

CITY OF
Modesto, California

COMPREHENSIVE ANNUAL FINANCIAL REPORT
Fiscal Year Ended June 30, 2005

Prepared by
Finance Department

CITY OF MODESTO
 June 30, 2005
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INTRODUCTORY SECTION



CITY of MODESTO

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December 12, 2005

To the Honorable Mayor, Members of the City Council, and Citizens of the City of Modesto:

The City of Modesto City Charter and Municipal Code require that a complete financial statement and report on the finances of the City be submitted to the City Council at the end of each fiscal year. This report is being submitted to fulfill that requirement for the fiscal year ended June 30, 2005.

City management assumes full responsibility for the completeness and reliability of the information contained in this report. We believe the data fairly represent the financial position and results of operations of the City. The disclosures necessary to enable the reader to understand the City's financial affairs have been included. The City's accounting system has been developed and maintained with due consideration given to the adequacy of internal controls. Because the cost of internal controls should not exceed the anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements. The evaluation of costs and benefits requires estimates and judgments by management.

The Charter also requires an annual audit by an independent certified public accountant selected by the City Council. The accounting firm of Maze & Associates was selected in 2003 to perform the City's annual financial audits for a period of three years. The auditors have issued an unqualified ("clean") opinion on the financial statements for the year ended June 30, 2005, which is presented on page 3. In addition to meeting the City Charter audit requirements, the audit was also designed to meet the requirements of the federal Single Audit Act of 1996 and related OMB Circular A-133. The auditor's reports related specifically to the Single Audit will be presented separately at a later date.

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 is designed to be read in conjunction with this transmittal letter.

City of Modesto Profile

Modesto is a dynamic city located in the heart of California's San Joaquin Valley and is the retail, service and financial center of Stanislaus County. The City currently occupies a land area of approximately 36 square miles and serves a population of over 208,000. Periodically, as allowed by state statute, the City extends its corporate limits by annexation when deemed appropriate by the City Council.

Incorporated in 1884, Modesto adopted its City Charter on March 12, 1951, and has operated under the council-manager form of government since that date. Under this form of government, policy-making and legislative authority are vested in an elected council consisting of the Mayor and six members. The Modesto City Council is elected by chair on a non-partisan basis, meaning 6 members represent the entire City rather than specific geographical areas within the City's boundaries. The Mayor is elected separately on a non-partisan basis. The Mayor and

City Council are responsible for passing ordinances, adopting and amending the operating and capital budgets, appointing various committee members, and hiring the City Manager, City Attorney, and City Clerk/Auditor. The City Manager of Modesto is charged with carrying out the policies and ordinances of the City Council, overseeing the day-to-day operations of the City, and for appointing the Deputy City Manager and department heads, with general responsibilities for the Economic Development and Health, Safety & Culture components of the City's Vision. Support services department, like Finance, Personnel and Information Technology report to the City Manager.

The City provides services typically associated with a municipality. These include police and fire protection; highway, street, and other infrastructure construction and maintenance; sanitation; planning and zoning; recreational activities and cultural events; and administrative services. Parking and airport facilities, water, sewer, storm drainage, and bus services are also provided.

The City's financial reporting entity includes all funds and activities of the City of Modesto as the primary government and its component units, which are legally separate entities that operate under the auspices of the City and provide services that supplement City services. The City's component units are blended into the City's funds because their governing boards consist of all seven members of the City Council. These component units are the Modesto Municipal Sewer District No. 1, the Redevelopment Agency of the City of Modesto, the Modesto Public Financing Authority and the City of Modesto Community Facilities Districts.

The annual operating budget serves as the foundation for Modesto's financial planning and control. The proposed budget is adopted annually prior to July 1, by passage of an ordinance. The Council's legally adopted budget level is at the fund level. During the fiscal year, the budget may be modified. City Council approval is required for appropriation of fund reserves, transfers between funds, appropriation of new discretionary revenue, new interfund loans and transfers, and creation or increases to capital projects. The City Manager may approve transfers between departments within the same fund, appropriation of unbudgeted departmental revenues, and transfers that increase salary and benefit appropriations. Department heads may approve allocations of departmental appropriations to the line item level. The Finance Director has authority to make changes to the internal service fund charges, appropriate unbudgeted grant interest, and make accounting and budget corrections for approved actions and resolutions.

Local economy

Modesto area employment in retail and manufacturing remained strong over the past year. Retail sector jobs account for one-sixth of Stanislaus County's wage and salary workers with the manufacturing sector trailing close behind. Stanislaus County consistently ranks among the top 10 California counties in terms of annual agricultural production values. The county's leading commodities are milk, almonds and poultry.

The unemployment rate has remained fairly steady, at near 10% for the past 7 years, after several years of decline from 15% ten years ago. Since 2000, over 8,200 jobs have been added to local economy, representing cumulative growth of more than 5%. Industries recording the most growth were: educational and health services; trade, transportation and utilities; and natural resources, mining and construction.

Building permit activity has boomed over the past decade. In fiscal year 1995, the City issued 3,849 permits with estimated cost of construction valued at \$94 million. Permit activity peaked in 2001, when 7,155 permits with construction valued at \$477 million were issued, and activity has remained above 5,000 permits annually since 2001. During fiscal year 2005, 5,892 permits were issued valued at \$356 million.

In this same period, the City's population grew from 181,783 to 207,634. This population growth is largely attributable to the relatively low cost of housing compared to the Bay Area, within a commute time of approximately 2 hours of Modesto, and to the growth of employment within the region.

During the past ten years, public safety costs have risen not only in amount, but also as a percentage of total expenditures. Public safety represented 69.5% of total General Fund expenditures in 2005, compared with 62.4% ten years ago. Expenses for other governmental functions have remained steady or decreased compared to total fund expenses during the same time period. Increased population, as well as higher salaries and charges for retirement, have caused this relative increase in public safety charges.

Long-Term Financial Planning

In anticipation of potential State impacts, in FY 2003 the City Council adopted a policy of maintaining at least 8% of general fund expenditures in reserve. At the end of FY 2005, the general fund unreserved and undesignated balance was \$11.2 million representing 10.3% of total general fund outflows (expenditures and transfers out).

State Impacts

The State of California's ongoing budget problem continues to present significant challenges to the financial stability of California's local governments. Between fiscal 1991 and 2005, the State of California diverted \$36.6 million in local revenues from the City of Modesto into its own coffers. In the current fiscal year (2005), the State diverted \$2.1 million from Modesto, more than double the previous year's diversion.

The state enacted new legislation known as the Triple-Flip. As the name implies, a series of revenue exchanges takes place under the legislation leaving the City with 25% less sales tax revenue and more property tax revenue in its place. A similar exchange takes place leaving the City with property tax revenue in place of 67% of the In-Lieu Vehicle License Fees. These exchanges not only affect the character and amount of the revenues received by the City, but also affects City cash flow, because a monthly stream of payments has been replaced by semi-annual payments.

Important Financial Policies

In 2003, the City Council adopted a series of financial policies that direct the City's financial business is conducted. In addition to the 8% General Fund reserve level, these policies include direction on departmental annual budget savings, tracking of all transfers to the Redevelopment Agency for future payback, capital budgeting, interfund loan interest rates and investment pool interest allocation.

The adopted 2004-2005 General Fund budget reflected spending cuts imposed on non-public safety departments of 3%. Coupled with a hiring "Chill" to maximize savings from vacant positions, these policy moves were designed to maintain fund reserves.

Major Initiatives

During the 2004-2005 fiscal year California voters approved Proposition 1A. This initiative places stricter controls on the state's ability to divert local revenue. While this protection is seen as beneficial to local government, local revenues are affected by the Triple-Flip component of the legislation described above.

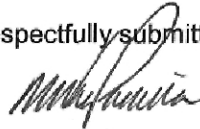
Awards and Acknowledgments

For the twenty-first consecutive year, 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 Modesto for its comprehensive annual financial report for the fiscal year ended June 30, 2004. The report also received the Outstanding Award for Financial Reporting from the California Society of Municipal Finance Officers (CSMFO). To receive this recognition,

the City must publish an easily readable and efficiently organized report. The report must satisfy both generally accepted accounting principles and applicable legal requirements. Both awards are valid for a period of one year. We believe that the current Comprehensive Annual Financial Report continues to meet the requirements of these programs, and it will be submitted to the GFOA and CSMFO to determine its eligibility.

The Comprehensive Annual Financial Report is the result of the cooperative work of many people. We wish to convey our appreciation to all members of the Finance Department team who assisted and contributed to its successful completion. In particular, we commend the Accounting Division staff responsible for preparation of the report.

Respectfully submitted,



M. Wayne Padilla, CPA
Director of Finance



George W. Britton
City Manager

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Modesto,
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.



