



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

---

**Financial Section**

---

# Bartig, Basler & Ray

A Professional Corporation

---

Certified Public Accountants and Management Consultants

---

Frank V. Trythall  
Brad W. Constantine  
Bruce W. Stephenson  
Roseanne M. Lopez  
Jason J. Cardinet  
Tyler K. Hunt

---

Curtis A. Orgill  
M. Elba Zuniga

## INDEPENDENT AUDITOR'S REPORT

City Council  
City of Elk Grove  
Elk Grove, California

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

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

City Council  
City of Elk Grove,

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

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

BARTIG, BASLER & RAY, CPAs, INC.

*Bartig, Basler & Ray, CPAs, Inc.*

Roseville, CA  
November 10, 2005

## Management's Discussion and Analysis

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

### FINANCIAL HIGHLIGHTS

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

### OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

The *Statement of Net Assets* presents information on all City assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

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

Both of these government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, public protection, public ways and facilities. The business-type activities of the City include Solid Waste, Drainage, Commercial Hauler and Utility Billing, and Transit.

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

