant		-	9.9	10.3	9.9	10.3
Infrastructure	<u>15.0</u>	13.6	1.3	1.3	16.3	14.9
Total	\$ <u>83.4</u>	\$ <u>55.5</u>	\$ <u>42.0</u>	\$ <u>39.6</u>	\$ <u>125.4</u>	\$ <u>95.1</u>

This year's major capital asset additions included:

- Approximately 40 acres of land for the future Sports Park Complex added \$4.0 million to land and improvements.
- Storm drainage ponds and facilities for the Spring Lake Specific Plan added \$1.4 million to land and improvements.
- Construction of backbone infrastructure for the Spring Lake Specific Plan added \$17.3 million to construction in progress.
- Pavement rehabilitation and related water line replacement, sewer and storm line repairs added \$3.6 million to construction in progress.

More detailed information about the City's capital assets is presented in Note 7 of the Notes to the Financial Statements.

Long-term Debt

At June 30, 2005 and 2004, the City had \$93.1 and \$46.4 million, respectively, in long-term debt outstanding. Outstanding debt of governmental activities increased approximately \$47.2 million. This increase was primarily the result of \$47.7 million of new developer fee obligations for the Spring Lake Specific Plan, partially offset by principal payments on existing debt. Outstanding debt of business-type activities decreased approximately \$0.5 million, the result of principal payments on existing debt during the fiscal year.

City of Woodland Outstanding Debt

As of June 30, 2005 & 2004 (in millions)

	Governmental Activities		Business-Ty	pe Activities	Total	
	2005	2004	2005	2004	2005	2004
Revenue and other bonds, net	\$26.5	\$29.6	\$- ·	\$-	\$26.5	\$29.6
Tax allocation bonds	2.2	2.2	-	•	2.2	2.2
Certificates of participation, net	0.3	0.6	4.8	5.3	5.1	5.9
Loans payable	5.0	3.0	-	-	5.0	3.0
Developer fee obligations	52.0	4.4			52.0	4.4
Capital lease obligations	2.3	1.3	Ξ	2	<u>2.3</u>	1.3
Total	\$ <u>88.3</u>	\$ <u>41.1</u>	\$ <u>4.8</u>	\$ <u>5.3</u>	\$ <u>93.1</u>	\$ <u>46.4</u>

More detailed information about the City's total long-term liabilities is presented in Note 8 of the Notes to the Financial Statements.

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:		
 2002 Lease Revenue Bonds 	A3	AAA
• 2003 Gibson Ranch CFD		AAA
 2004 Gibson Ranch Refunding Bonds 		AAA
Uninsured Issues:		
• 1995 Certificates of Participation	A3 -	

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 \$0.60 and \$5.98, respectively, a decrease of 90 percent from the prior year. This decrease is due to principal payments on existing debt. Bonded debt does not include special assessment debt, conduit debt, or mortgage insured bonds for which the City is not obligated.

ECONOMIC FACTORS & NEXT YEAR'S BUDGET

Economic Factors

The City's financial status and budget outlook continue to improve, yet the City faces fiscal challenges in providing needed service levels in the context of both its existing population and the anticipated growth in population and housing.

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.
- Phase 1 of the Spring Lake project is underway, which includes development of 657 acres. Backbone infrastructure construction began in 2004, the first building permits were issued in late 2005 and custom home builders have begun construction. Production builders began construction during the summer of 2005 and anticipate issuance of up to 15 building permits per week in 2006.

- The newly revised Gateway project consists of 525,000 square feet of retail development, which will include a Costco, a relocated Target and other retail shops and restaurants.
- The Woodland Park Specific plan covers approximately 800 acres in the northeast industrial area of the City. The plan will set the stage for job growth for many years to come and will include land for corporate campus, research and development, manufacturing and warehousing.

Next Year's Budget

The General Fund budget for FY 2006 appropriates \$37.7 million, an increase of over 3 percent over the prior year. General Fund revenue for FY 2006 is projected to be \$37.7 million, an increase of 3 percent over 2005.

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 Woodland Department of Finance, 300 First Street, Woodland, California, 95695 or visit the City's web page at www.cityofwoodland.org.