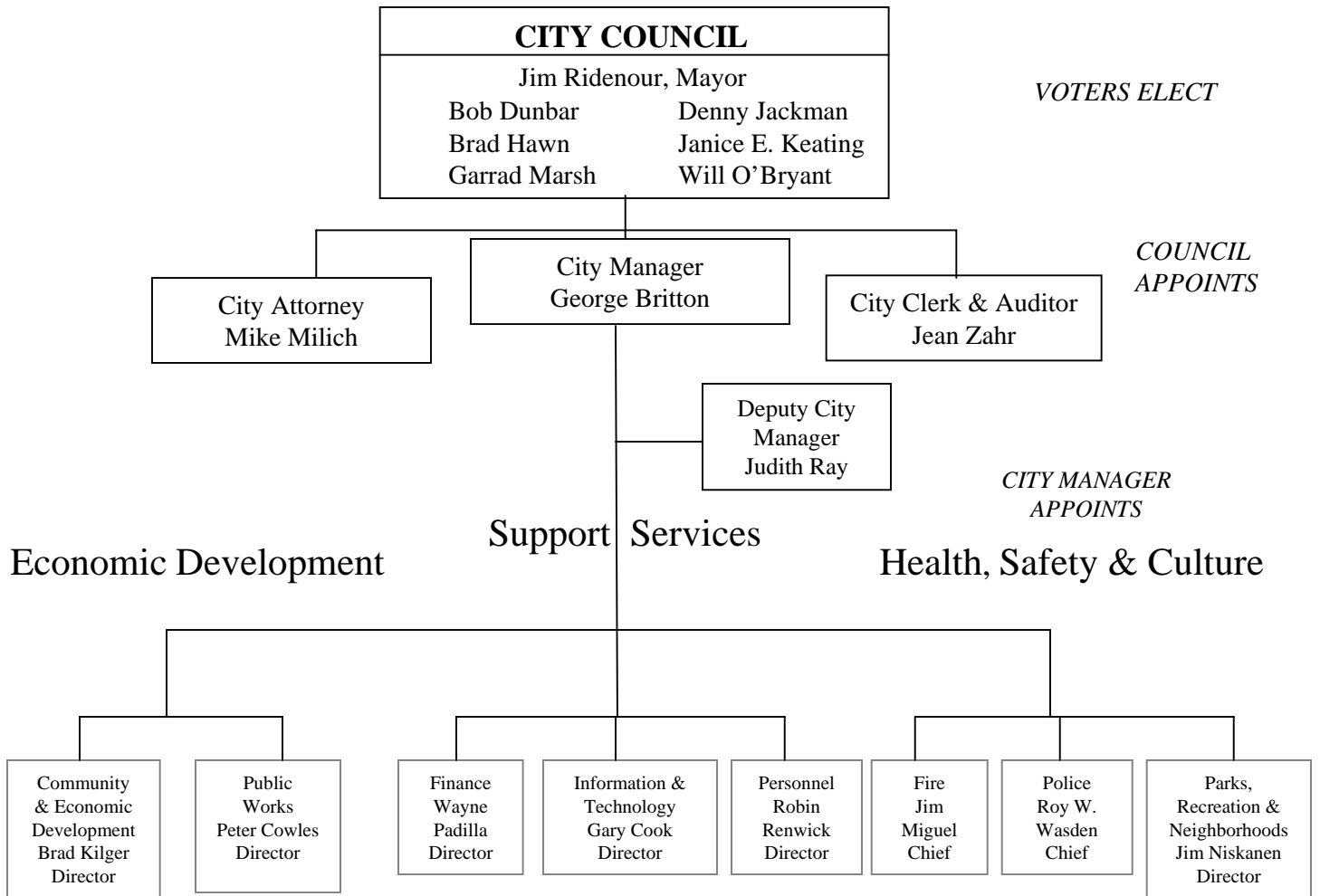
Nancy L. Zjelke

President

Jeffrey R. Emery

Executive Director

CITY OF MODESTO



Citizen Advisory Boards, Commissions and Committees

Airport Advisory Committee
 Board of Building Appeals
 Board of Zoning Adjustments
 Citizen Housing & Community Development
 Citizens Advisory Committee on Recycling
 Citizens Redevelopment Advisory Committee
 Community Qualities Forum
 Culture Commission
 Disabled Access Appeals Board

Downtown Improvement District Advisory Board
 Equal Opportunity/Disability Commission
 Golf Courses Committee
 Housing Rehabilitation Loan Committee
 Human Relations Commission
 Landmark Preservation Commission
 Local Cable Programming Committee
 Planning Commission
 Youth Commission

FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT
ON BASIC FINANCIAL STATEMENTS

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To the Honorable Mayor and Members of the City Council
City of Modesto, California

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Modesto 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 an opinion on these financial statements based on our audit.

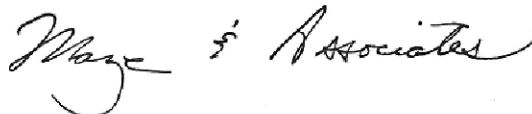
We conducted our audit in accordance with generally accepted auditing standards in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement. An audit includes examining, 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 basic 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 Modesto as of June 30, 2005 and the respective changes in the financial position and cash flows, where applicable, thereof for the year then ended, in conformity with generally accepted accounting principles in the United States of America.

Management's Discussion and Analysis and the Budget and Actual statement for the General Fund are not a required part of the basic financial statements but are supplementary information required by the Government Accounting Standards Board. 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 this 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 basic financial statements. The Combining and Individual Fund Statements and Schedules listed in the Table of Contents are presented for purposes of additional analysis and are not a required part of the basic statements of the City of Modesto. This information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The introductory section and statistical section listed in the Table of Contents 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.



November 28, 2005

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Management's Discussion and Analysis

This section of the City of Modesto (City) comprehensive annual financial report presents a discussion and analysis of the City's financial performance during the fiscal year ended June 30, 2005. Please read it in conjunction with the transmittal letter at the front of this report and the basic financial statements following this section.

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded liabilities at the close of the 2005 fiscal year by \$632,508,597 (*total net assets*). Of this amount, \$38,833,330 (*unrestricted net assets*) may be used to meet ongoing obligations to citizens and creditors, \$88,725,341 is restricted for a specific purpose (*restricted net assets*), and \$504,949,926 is invested in capital assets, net of related debt.
- The City's total net assets increased by \$44,882,356. Approximately sixty-seven percent of this increase is attributable to governmental activities.
- As of June 30, 2005, the City's governmental funds reported combined fund balances of \$119,041,576, an increase of \$13,477,894 in comparison with the prior year. Approximately 64% of the combined fund balances, \$75,925,983 is available to meet the City's current and future needs (*unreserved fund balance*).
- At the end of the fiscal year, the General Fund fund balance was \$20,415,059, or 20.5% of total General Fund expenditures. Of this, \$3.0 million is reserved for encumbrances and non-current assets, and \$6.2 million is designated for specific purposes, including \$5.4 million appropriated in the fiscal year 2005-06 budget. The unreserved/undesignated balance of \$11,223,005 represents 11.3% of total General Fund outflows. The City Council has adopted a goal of maintaining an 8% reserve level.
- The City's total long-term debt showed a net decrease of \$2,067,571 in comparison with the prior year. The decrease resulted from updated actuarial valuations for the insurance estimates (\$2.1 million decrease), refunding of Sewer Revenue Bonds (\$3.2 million net decrease), and normal decreases due to payments of principal (\$2.8 million), combined with an increase in compensated absences of approximately \$5.8 million and a new capital lease for \$0.3 million.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components 1) **Government-wide** financial statements; 2) **Fund** financial statements and 3) **Notes** to 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 vacation 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, community development, highways and streets, public works, parks and recreation, and public safety. The business-type activities of the City include the water, sewer, parking, storm drain, airport, bus, golf and community center operations.

Component units are included in our basic financial statements and consist of legally separate entities for which the City is financially accountable and that have substantially the same board as the City Council, or provide services entirely to the City. Examples are the Redevelopment Agency of the City of Modesto and the Modesto Public Financing Authority.

Management's Discussion and Analysis (*continued*)

The government-wide financial statements can be found on pages 19-21 of this report.

Fund Financial Statements are 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 finance-related legal compliance. All of the funds of the City can be divided into three categories: *governmental funds*, *proprietary funds* and *fiduciary funds*.

Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental funds financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating the City's near-term financing requirements.

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

The City reports 18 individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures and changes in fund balances for the General Fund, the Capital Grants Fund and the Capital Facilities Fund. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* elsewhere in this report.

The governmental funds financial statements can be found on pages 22-25 of this report

Proprietary funds are maintained two ways. *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 its Water, Sewer, Parking, Storm Drain, Airport, Bus, Golf and Community Center operations. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its Fleet Management, Central Services, Information and Technology Services, Insurance, Employee Benefits Management and Building Services functions. Because these services predominantly benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements. Internal services benefiting business-type functions have been allocated as "internal balances".

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The Water and Sewer funds are considered to be major funds of the City. The City's six internal service funds are combined into a single, aggregated presentation in the proprietary funds financial statements. Individual fund data for the internal service funds is provided in the form of *combining statements* elsewhere in this report.

The proprietary funds financial statements can be found on pages 26-29 of this report.

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

The fiduciary fund financial statements can be found on page 30 of this report.

Notes to 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. The notes can be found on pages 31-55 of this report.

Management's Discussion and Analysis *(continued)*

Required Supplementary Information is also presented. The City adopts an annual appropriated budget. Budgetary comparison schedules for the major governmental funds have been provided to demonstrate compliance with this budget.

Required supplementary information can be found on pages 58-60 of this report.

The *combining and individual fund statements and schedules* referred to earlier provide information for nonmajor governmental, enterprise and internal service funds and are presented immediately following the required supplementary information. Combining and individual fund statements and schedules can be found on pages 68 – 102 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$632,508,597 at the close of the most recent fiscal year.

Net Assets

	Governmental activities		Business-type activities		Total	
	2005	2004	2005	2004	2005	2004
Current and other assets	\$197,507,688	\$178,321,292	\$54,304,523	\$ 49,467,641	\$251,812,211	\$227,788,933
Capital assets	355,069,868	343,924,335	281,752,904	278,301,784	636,822,772	622,226,119
Total assets	<u>552,577,556</u>	<u>522,245,627</u>	<u>336,057,427</u>	<u>327,769,425</u>	<u>888,634,983</u>	<u>850,015,052</u>
Current and other liabilities	14,240,830	15,862,170	5,886,911	8,460,425	20,127,741	24,322,595
Long-term liabilities	167,935,092	166,017,236	68,063,553	72,048,980	235,998,645	238,066,216
Total liabilities	<u>182,175,922</u>	<u>181,879,406</u>	<u>73,950,464</u>	<u>80,509,405</u>	<u>256,126,386</u>	<u>262,388,811</u>
Net assets:						
Invested in capital assets, net of related debt	288,391,776	275,171,096	216,558,150	209,230,461	504,949,926	484,401,557
Restricted net assets	88,725,341	76,577,126		763,190	88,725,341	77,340,316
Unrestricted net assets	(6,715,483)	(11,382,001)	45,548,813	37,266,369	38,833,330	25,884,368
Total net assets	<u>\$370,401,634</u>	<u>\$340,366,221</u>	<u>\$262,106,963</u>	<u>\$247,260,020</u>	<u>\$632,508,597</u>	<u>\$587,626,241</u>

The largest portion of the City's net assets, \$504,949,926 (80 percent), reflects its investment in capital assets (e.g. land, buildings, improvements, furnishings and equipment, buses and fare boxes, pipelines, and infrastructure), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Another significant portion of the City's net assets represents *unrestricted net assets* of \$38,833,330 (6 percent), which may be used to meet the City's ongoing obligations to citizens and creditors.

The remaining balance of the City's net assets of \$88,725,341 (14 percent) represents resources that are subject to external restrictions on how they may be used.

At the end of the 2005 fiscal year, the City reported positive balances in all three categories of net assets for the City as a whole.

The City's net assets increased by \$44,882,356 during the current fiscal year. Approximately sixty-seven percent of this increase is attributable to governmental activities.

Management's Discussion and Analysis *(continued)*

The following table indicates the changes in net assets for governmental and business-type activities, as well as comparative data for the prior year.

	Changes in Net Assets					
	Governmental activities		Business-type activities		Total	
	2005	2004	2005	2004	2005	2004
Revenues:						
Program revenues:						
Charges for services	\$ 43,486,604	\$ 34,974,310	\$ 67,250,435	\$ 68,058,033	\$110,737,039	\$103,032,343
Operating grants and contributions	13,736,453	15,975,814	7,525,367	6,217,613	21,261,820	22,193,427
Capital grants and contributions	22,799,320	18,368,908	8,498,408	10,145,892	31,297,728	28,514,800
General revenues:						
Taxes	46,294,592	44,126,680	260,064	211,961	46,554,656	44,338,641
Intergovernmental revenue not restricted for specific purposes	44,695,547	37,408,713			44,695,547	37,408,713
Unrestricted investment earnings	4,463,080	1,004,974	1,819,870	857,751	6,282,950	1,862,725
Settlements and recoveries			7,396,627		7,396,627	
Miscellaneous	3,792,340	2,479,871			3,792,340	2,479,871
Total revenues	179,267,936	154,339,270	92,750,771	85,491,250	272,018,707	239,830,520
Expenses:						
General government	15,273,174	13,954,909			15,273,174	13,954,909
Community development	14,105,411	10,517,243			14,105,411	10,517,243
Highways and streets	23,721,458	23,136,950			23,721,458	23,136,950
Public works	5,263,984	6,458,522			5,263,984	6,458,522
Parks and recreation	13,334,330	12,682,746			13,334,330	12,682,746
Public safety	71,239,341	68,258,235			71,239,341	68,258,235
Interest on long-term debt	4,987,911	4,515,439			4,987,911	4,515,439
Parking			1,162,479	651,330	1,162,479	651,330
Water			30,691,348	27,051,982	30,691,348	27,051,982
Sewer			22,422,268	21,386,084	22,422,268	21,386,084
Storm drain			6,111,317	5,327,334	6,111,317	5,327,334
Airport			1,131,889	1,120,922	1,131,889	1,120,922
Bus			11,074,907	10,122,176	11,074,907	10,122,176
Golf			2,354,759	2,432,202	2,354,759	2,432,202
Community center			2,323,169	2,078,752	2,323,169	2,078,752
Total expenses	147,925,609	139,524,044	77,272,136	70,170,782	225,197,745	209,694,826
Increase in net assets before transfers and special item	31,342,327	14,815,226	15,478,635	15,320,468	46,820,962	30,135,694
Transfers	(1,306,914)	(1,902,932)	1,306,914	1,902,932		-
Special item			(1,938,606)	(6,298,525)	(1,938,606)	(6,298,525)
Change in net assets	30,035,413	12,912,294	14,846,943	10,924,875	44,882,356	23,837,169
Net assets - beginning	340,366,221	327,453,927	247,260,020	236,335,145	587,626,241	563,789,072
Net assets - ending	\$370,401,634	\$340,366,221	\$262,106,963	\$247,260,020	\$632,508,597	\$587,626,241

Management's Discussion and Analysis (*continued*)

Governmental activities. Governmental activities increased the City's net assets by \$30,035,413, accounting for 67 percent of the total growth in net assets of the City. Charges for services are up about \$8.5 million, coming mainly from strong Capital Facilities Fees. Taxes (Utility Users, Franchises and Redevelopment Agency) increased about \$2.2 million over 2004, and intergovernmental revenues (primarily vehicle license fees) were up about \$7.3 million.

Expenses in total are up \$8.4 million, or 6%, primarily in General Government, Community Development and Public Safety. Much of this increase is due to overall salary and wage increases (3-3.5%) and increase public retirement funding rates.

Business-type activities. Business-type activities increased the City's net assets by \$14,846,943. As detailed in the schedule on page 12, the Water, Sewer, and Storm Drain enterprises posted net incomes during the period. Net losses were experienced by Parking, Airport, Bus, Golf and Community Center operations. Golf and Community Center receive annual operating subsidies from the General fund, but these subsidies do not cover depreciation expenses, resulting in overall net losses for these operations.

Charges for services are down about \$800,000, although water and sewer utility charges actually increased. The difference is because receipts resulting from pollution litigation were larger and reported separately under settlements and recoveries for 2005. Capital grants and contributions reflect government grants, connection fees for utilities, and the dedication of utility infrastructure constructed by private developer and deeded to the City. It was these developer infrastructure contributions that were less in the current year. Finally, expenses across the board are up, primarily due to general increases in salaries and benefits, and the rise in utilities, fuel and materials costs.

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

At June 30, 2005, the City's governmental funds reported combined fund balances of \$119,041,576, an increase of \$13,477,894 from the prior year. Approximately 64% of the combined fund balances, \$75,925,983, constitutes *unreserved fund balance*, which is available to meet the City's current and future needs. The remainder of fund balance is *reserved* to indicate that it is *not* available for new spending because it has been committed: 1) to pay debt service (\$7,860,013); 2) to reflect advances to other funds and community development block grant loans receivable that are long-term in nature and thus do not represent available spendable resources (\$15,184,296); 3) to liquidate contractual commitments of the period (\$16,046,497); and 4) to meet Redevelopment Agency low and moderate income housing set-aside requirements (\$4,024,787).

The General Fund is the chief operating fund of the City. At June 30, 2005, unreserved fund balance of the General Fund was \$17,460,005 while total fund balance was \$20,415,059. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 18 percent of total fund expenditures, while total fund balance represents 20 percent of that same amount. The prior year ratios were 19% and 23%, respectively. The use of the fund balance reserves was planned and budgeted during the year.

Revenues of governmental funds totaled \$170,052,391 in fiscal year 2004-2005, which represents an increase of 10.5% from fiscal year 2004-2005.

Expenditures of governmental funds totaled \$155,820,597 in fiscal year 2004-2005, representing an increase of 2.7% over the prior year.

The following table presents the amount of revenues from various sources as well as increases or decreases from the prior year.

Management's Discussion and Analysis (continued)

Revenues by Source	Revenues Classified by Source – Governmental Funds					
	FY 2005		FY 2004		Increase (decrease)	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent Change
Taxes	\$ 46,295,678	27.2%	\$ 44,185,552	28.7%	\$2,110,126	4.8%
Licenses and permits	128,754	.1%	250,129	.2%	(121,375)	(48.5)%
Intergovernmental	73,889,063	43.5%	70,583,373	45.9%	3,305,690	4.7%
Charges for services	41,660,016	24.5%	33,203,507	21.6%	8,456,509	25.5%
Special assessments	107,696	.1%	386,368	.3%	(278,672)	(72.1)%
Interest and rent	3,146,452	1.9%	2,911,392	1.9%	235,060	8.1%
Net increase (decrease) in fair value	186,515	.1%	(1,458,065)	(.9)%	1,644,580	112.8%
Fines and forfeits	1,646,472	1.0%	1,294,193	0.8%	352,279	27.2%
Miscellaneous	2,991,745	1.6%	2,479,871	1.5%	511,874	20.6%
Total	\$170,052,391	100.0%	\$153,836,320	100.0%	\$16,216,071	10.5%

- Taxes –Utility Users taxes, Redevelopment Agency Tax Increment (an allocation of property taxes) and Franchises all increased over the prior year (\$.9, \$.7, and \$.5 million, respectively), while the other tax categories remained relatively constant. Property taxes did increase about \$2.1 million due to a significant rise in property values, but these gains were offset by a required educational augmentation payment to the State of California.
- Intergovernmental – State sales taxes and motor vehicle license fees make up over half of these revenues. The net increase over the prior year is mainly attributable to the sale of the Vehicle License Fee receivable that originated in the 2003-2004 fiscal year. The proceeds of the sale generated \$3.2 million.
- Charges for services – Included in this category are the Capital Facilities Fees charged to mitigate the impact of new development on City infrastructure needs. These fees increased \$6 million over the prior year. The Strategic Planning and Development Fund contributed another \$1 million in contributions from developers.
- Special assessments – This category includes General fund recuperation of planning costs collected by the Community Facilities Districts funds. In 2004, a one-time adjustment was made for nearly \$200,000.
- Fines and forfeitures - This is revenue received mainly through the court system for various traffic violations. The increase may be attributable to new “red light camera” system which was implemented this year.
- Miscellaneous – For 2004, the largest component was developer contributions toward planning for a new hospital to be built in Modesto. These revenues are shown under charges for services in the current year.

The following table presents expenditures by function compared to prior year amounts.

Expenditures by Function	Expenditures By Function Governmental Funds					
	FY 2005		FY 2004		Increase/(Decrease)	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent Change
General government	\$ 11,819,603	7.6%	\$ 11,878,443	7.8%	\$ (58,840)	(.5)%
Community development	12,832,640	8.2%	10,113,628	6.7%	2,719,012	26.9%
Highways and streets	12,152,087	7.8%	11,568,810	7.6%	583,277	5.0%
Public works	5,053,030	3.2%	4,876,115	3.2%	176,915	3.6%
Parks and recreation	12,021,937	7.7%	11,374,052	7.5%	647,885	5.7%
Public safety	70,882,176	45.5%	62,747,623	41.4%	8,134,553	13.0%
Capital outlay	24,412,735	15.7%	33,092,718	21.8%	(8,679,983)	(26.2)%
Debt Service-principal retirement	1,666,764	1.1%	1,563,472	1.0%	103,292	6.6%
Debt Service-interest charges	4,425,980	2.8%	4,502,666	3.0%	(76,686)	(1.7)%
Debt Service-other	553,645	.4%	18,355	.0%	535,290	2,916.3%
Total	\$155,820,597	100.0%	\$151,735,882	100.0%	\$4,084,715	2.7%

Management's Discussion and Analysis *(continued)*

The following provides an explanation of the expenditures by function that changed significantly over the prior year.

- Community development –Housing and Community Development fund expenses increased about \$1.5 million, with another \$1 million of the increase coming from the Community Facilities Districts.
- Public safety –expenditures increased about \$8 million, or 13% over the prior year. An 8% increase in employer-paid PERS retirement contributions contributed significantly toward this increase.
- Capital outlay –Major capital outlays for the current year included completion of the replacement of the 9th Street Bridge (\$11 million), and the new Fire Station #11 (\$2 million). The prior year also included \$10 million toward the completion of the Kansas/Needham Overpass.
- Debt service-other – Pass-through agreement obligations and property tax collection fees of the Redevelopment Agency in the amount of \$543,000 were incurred in the debt service fund this year. In prior years these obligations had been reported in the capital project fund.
- Other financing sources and uses are presented below to illustrate changes from the prior year:

Other Financing Sources (Uses) Governmental Funds

	FY 2005	FY 2004	Increase/(Decrease)	
			Amount	Percent
Transfers in	\$17,962,442	\$19,332,436	\$(1,369,994)	(7.1)%
Transfers out	(19,644,937)	(20,819,979)	1,175,042	5.6%
Proceeds of loan payable		212,241	(212,241)	(100.0)%
Proceeds of note payable		4,500,000	(4,500,000)	(100.0)%
Sale of assets	928,595		928,595	100.0%
Net financing sources (uses)	<u>\$(753,900)</u>	<u>\$3,224,698</u>	<u>\$(3,978,598)</u>	<u>(123.4)%</u>

- Transfers - The City uses interfund transfers to: (1) move revenues from the funds that collect them to the funds that statute or budget requires to expend them, (2) use unrestricted revenues collected in the General Fund to help finance various programs and capital projects accounted for in other funds in accordance with budgetary authorization, and (3) move cash to debt service funds from the funds responsible for payment as debt service payments become due.

The net transfers *from* governmental funds for 2005 was \$1,682,495, compared to \$1,487,543 in the prior year. This net transfer is *to* the proprietary funds, and consists mainly of the operating subsidy to Community Center operations, and to the Fleet internal services fund for new vehicles and equipment.

The annual total for both transfers in and out vary, depending on the nature of the activities that are undertaken each year.

- Proceeds of note payable – 2004 included \$4.5 million in proceeds from a federal Housing and Urban Development (HUD) Section 108 loan to fund construction of a new neighborhood public safety and recreation center.
- Proceeds of loan payable – 2004 represents the Redevelopment Agency receipt of loan proceeds from the Stanislaus County Economic Development Bank for planning costs associated with a new business park.
- Sale of assets – In 2005, the City sold excess park-site land to the adjacent school district.

Management's Discussion and Analysis *(continued)*

The current year excess of revenues and other financing sources over expenditures and other financing uses is presented in the following table:

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

	Major Funds			Nonmajor Funds			Total
	General	Capital	Capital	Special	Capital	Debt	
	Fund	Grants	Facility Fees	Revenue	Projects	Service	
Revenues	\$106,397,889	\$11,841,346	\$14,857,676	\$24,413,307	\$ 9,197,131	\$3,345,042	\$170,052,391
Expenditures	(99,623,770)	(16,197,156)	(3,709,382)	(22,861,077)	(7,293,353)	(6,135,859)	(155,820,597)
Other financing sources/ (uses), net	(7,338,429)	2,023,942	285,345	1,193,038	(1,285,400)	4,367,604	(753,900)
Net change in fund balances	(564,310)	(2,331,868)	11,433,639	2,745,268	618,378	1,576,787	13,477,894
Fund balance July 1	20,979,369	(337,390)	26,788,397	27,780,209	24,069,871	6,283,226	105,563,682
Fund balance June 30	<u>\$ 20,415,059</u>	<u>\$(2,669,258)</u>	<u>\$38,222,036</u>	<u>\$30,525,477</u>	<u>\$24,688,249</u>	<u>\$7,860,013</u>	<u>\$119,041,576</u>

The fund balance of the City's General Fund decreased by \$564,310 during the fiscal year. Total revenues increased \$11.4 million, while expenditures increased \$8.7 million over the prior year. Net transfers out were also \$2 million less than in 2004. The half-million decrease in fund balance is nearly \$5 million better than the previous year, reflecting the City Council's goal of reaching a balanced budget within three years.

The Capital Grants Fund's fund balance deficit is due to the timing difference that exists between the realization of expenditures on reimbursable grant projects and the actual receipt of funding from the granting agency.

The increase in the fund balance of the Capital Facilities Fees Fund was due to the continued accumulation of revenues to finance the planned capital projects on a pay-as-you-go basis. Total revenues increased \$5.8 million over the prior year, while expenditures and net transfers-out decreased about \$1 million each. In addition, \$0.9 million was received from the sale of excess park-site land during the year.

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

The following table shows actual revenues, expenses and results of operations of enterprise funds for the current fiscal year:

	Major Funds		Nonmajor Funds						Total	
	Water	Sewer	Parking	Storm		Airport	Bus	Community		
				Drain	Golf			Center		
Operating revenues	\$31,315,920	\$24,419,607	\$ 908,920	\$5,162,217	\$ 559,215	\$2,264,506	\$2,115,712	\$ 504,338	\$67,250,435	
Operating expenses	(29,227,465)	(21,347,394)	(1,156,354)	(6,020,565)	(1,143,665)	(11,115,194)	(2,037,629)	(2,343,068)	(74,391,334)	
Operating income (loss)	2,088,455	3,072,213	(247,434)	(858,348)	(584,450)	(8,850,688)	78,083	(1,838,730)	(7,140,899)	
Non-operating revenues (expenses), net	1,514,416	3,564,978	5,112	(177,094)	440,774	7,709,656	(264,492)	445,589	13,238,939	
Income (loss) before capital contributions, transfers and special items	3,602,871	6,637,191	(242,322)	(1,035,442)	(143,676)	(1,141,032)	(186,409)	(1,393,141)	6,098,040	
Contributions, transfers and special items	1,778,799	795,639	-	3,850,006	106,006	539,283	(6,000)	802,983	7,866,716	
Net income (loss)	<u>\$5,381,670</u>	<u>\$7,432,830</u>	<u>\$(242,322)</u>	<u>\$2,814,564</u>	<u>\$(37,670)</u>	<u>\$ (601,749)</u>	<u>\$(192,409)</u>	<u>\$(590,158)</u>	<u>\$13,964,756</u>	

Management's Discussion and Analysis *(continued)*

The Water, Sewer and Storm Drain enterprises posted net incomes during the period. Net losses were experienced by the other enterprise funds. Golf and Community Center normally receive annual operating subsidies from the General fund, but these subsidies do not cover depreciation expenses, resulting in net losses overall. Also, the Golf fund did not receive a subsidy in 2005. Revenues in both the Water and Sewer utility funds rose during the year, due to normal growth in the customer bases, as well as from rate increases. Capital contributions, in the form of connection fees and developer or Community Facilities Districts funded infrastructure, also increased substantially. Finally, spending on legal fees in relation to the Water and Sewer enterprises' fight against PCE polluters was much less, with a few small settlements starting to come in.

GENERAL FUND BUDGETARY HIGHLIGHTS

Budget to actual information for the major governmental funds are presented as Required Supplementary Information, beginning on page 60 of this report.

While the City Council amended the budget several times, the differences between the original budget and the final amended budget for the General Fund were relatively minor. The estimated revenues increased about \$1.2 million, while total appropriations were increased \$2.5 million, or about 2.5%. These amendments, generally, were to adjust for actual beginning balances and carryovers after closing the prior fiscal year, and for new sources and uses discovered during the fiscal year.

Revenues came in \$3.4 million higher than estimates, primarily due to the sale of a receivable from State of California for withholding a portion of Motor Vehicle License Fees in the prior year.

Expenditures, overall, were \$2.3 under budget, primarily due to restrictions on departments to realize savings, and other items deferred to future periods.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital assets

The City's investment in capital assets for its governmental and business-type activities as of June 30, 2005, amounted to \$636,822,772 (net of accumulated depreciation). The total increase in the City's investment in capital assets for the current period was 2.3 percent.

Capital assets, net of depreciation, for the governmental and business-type activities are presented below to illustrate changes from the prior year:

	Governmental activities		Business-type activities		Total		Increase/ (Decrease)
	2005	2004	2005	2004	2005	2004	Percent Change
Land	\$22,081,279	\$22,081,279	\$26,001,514	\$25,628,723	\$48,082,793	\$47,710,002	.8%
Buildings	19,313,523	17,792,100	50,762,320	53,009,046	70,075,843	70,801,146	(1.0)%
Improvements	16,990,103	14,060,522	64,197,749	65,761,797	81,187,852	79,822,319	1.7%
Furnishings and equipment	7,550,416	7,806,428	3,154,512	2,885,857	10,704,928	10,692,285	(.1)%
Equipment pool	14,245,320	14,610,460			14,245,320	14,610,460	(2.5)%
Streets	233,954,645	233,826,264			233,954,645	233,826,264	.1%
Signalization	6,700,751	6,832,031			6,700,751	6,832,031	(1.9)%
Bridges	25,024,283	13,693,706			25,024,283	13,693,706	82.7%
Buses and fare boxes			8,914,629	9,729,189	8,914,629	9,729,189	(8.4)%
Pipelines			107,571,640	103,327,561	107,571,640	103,327,561	4.1%
Construction in progress	9,209,548	13,221,545	21,150,540	17,959,611	30,360,088	31,181,156	(2.6)%
Total	\$355,069,868	\$343,924,335	\$281,752,904	\$278,301,784	\$636,822,772	\$622,226,119	2.3%

Management's Discussion and Analysis (*continued*)

Major capital asset events during the current fiscal year included the following:

- Bridges – the 9th Street Bridge Replacement project was completed this year, providing a seismically improved crossing over Tuolumne River.
- Buildings – the new Fire Station #11 was completed this year, to provide improved fire support to the rapidly growing northeast area of Modesto.

The City's infrastructure assets are recorded at historical cost in the government-wide financial statements. Depreciation expense is recorded using the straight-line method, based on estimated useful life of the asset. Additional information on the City's capital assets can be found in note II.B on pages 39-40 of this report.

Long-term debt

At June 30, 2005, the City had total long-term liabilities outstanding of \$235,998,645, net of unamortized discounts and deferred amounts on refunding, as compared to \$238,066,216 in the prior year. This amount was comprised of \$63,000,000 of lease revenue bonds, \$47,913,167 of certificates of participation, \$37,687,428 of revenue bonds payable, \$62,440,305 of estimated compensated absences, \$13,961,801 of claims liability, \$2,832,679 of loans payable, \$2,279,869 of developer advances, \$1,187,320 of capital leases, and \$4,696,076 of notes payable. During the year, retirement of debt and other reductions amounted to \$58,610,115, and new debt and other additions totaled \$56,542,544. The most significant additions were: refunding revenue bonds (\$39 million) and compensated absences (\$15.6 million). Additional information on the City's long-term debt can be found in note II.C on pages 41-45 of this report.

Modesto maintains an Employee Benefits internal service fund (EBF) to pay portions of retiree health benefits and other employee related expenses. The EBF has a significant unfunded liability of more than \$48 million, which includes the \$62.4 million long-term liability for estimated compensated absences listed above. Additional information on the City's EBF can be found in Notes II-H and III-G.

Economic Factors and Next Year's Budget and Rates

- *Consumer Price Index* - The national CPI has been relatively stable during the past six years. In 2000, the CPI-Western Urban was 3.5 %. In June 2005, the CPI-Western Urban increased 2.4%.
- *Taxable Sales* - Taxable sales growth has ranged from 11% to 5.7% during the last couple of years. In future years, annual taxable sales growth is projected at 4%.
- *Building Permit Activity* - Building permit activity, which had been booming for several years, experienced a drop from 6,257 total permits to 5,797 total permits in the year ended June 30, 2004. Total building permits issued for 2005 increased slightly over the prior year and totaled 5,892. More importantly, however, the average construction value of these permits increased from about \$48,000 to \$57,000.
- *State Economics* - A portion of the City's economy is linked to the health of the State. Fluctuations in recurring revenues may not connect entirely with State economic trends; for instance, Modesto has continued to enjoy modest growth while in the San Francisco Bay area, particularly in the Silicon Valley, revenues are dropping quickly as their commercial and industrial business sectors react to changes in the global market for computer technology.
- *State Budget* – The State of California has a history of taking revenues previously pledged to local governments to address their fiscal problems. Since 1990, a net \$35 million has been shifted away from our local control and use. The passage of Proposition 1A in November 2004 restricts the State Legislature's ability to raid local government funding. However, it did leave in place one more shift for fiscal year 2005-2006 of \$2.1 million. So far, Modesto has met these challenges with belt-tightening strategies and maintaining prudent reserves.
- *Utility Service Charges* - Water utility rates were increased an average of 35% effective January 1, 2005. This was the first major increase in water rates in 10 years, and is the first in a series of increases intended to fund major capital improvements to the water system.

Management's Discussion and Analysis *(continued)*

All of these factors were considered in preparing the City's budget for fiscal year 2006.

During the current fiscal year, unreserved fund balance in the General Fund decreased by \$191,795, to \$17,460,005. Of this amount, \$6.2 million is designated for specific purposes, including \$5.4 million appropriated in the fiscal year 2005-06 budget. The unreserved/undesignated balance of \$11,223,005 presents 11.3% of total General Fund outflows, versus the City Council's target of 8%. The budget adopted for fiscal year 2005-2006 maintains this target reserve level.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in its finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of Modesto, Finance Department, P. O. Box 642, Modesto, CA 95353.

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BASIC FINANCIAL STATEMENTS

CITY OF MODESTO
STATEMENT OF NET ASSETS
June 30, 2005

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
<u>ASSETS</u>			
Cash and cash equivalents	\$ 144,589,534	\$ 42,273,925	\$ 186,863,459
Accounts receivable, net	1,287,819	384,242	1,672,061
Interest receivable	792,346	323,504	1,115,850
Utility billings receivable, net	778,690	7,205,330	7,984,020
Taxes receivable	9,299,931	3,573	9,303,504
Due from governments, net	9,140,481	1,560,998	10,701,479
Notes receivable, net	13,323,800		13,323,800
Prepaid expenses	70,000	941,175	1,011,175
Property held for resale		630,000	630,000
Internal balances	(92,547)	92,547	
Inventories	375,519		375,519
Unamortized costs of debt issuance		889,229	889,229
Investments in joint ventures	17,942,115		17,942,115
Capital assets:			
Land and construction in progress	31,290,827	47,152,054	78,442,881
Other capital assets, net of accumulated depreciation	<u>323,779,041</u>	<u>234,600,850</u>	<u>558,379,891</u>
Total assets	<u>552,577,556</u>	<u>336,057,427</u>	<u>888,634,983</u>
<u>LIABILITIES</u>			
Accounts payable	6,257,475	2,014,077	8,271,552
Accrued salaries and benefits	940,442	159,178	1,099,620
Approved loans payable	207,632		207,632
Interest payable	1,273,259	682,757	1,956,016
Unearned revenues	3,787,548	2,214,408	6,001,956
Refundable deposits	1,774,474	816,491	2,590,965
Long-term liabilities:			
Due within one year	8,997,791	2,281,994	11,279,785
Due in more than one year	<u>158,937,301</u>	<u>65,781,559</u>	<u>224,718,860</u>
Total liabilities	<u>182,175,922</u>	<u>73,950,464</u>	<u>256,126,386</u>
<u>NET ASSETS</u>			
Invested in capital assets, net of related debt	288,391,776	216,558,150	504,949,926
Restricted for:			
Capital projects	48,590,964		48,590,964
Housing and community development	19,807,913		19,807,913
Other purposes	20,326,464		20,326,464
Unrestricted	<u>(6,715,483)</u>	<u>45,548,813</u>	<u>38,833,330</u>
Total net assets	<u>\$ 370,401,634</u>	<u>\$ 262,106,963</u>	<u>\$ 632,508,597</u>

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

CITY OF MODESTO
STATEMENT OF ACTIVITIES
Year ended June 30, 2005

FUNCTIONS/PROGRAMS:	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities:				
General government	\$ 15,273,174	\$ 3,252,732	\$	
Community development	14,105,411	11,294,130		
Highways and streets	23,721,458	14,081,840	5,550,491	\$ 21,805,479
Public works	5,263,984	2,024,509	429,895	
Parks and recreation	13,334,330	4,821,884	4,522,089	993,841
Public safety	71,239,341	8,011,509	3,233,978	
Interest on long-term debt	4,987,911			
Total governmental activities	147,925,609	43,486,604	13,736,453	22,799,320
Business-type activities:				
Parking	1,162,479	908,920		
Water	30,691,348	31,315,920		2,378,331
Sewer	22,422,268	24,419,607		1,643,416
Storm Drain	6,111,317	5,162,217		3,814,837
Airport	1,131,889	559,215		106,006
Bus	11,074,907	2,264,506	7,525,367	555,818
Golf	2,354,759	2,115,712		
Community Center	2,323,169	504,338		
Total business-type activities	77,272,136	67,250,435	7,525,367	8,498,408
Total	\$ 225,197,745	\$ 110,737,039	\$ 21,261,820	\$ 31,297,728

General revenues:

Taxes:

 Utility users tax

 Property taxes, levied for general purposes

 Property taxes, generated by and allocated to the airport

 Tax increments for redevelopment agency

 Transient occupancy tax

 Franchise tax

 Business license tax, levied for general purposes

 Business license tax, levied for downtown improvement district

 Business license tax, generated by and allocated to the airport

Intergovernmental revenue not restricted to specific programs:

 Sales tax

 Motor vehicle license fee

 Other

Unrestricted investment earnings

Miscellaneous

Transfers

Settlements and recoveries

Special item - PCE litigation

Total general revenues, transfers and special item

Change in net assets

Net assets, July 1

Net assets, June 30

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

Net (Expense) Revenue and
Changes in Net Assets

Governmental Activities	Business-type Activities	Total
\$ (12,020,442)		\$ (12,020,442)
(2,811,281)		(2,811,281)
17,716,352		17,716,352
(2,809,580)		(2,809,580)
(2,996,516)		(2,996,516)
(59,993,854)		(59,993,854)
(4,987,911)		(4,987,911)
<u>(67,903,232)</u>		<u>(67,903,232)</u>
	\$ (253,559)	(253,559)
	3,002,903	3,002,903
	3,640,755	3,640,755
	2,865,737	2,865,737
	(466,668)	(466,668)
	(729,216)	(729,216)
	(239,047)	(239,047)
	<u>(1,818,831)</u>	<u>(1,818,831)</u>
	<u>6,002,074</u>	<u>6,002,074</u>
<u>(67,903,232)</u>	<u>6,002,074</u>	<u>(61,901,158)</u>
15,621,566		15,621,566
11,316,694		11,316,694
	239,518	239,518
3,909,452		3,909,452
2,098,303		2,098,303
3,420,453		3,420,453
9,726,816		9,726,816
201,308		201,308
	20,546	20,546
26,589,449		26,589,449
16,403,864		16,403,864
1,702,234		1,702,234
4,463,080	1,819,870	6,282,950
3,792,340		3,792,340
(1,306,914)	1,306,914	
	7,396,627	7,396,627
	<u>(1,938,606)</u>	<u>(1,938,606)</u>
<u>97,938,645</u>	<u>8,844,869</u>	<u>106,783,514</u>
30,035,413	14,846,943	44,882,356
<u>340,366,221</u>	<u>247,260,020</u>	<u>587,626,241</u>
<u>\$ 370,401,634</u>	<u>\$ 262,106,963</u>	<u>\$ 632,508,597</u>

CITY OF MODESTO
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2005

	General	Capital Grants	Capital Facility Fees	Other Governmental	Total Governmental
<u>ASSETS</u>					
Cash and cash equivalents	\$ 10,840,532	\$ 539	\$ 39,690,840	\$ 35,593,547	\$ 86,125,458
Cash and cash equivalents with fiscal agent				13,838,319	13,838,319
Receivables:					
Accounts	241,970	2,902	11	696,134	941,017
Interest	252,418		178,500	212,271	643,189
Utilities, net	766,763			11,927	778,690
Taxes	8,760,074			539,857	9,299,931
Due from governments	232,950	5,421,813	37,299	3,448,419	9,140,481
Due from other funds	3,634,000				3,634,000
Notes receivable, net	92,283			13,228,421	13,320,704
Prepaid expenses/expenditures	70,000				70,000
Restricted assets:					
Cash and cash equivalents	1,445,486			290,973	1,736,459
Advances to other funds	1,877,297			193,927	2,071,224
Total assets	\$ 28,213,773	\$ 5,425,254	\$ 39,906,650	\$ 68,053,795	\$ 141,599,472
<u>LIABILITIES AND FUND BALANCES</u>					
Liabilities:					
Accounts payable	\$ 2,003,433	\$ 1,720,284	\$ 112,455	\$ 1,226,432	\$ 5,062,604
Accrued salaries and benefits	774,239			113,641	887,880
Approved loans payable				207,632	207,632
Due to other funds		3,509,000			3,509,000
Deferred revenues	1,537,541	2,865,228	37,299	2,605,014	7,045,082
Payable from restricted assets:					
Refundable deposits	1,483,501			290,973	1,774,474
Advances from other funds	2,000,000		1,534,860	536,364	4,071,224
Total liabilities	7,798,714	8,094,512	1,684,614	4,980,056	22,557,896
Fund balances:					
Reserved	2,955,054	5,428,181	3,046,450	31,685,908	43,115,593
Unreserved:					
Designated, reported in:					
General fund	6,237,000				6,237,000
Special revenue funds				15,382,807	15,382,807
Capital projects funds			35,175,586	15,456,541	50,632,127
Undesignated, reported in:					
General fund	11,223,005				11,223,005
Special revenue funds				548,483	548,483
Capital projects funds		(8,097,439)			(8,097,439)
Total fund balances	20,415,059	(2,669,258)	38,222,036	63,073,739	119,041,576
Total liabilities and fund balances	\$ 28,213,773	\$ 5,425,254	\$ 39,906,650	\$ 68,053,795	\$ 141,599,472

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

CITY OF MODESTO
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS - GOVERNMENTAL ACTIVITIES
June 30, 2005

Total fund balances - total governmental funds \$ 119,041,576

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.

General capital assets:

Nondepreciable	\$ 30,469,794	
Depreciable	73,739,269	
Accumulated depreciation on general capital assets	(33,170,407)	

Infrastructure:

Depreciable	453,098,300	
Accumulated depreciation on infrastructure	<u>(187,418,620)</u>	336,718,336

Other long-term assets are not available to pay for current-period expenditures and, therefore, are:

Deferred in the governmental funds, or	\$ 3,257,534	
Investments in joint ventures	<u>17,942,115</u>	21,199,649

Internal service funds are used by management to charge the costs of activities to individual funds. The assets and liabilities of internal service funds are included in governmental activities in the statement of net assets.

(13,968,303)

Some liabilities are not due and payable in the current period and therefore are not reported in the funds.

Bonds payable and other long-term debt	\$ (91,316,365)	
Accrued interest	<u>(1,273,259)</u>	<u>(92,589,624)</u>

Net assets of governmental activities \$ 370,401,634

CITY OF MODESTO
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
Year ended June 30, 2005

	<u>General</u>	<u>Capital Grants</u>	<u>Capital Facility Fees</u>	<u>Other Governmental</u>	<u>Total Governmental</u>
REVENUES:					
Taxes	\$ 41,441,857			\$ 4,853,821	\$ 46,295,678
Licenses and permits	63,652			65,102	128,754
Intergovernmental	46,874,556	\$ 11,824,346	\$ 173,574	15,016,587	73,889,063
Charges for services	15,544,008		13,999,311	12,116,697	41,660,016
Special assessments levied	106,442			1,254	107,696
Interest and rent	982,728		603,755	1,559,969	3,146,452
Net increase in fair value of investments	46,933		71,567	68,015	186,515
Fines and forfeits	562,876			1,083,596	1,646,472
Miscellaneous	774,837	17,000	9,469	2,190,439	2,991,745
Total revenues	<u>106,397,889</u>	<u>11,841,346</u>	<u>14,857,676</u>	<u>36,955,480</u>	<u>170,052,391</u>
EXPENDITURES:					
Current:					
General government	11,456,602		88,017	274,984	11,819,603
Community development	4,975,859			7,856,781	12,832,640
Highways and streets		283,278	408,721	11,460,088	12,152,087
Public works	1,696,411			3,356,619	5,053,030
Parks and recreation	11,433,777	375,850	54,468	157,842	12,021,937
Public safety	69,403,326		6,635	1,472,215	70,882,176
Capital outlay	646,818	15,538,028	2,693,541	5,534,348	24,412,735
Debt service:					
Principal retirement	9,248		404,230	1,253,286	1,666,764
Interest	1,729		53,770	4,370,481	4,425,980
Other				553,645	553,645
Total expenditures	<u>99,623,770</u>	<u>16,197,156</u>	<u>3,709,382</u>	<u>36,290,289</u>	<u>155,820,597</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES					
	<u>6,774,119</u>	<u>(4,355,810)</u>	<u>11,148,294</u>	<u>665,191</u>	<u>14,231,794</u>
OTHER FINANCING SOURCES (USES):					
Transfers in	1,982,387	2,023,942	189,865	13,766,248	17,962,442
Transfers out	(9,320,816)		(833,115)	(9,491,006)	(19,644,937)
Sale of Assets			928,595		928,595
TOTAL OTHER FINANCING SOURCES (USES)	<u>(7,338,429)</u>	<u>2,023,942</u>	<u>285,345</u>	<u>4,275,242</u>	<u>(753,900)</u>
NET CHANGE IN FUND BALANCES					
FUND BALANCES, July 1	(564,310)	(2,331,868)	11,433,639	4,940,433	13,477,894
	<u>20,979,369</u>	<u>(337,390)</u>	<u>26,788,397</u>	<u>58,133,306</u>	<u>105,563,682</u>
FUND BALANCES, June 30					
	<u>\$ 20,415,059</u>	<u>\$ (2,669,258)</u>	<u>\$ 38,222,036</u>	<u>\$ 63,073,739</u>	<u>\$ 119,041,576</u>

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

CITY OF MODESTO
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES -GOVERNMENTAL ACTIVITIES
Year Ended June 30, 2004

Net change in fund balances - total governmental funds \$ 13,477,894

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

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

Capital outlay	\$ 24,412,735	
Depreciation expense	<u>(14,446,842)</u>	9,965,893

In the statement of activities, only the gain or loss on the sales of capital assets is reported, whereas in the governmental funds, the proceeds from such sales increase financial resources. Thus, the change in net assets differs from the change in fund balances by the cost of the assets sold. (3,258,883)

Developer donations of infrastructure assets are not included in the fund statements. Thus, the change in net assets differs from the change in fund balance by the value of these asset donations. 4,959,568

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Change in deferred revenue	\$ 2,197,269	
Change in investment in joint venture	<u>496,748</u>	2,694,017

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets.

Principal retirement		1,666,764
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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.

Change in accrued interest		7,386
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Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue (expense) of internal service funds is reported with governmental activities. 522,774

Change in net assets of governmental activities \$ 30,035,413

CITY OF MODESTO
STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
June 30, 2005

	Enterprise			Total Enterprise	Internal Service
	Water	Sewer	Other Enterprise		
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 11,392,092	\$ 18,567,796	\$ 6,616,346	\$ 36,576,234	\$ 42,889,298
Cash and cash equivalents with fiscal agent	263,978	4,010,327	606,895	4,881,200	
Receivables:					
Accounts		167,761	216,481	384,242	346,802
Interest	82,656	174,258	66,590	323,504	149,157
Utilities, net	4,289,320	2,367,136	548,874	7,205,330	
Taxes	3,371		202	3,573	
Due from governments		127,064	1,433,934	1,560,998	
Prepaid expenses	941,175			941,175	
Inventories					375,519
Property held for resale			630,000	630,000	
Advances to other funds					2,000,000
Total current assets	<u>16,972,592</u>	<u>25,414,342</u>	<u>10,119,322</u>	<u>52,506,256</u>	<u>45,760,776</u>
Noncurrent assets:					
Notes receivable, net					3,096
Restricted assets-cash and cash equivalents	501,259	315,232		816,491	
Unamortized costs of issuance	254,452	634,777		889,229	
Land and construction in progress	5,811,741	24,575,635	16,764,678	47,152,054	821,033
Other capital assets, net of accumulated depreciation	<u>66,585,561</u>	<u>106,970,689</u>	<u>61,044,600</u>	<u>234,600,850</u>	<u>17,530,499</u>
Total assets	<u>90,125,605</u>	<u>157,910,675</u>	<u>87,928,600</u>	<u>335,964,880</u>	<u>64,115,404</u>
LIABILITIES					
Current liabilities:					
Accounts payable	585,923	599,228	828,926	2,014,077	1,194,871
Accrued salaries and benefits	51,096	69,020	39,062	159,178	52,562
Due to other funds					125,000
Interest payable	285,989	344,200	52,568	682,757	
Current portion - compensated absences					2,218,476
Current portion - claims liability					4,831,901
Current portion - long-term debt	931,562	1,057,899	195,000	2,184,461	45,587
Current portion - developer advances	97,533			97,533	
Deferred revenues			2,214,408	2,214,408	
Total current liabilities	<u>1,952,103</u>	<u>2,070,347</u>	<u>3,329,964</u>	<u>7,352,414</u>	<u>8,468,397</u>
Noncurrent liabilities:					
Payable from restricted assets - refundable deposits	501,259	315,232		816,491	
Compensated absences					60,221,829
Claims liability					9,129,900
Long-term debt:					
Revenue bonds payable		36,697,428		36,697,428	
Loan payable	2,156,040			2,156,040	
Notes payable					171,034
Obligations under capital leases		222,588		222,588	
Certificates of participation	18,668,167		5,855,000	24,523,167	
Developer advances	<u>2,182,336</u>			<u>2,182,336</u>	
Total liabilities	<u>25,459,905</u>	<u>39,305,595</u>	<u>9,184,964</u>	<u>73,950,464</u>	<u>77,991,160</u>
NET ASSETS					
Invested in capital assets, net of related debt	50,641,533	93,568,409	72,348,208	216,558,150	18,134,911
Restricted for capital projects					
Unrestricted	<u>14,024,167</u>	<u>25,036,671</u>	<u>6,395,428</u>	<u>45,456,266</u>	<u>(32,010,667)</u>
Total net assets	<u>\$ 64,665,700</u>	<u>\$ 118,605,080</u>	<u>\$ 78,743,636</u>	<u>262,014,416</u>	<u>\$ (13,875,756)</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.				<u>92,547</u>	
Net assets of business-type activities				<u>\$ 262,106,963</u>	

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

CITY OF MODESTO
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET ASSETS - PROPRIETARY FUNDS
Year ended June 30, 2005

	Enterprise			Total Enterprise	Internal Service
	Water	Sewer	Other Enterprise		
OPERATING REVENUES:					
Charges for services	\$ 31,315,920	\$ 24,419,607	\$ 11,233,197	\$ 66,968,724	\$ 67,256,696
Sales					3,034,646
Cost of sales					(2,768,263)
Miscellaneous			281,711	281,711	
Total operating revenues	<u>31,315,920</u>	<u>24,419,607</u>	<u>11,514,908</u>	<u>67,250,435</u>	<u>67,523,079</u>
OPERATING EXPENSES:					
Salaries and wages	3,881,015	5,040,630	3,274,602	12,196,247	7,405,247
Contractual services	1,728,962	2,263,834	10,114,453	14,107,249	1,357,225
Utilities	1,599,480	1,022,165	450,616	3,072,261	458,504
Maintenance and supplies	3,400,721	3,673,065	3,077,930	10,151,716	3,728,462
Water purchases	11,751,150			11,751,150	
Insurance	118,168	298,075	172,803	589,046	10,636,951
Claims expense					2,874,266
Employee benefits	1,149,167	1,553,764	890,905	3,593,836	36,793,595
Administration services	2,177,564	1,527,098	1,446,026	5,150,688	1,396,936
Allocated indirect administrative costs	1,049,489	760,932	684,216	2,494,637	264,010
Other	65,796	115,567	172,237	353,600	155,570
Depreciation	2,305,953	5,092,264	3,532,687	10,930,904	2,578,355
Total operating expenses	<u>29,227,465</u>	<u>21,347,394</u>	<u>23,816,475</u>	<u>74,391,334</u>	<u>67,649,121</u>
OPERATING INCOME (LOSS)	<u>2,088,455</u>	<u>3,072,213</u>	<u>(12,301,567)</u>	<u>(7,140,899)</u>	<u>(126,042)</u>
NONOPERATING REVENUES (EXPENSES)					
Operating grants			7,525,367	7,525,367	
Gain (Loss) on disposition of capital assets	(402,627)	(198,137)	(202,180)	(802,944)	(168,965)
Tax revenue			260,064	260,064	
Tax expense	(82,673)	(90,117)	(20,942)	(193,732)	
Interest income	247,831	545,734	221,798	1,015,363	577,126
Net decrease in fair value of investments	24,553	29,961	15,473	69,987	56,239
Rental income	31,785	24,158	678,577	734,520	
Settlements and recoveries	2,960,781	4,435,846		7,396,627	
Interest expense	(1,251,395)	(1,182,467)	(318,612)	(2,752,474)	(15,672)
Amortization of costs of issuance	(13,839)			(13,839)	
Total nonoperating revenues (expenses)	<u>1,514,416</u>	<u>3,564,978</u>	<u>8,159,545</u>	<u>13,238,939</u>	<u>448,728</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	3,602,871	6,637,191	(4,142,022)	6,098,040	322,686
Capital contributions	2,378,331	1,643,416	4,476,661	8,498,408	706,694
Transfers in	528,000	327,119	846,136	1,701,255	475,000
Transfers out	(229,027)	(134,795)	(30,519)	(394,341)	(99,419)
Special item	(898,505)	(1,040,101)		(1,938,606)	
CHANGE IN NET ASSETS	5,381,670	7,432,830	1,150,256	13,964,756	1,404,961
NET ASSETS, July 1	<u>59,284,030</u>	<u>111,172,250</u>	<u>77,593,380</u>		<u>(15,280,717)</u>
NET ASSETS, June 30	<u>\$ 64,665,700</u>	<u>\$ 118,605,080</u>	<u>\$ 78,743,636</u>		<u>\$ (13,875,756)</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.				<u>882,187</u>	
Change in net assets of business-type activities				<u>\$ 14,846,943</u>	

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

CITY OF MODESTO
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
Year ended June 30, 2005

	Enterprise			Total Enterprise	Internal Service
	Water	Sewer	Other Enterprise		
CASH FLOWS FROM OPERATING ACTIVITIES:					
Receipts from customers and users	\$ 29,713,475	\$ 24,682,311	\$ 12,152,712	\$ 66,548,498	\$ 261,741
Receipts from interfund services provided	608,112	111,231	23,607	742,950	67,227,001
Payments to suppliers	(18,484,455)	(6,917,285)	(12,768,257)	(38,169,997)	(16,134,081)
Payment of insurance claims					(5,001,771)
Payments to employees	(5,011,327)	(6,568,579)	(4,150,754)	(15,730,660)	(38,390,175)
Payments for interfund services used	(5,212,937)	(4,221,944)	(3,477,582)	(12,912,463)	(2,164,113)
Net cash provided (used) by operating activities	<u>1,612,868</u>	<u>7,085,734</u>	<u>(8,220,274)</u>	<u>478,328</u>	<u>5,798,602</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:					
Operating grants received			6,564,032	6,564,032	
Taxes received			260,064	260,064	
Settlements and recoveries	2,960,781	4,435,846		7,396,627	
Transfers in	528,000	327,119	846,136	1,701,255	475,000
Transfers out	(229,027)	(134,795)	(30,519)	(394,341)	(99,419)
Net cash provided (used) by noncapital financing activities	<u>3,259,754</u>	<u>4,628,170</u>	<u>7,639,713</u>	<u>15,527,637</u>	<u>375,581</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Acquisition and construction of capital assets	(5,231,056)	(2,669,890)	(2,168,965)	(10,069,911)	(1,527,579)
Proceeds of refunding revenue bonds		39,235,000		39,235,000	
Bond premium		2,300,405		2,300,405	
Payment to refunded bond escrow account		(42,988,215)		(42,988,215)	
Costs of issuance		(559,409)		(559,409)	
Proceeds of capital lease		290,487		290,487	
Principal repayments	(994,636)	(1,265,000)	(185,000)	(2,444,636)	(48,458)
Interest paid	(1,163,784)	(1,157,873)	(320,215)	(2,641,872)	(15,672)
Capital grants received			850,082	850,082	
Connection fees for capital purposes	1,379,725	711,801		2,091,526	
Net cash used by capital and related financing activities	<u>(6,009,751)</u>	<u>(6,102,694)</u>	<u>(1,824,098)</u>	<u>(13,936,543)</u>	<u>(1,591,709)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:					
Interest received	216,322	495,955	196,088	908,365	527,026
Net increase in the fair value of investments	24,553	29,961	15,474	69,988	56,239
Net cash provided by investing activities	<u>240,875</u>	<u>525,916</u>	<u>211,562</u>	<u>978,353</u>	<u>583,265</u>
Net increase (decrease) in cash and cash equivalents	(896,254)	6,137,126	(2,193,097)	3,047,775	5,145,739
CASH AND CASH EQUIVALENTS, JULY 1	<u>13,053,583</u>	<u>16,756,229</u>	<u>9,416,338</u>	<u>39,226,150</u>	<u>37,743,559</u>
CASH AND CASH EQUIVALENTS, JUNE 30	<u>\$ 12,157,329</u>	<u>\$ 22,893,355</u>	<u>\$ 7,223,241</u>	<u>\$ 42,273,925</u>	<u>\$ 42,889,298</u>
RECONCILIATION TO STATEMENT OF NET ASSETS:					
Cash and cash equivalents	\$ 11,392,092	\$ 18,567,796	\$ 6,616,346	\$ 36,576,234	\$ 42,889,298
Cash and cash equivalents with fiscal agent	263,978	4,010,327	606,895	4,881,200	
Restricted assets-cash and cash equivalents	<u>501,259</u>	<u>315,232</u>		<u>816,491</u>	
TOTAL CASH AND CASH EQUIVALENTS	<u>\$ 12,157,329</u>	<u>\$ 22,893,355</u>	<u>\$ 7,223,241</u>	<u>\$ 42,273,925</u>	<u>\$ 42,889,298</u>

(continued)

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

CITY OF MODESTO
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS (Continued)
Year ended June 30, 2005

	Enterprise				Internal Service
	Water	Sewer	Other Enterprise	Total Enterprise	
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:					
Operating income (loss)	\$ 2,088,455	\$ 3,072,213	\$ (12,301,567)	\$ (7,140,899)	\$ (126,042)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation	2,305,953	5,092,264	3,532,687	10,930,904	2,578,355
Rental income	31,785	24,158	678,577	734,520	
Taxes paid	(82,673)	(90,117)	(19,252)	(192,042)	
Special item	(898,505)	(1,040,101)		(1,938,606)	
Change in assets and liabilities:					
(Increase) in accounts receivable	963	403,291	(75,154)	329,100	(34,495)
(Increase) in utilities receivable	(1,024,978)	(63,690)	(71,992)	(1,160,660)	
(Increase) in taxes receivable	(1,391)			(1,391)	
Decrease in notes receivable					28,863
(Increase) in prepaid expenses	(544,385)			(544,385)	
(Increase) in inventories					(44,404)
(Decrease) in accounts payable and accrued expenses	(280,499)	(348,275)	(106,616)	(735,390)	(255,974)
Increase in accrued salaries and benefits	18,855	25,815	14,753	59,423	19,221
Increase in compensated absences					5,760,583
(Decrease) in claims liability					(2,127,505)
Increase in deferred revenues			128,290	128,290	
Increase (decrease) in refundable deposits	(712)	10,176		9,464	
Total adjustments	(475,587)	4,013,521	4,081,293	7,619,227	5,924,644
Net cash provided (used) by operating activities	<u>\$ 1,612,868</u>	<u>\$ 7,085,734</u>	<u>\$ (8,220,274)</u>	<u>\$ 478,328</u>	<u>\$ 5,798,602</u>
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:					
Capital asset additions accrued at year end	\$ 20,700		\$ 5,521	\$ 26,221	
Capital assets transferred in		\$ 39,851	3,140,901	3,180,752	\$ 706,694
Developer infrastructure contributions	998,606	891,764	673,936	2,564,306	

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

CITY OF MODESTO
STATEMENT OF FIDUCIARY NET ASSETS - FIDUCIARY FUNDS
June 30, 2005

	<u>Agency Funds</u>
<u>ASSETS</u>	
Cash and cash equivalents	\$ 549,709
Cash and cash equivalents held with fiscal agent	<u>118,313</u>
	<u>\$ 668,022</u>
<u>LIABILITIES</u>	
Due to special assessment bondholders	\$ 238,729
Deposits held as agent for others	<u>429,293</u>
	<u>\$ 668,022</u>

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

CITY OF MODESTO
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. THE FINANCIAL REPORTING ENTITY

The City of Modesto (the City) was incorporated in 1884 and operates under a Council-Manager form of government as authorized by its charter adopted in 1951. The City Council consists of seven elected members. The following services are provided by the City to its citizens: public safety (police and fire), highways and streets, drinking water, wastewater collection and treatment, storm drainage, public transit, recreation and social services, public improvements, community development, planning and zoning, and general administrative services.

These financial statements present the financial status of the City and its component units. The component units discussed in the following paragraphs are included in the City's reporting entity because the City is financially accountable for their operations.

1. The Redevelopment Agency of the City of Modesto (the Agency) was established by the City as a separate legal entity in accordance with state law. The purpose of the Agency is to encourage new investment and reinvestment within legally designated redevelopment areas in partnership with property owners.
2. The Modesto Public Financing Authority was established as a separate legal entity whose sole purpose is to provide financing for various City capital projects.
3. The Modesto Municipal Sewer District is a separate legal entity formed under the Municipal Sewer and Water Facilities Law of 1911. The purpose of the District is to provide financing for needed sewerage facilities in the Modesto urban area.
4. The City of Modesto has established several Community Facilities Districts to provide funding and reimbursement mechanisms for public facilities and services required by each District Specific Plan. These Districts are the vehicles used to ensure that all landowners in the Districts contribute to the cost of public improvements. There are currently eight active Districts, which are combined for presentation in these financial statements. Individual component unit financial statements are prepared for each District.

Although these component units are legally separate from the City, they are reported on a blended basis as part of the primary government because their boards consist of all seven members of the City Council. Component unit financial statements may be obtained from the City's Finance Department.

The joint ventures and jointly governed organization described in Note III - E are not considered part of the reporting entity because the City is not financially accountable for their operations.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are

restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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

C. BASIS OF PRESENTATION, BASIS OF ACCOUNTING, AND MEASUREMENT FOCUS

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest expenditures are recorded as fund liabilities when due or when amounts have been accumulated in the debt service funds for payments to be made early in the following year.

Substantially all property taxes, taxpayer-assessed taxes (such as sales and use, utility users, business license, transient occupancy, franchise fees, and gas taxes), interest, special assessments levied, state and federal grants, and charges for current services are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Revenues from licenses, permits, and fines and forfeits are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

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

The Capital Grants Fund accounts for receipts and disbursements of a variety of Governmental Fund capital grants.

The Capital Facility Fees Fund accounts for special fees collected on new building permits to be used for construction of growth related projects, including police department expansion, fire department expansion, expressway loop, street lights, parks, new traffic signals, city hall expansion, wastewater treatment, streets, public transportation, and air quality improvements.

The City reports the following major proprietary funds:

The Water Fund accounts for all revenues collected by the City for the purpose of financing the construction, operation, and maintenance of the City water distribution system. Revenues are derived from water service charges and various installation fees.

The Sewer Fund accounts for revenues collected by the City for the purpose of financing the construction, operation, and maintenance of the City sewer system. Revenues include, but are not limited to, sewer service charges and sewer lateral charges.

Additionally, the City reports the following fund types:

Internal service funds account for fleet management, central services, technology and information services, insurance, employee benefits management, and building services provided to other departments or agencies of the City on a cost-reimbursement basis.

Agency funds account for cash and investments held by the City as agent for various assessment districts, governmental entities and non-public organizations. Agency funds cannot be major funds.

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

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are exchange or exchange-like transactions between functions of the government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise and internal service funds are charges to customers for sales and services. The Water and Sewer Funds also recognize as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the systems. Operating expenses for enterprise and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

D. ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY

1. Cash and Cash Equivalents

Cash and investments (including restricted assets) held in the City's investment pool are reported as cash and cash equivalents on the statement of net assets and balance sheet because funds can spend cash at any time without prior notice or penalty. All investments with fiscal agents are also considered cash equivalents because they are highly liquid and have maturities of 3 months or less at the time of purchase. Investments are stated at fair value. Valuations are obtained by using quotations obtained from independent published sources.

2. Restricted Assets - Cash and Cash Equivalents

Refundable deposits of the General Fund and the Community Facilities Districts Capital Projects Fund are classified as restricted assets – cash and cash equivalents on the governmental funds balance sheet because their use is restricted for repayment of those refundable deposits. Refundable deposits in the Water and Sewer funds are also classified as restricted assets on the proprietary funds statement of net assets.

3. Receivables and Payables

Balances representing lending/borrowing transactions between funds outstanding at the end of the fiscal year are reported as either "due from/due to other funds" (amounts due within one year), or "advances to/from other funds" (non-current portions of interfund lending/borrowing transactions). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." Advances to other funds are offset by a fund balance reserve in applicable governmental funds to indicate they are not available for appropriation and are not expendable available financial resources.

All property taxes are collected and allocated by the County of Stanislaus to the various taxing entities. Property taxes are determined annually as of March 1 and attach as an enforceable lien on real property as of January 1. Taxes are due November 1 and February 1 and are delinquent if not paid by December 10 and April 10, respectively. The City participates in the County "Teeter Plan" method of property tax distribution. Under the Teeter Plan, the County remits property taxes to the City based on assessments, not on collections, according to the following schedule: 55 percent in December, 40 percent in April, and 5 percent at the end of the fiscal year. Property tax is recognized when it is available and measurable. The City considers property tax as available if it is received within 60 days after year-end.

Revenue from taxpayer-assessed taxes (sales and use, business license, transient occupancy, utility users, gas, and franchise fees) are accrued in the governmental funds when they are both measurable and available. The City considers these revenues available if they are received during the period when settlement of prior fiscal year accounts payable occurs. Historically, the majority of these taxes are received within 60 days of the fiscal year end; therefore, revenue from taxpayer-assessed taxes is accrued if it is received by August 31.

Grant and entitlement revenues are recorded as receivables in the funds when they are susceptible to accrual (i.e., when all eligibility requirements have been met). The corresponding governmental fund revenues are recorded when they become available, with the differences recorded as deferred revenue. The corresponding proprietary fund revenues are recorded as nonoperating revenues when the receivables are recorded. Some grant and entitlement revenues are not susceptible to accrual, in which case the corresponding revenues are recorded when received. The total amount due from governments for grants, entitlements, and shared receivables and revenues at June 30, 2005 is \$10,701,479.

Utility service accounts receivable are reported net of \$210,928 allowance for doubtful collections and include unbilled receivables using actual amounts billed in July for June services. Accounts receivable are reported net of \$945,927 allowance for doubtful collections, and are based on miscellaneous receivables from the City's invoice system as well as other receivables accrued at year end.

4. Inventories

Inventories of material and supplies held by proprietary funds are stated at average cost.

5. Capital Assets

Capital assets, which include property, plant and equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are

recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Depreciation is recorded using the straight line method over the estimated useful lives of the assets, which are 75 years for pipelines, 30 years for buildings, 20 years for improvements, 12 years for buses, 10 years for furnishings and equipment, 2 to 10 years for vehicles, 30 to 50 years for streets, 20 years for signalization, and 50 years for bridges. Operating expenses include depreciation on all depreciable capital assets.

Capital leases are recorded as an asset and an obligation at an amount equal to the present value at the beginning of the lease term of minimum lease payments during the lease term.

6. Compensated Absences

All earned vacation, holiday, and compensating time, and a portion of accumulated sick leave payable upon termination or retirement, are accrued in the Employee Benefits Management Internal Service Fund as compensated absences. Estimated sick leave termination payments have been calculated using the Governmental Accounting Standards Board Statement 16 vesting method. Under this method, a liability is accrued for a portion of the sick leave balances of all employees who are currently eligible, or are assumed to become eligible in the future, to receive a payment for sick leave upon termination, as well as amounts set aside to pay future health care premiums. As of June 30, 2005, the total estimated liability for all compensated absences, including sick leave, is \$62,440,305. The estimated current portion of \$2,218,476 is funded by charges to all operating funds. The estimated long-term portion is \$60,221,829.

7. Fund Equity

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

E. OTHER SIGNIFICANT ACCOUNTING POLICIES

1. Employee Benefits

The City established the Employee Benefits Management Internal Service Fund to account for all compensated absences and non-insurance benefits. Insurance benefits for current employees are paid from the Insurance Internal Service Fund. The Employee Benefits Management Fund is reimbursed based on actual benefits paid and leave taken, through payroll charges to the City's operating funds. Leave earned but not taken is being funded over time by budgeted charges to the operating funds.

2. Interfund Transactions

The City transfers resources among funds in the course of normal operations. Interfund service provided and used, such as equipment pool rental, are accounted for as revenues and expenditures or expenses. Transactions to reimburse a fund for expenditures/expenses initially made from it that are applicable to another fund are recorded as expenditures/expenses in the correct fund and as reductions of expenditures/expenses in the original fund. All other interfund transactions are reported as transfers.

II. DETAILED NOTES

A. CASH AND INVESTMENTS

The City maintains a cash and investment pool that is used by all funds. Each fund's portion of the City's cash and investment pool is displayed on the balance sheet and proprietary and fiduciary fund statements of net assets as "cash and cash equivalents." Each fund is allocated interest on average monthly cash balances held by the funds throughout the year. A majority of the interest from the Fleet Management Internal Service Fund is credited to the General Fund in accordance with the City's policy. Certain deposits held in trust are displayed on the governmental funds balance sheet and the proprietary funds statement of net assets as "restricted assets - cash and cash equivalents." The City also maintains "cash and cash equivalents with fiscal agent" which represent monies held by fiscal agents for payment of various City debt and capital projects costs.

Investments Authorized by the California Government Code and the City's Investment Policy

The City's investment policy and the California Government Code allow the City to invest in the following types of instruments, and the table also identifies certain provisions of the California Government Code, or the City's investment policy where it is more restrictive:

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality	Maximum Percentage Of Portfolio	Maximum Investment in One Issuer
City of Modesto Bonds	5 years	N/A	None	None
U.S. Treasury Obligations	5 years	N/A	None	None
State of California Securities	5 years	AAA	None	None
California Municipal Securities	5 years	AAA	None	None
Federal Agency Securities	5 years	N/A	None	None
Bankers' Acceptances	180 days	N/A	40%	10% or \$1 million
Commercial Paper	270 days	Top rating category	25%	10%
Certificates of Deposit	1 year	N/A	20% of surplus	None
Negotiable Certificates of Deposit	5 years	AA	30%	None
Repurchase Agreements	90 days	Top rating category	None	None
Reverse Repurchase Agreements	92 days	N/A	20%	None
Medium Term Corporate Notes	5 years	AA -	30%	None
Money Market Funds	N/A	Top rating category	None	None
California Local Agency Investment Fund	N/A	N/A	None	None
Mortgage and Asset-Backed Securities	5 years	AA	20% of surplus	None

Investments are stated at fair value. The City's investment in the Local Agency Investment Fund (LAIF) is \$52,781,852. The value of the pool shares in LAIF, which may be withdrawn on demand, is determined on an amortized cost basis, which is not materially different than the fair value of the City's portion in the pool. The total amount invested by all public agencies in LAIF is \$60,449,636,940. The Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members as designated by state statute.

Investments Authorized by Debt Agreements

The City must maintain required amounts of cash and investments with trustees or fiscal agents under the terms of certain debt issues. These funds are unexpended bond proceeds or are pledged as reserves to be used if the City fails to meet its obligations under these debt issues. The California Government Code requires these funds to be invested in accordance with City ordinance, bond indentures or State statute. All current bond indentures authorize the same investments as the City's investment policy.

In addition some bond indentures authorize investments in guaranteed investment contracts with maturity dates of September 1, 2033 and November 1, 2016 and a repurchase agreement with a maximum maturity of May 27, 2013.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The following table summarizes the City's interest rate risk, based on maturity dates of various investments:

Investment Type	Total	Remaining Time to Maturity			
		Less Than 1 Year	1 – 2 Years	2 – 3 Years	Over 5 Years
U.S. Treasury Notes	\$28,694,892		\$22,280,876	\$6,414,016	
Federal agency securities					
Bonds	26,363,428		8,781,563	17,581,865	
Notes	46,156,459	\$10,864,887	22,702,187	12,589,385	
Discount notes	11,186,780	11,186,780			
LAIF	52,781,852	52,781,852			
Cash in banks	3,510,238	3,510,238			
Held by trustee:					
Cash held by State	285,000	285,000			
Cash in banks	38,493	38,493			
Money market funds	3,323,565	3,323,565			
U.S. Treasury discount notes	4,482,637	4,482,637			
Federal agency securities notes	3,435,396	3,435,396			
Repurchase agreements	1,977,050				\$1,977,050
Guaranteed investment contracts	5,295,691				5,295,691
Total	\$187,531,481	\$89,908,848	\$53,764,626	\$36,585,266	\$7,272,741

Maturity dates for callable notes are based on call dates.

Disclosures Related to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the rating as of June 30, 2005 for each investment type:

Investment Type	Total	Exempt from Disclosure	AAA and A-1+	Not Rated
U.S. Treasury Notes	\$28,694,892	\$28,694,892		
Federal agency securities	83,706,667		\$83,706,667	
LAIF	52,781,852	52,781,852		
Cash in banks	3,510,239	3,510,239		
Held by trustee:				
Cash held by State	285,000	285,000		
Cash in Banks	38,492	38,492		
Money market funds	3,323,565		3,323,565	
U.S. Treasury discount notes	4,482,637	4,482,637		
Federal agency security notes	3,435,396		3,435,396	
Repurchase agreements	1,977,050			\$1,977,050
Guaranteed investment contracts	5,295,691			5,295,691
Total	\$187,531,481	\$89,793,112	\$90,465,628	\$7,272,741

Concentration of Credit Risk

The City's investment policy contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. Investments in any one issuer, other than U. S. Treasury securities, mutual funds, and external investment pools, that represent 5% or more of total entity-wide investments are as follows at June 30, 2005:

<u>Issuer</u>	<u>Investment Type</u>	<u>Reported Amount</u>	<u>Percent of Portfolio</u>
Fannie Mae (FNMA)	Federal agency securities	\$21,230,095	11.3%
Freddie Mac (FHLMC)	Federal agency securities	22,463,903	12.0%
Federal Home Loan Bank	Federal agency securities	40,012,669	21.3%

Investments in any one issuer, other than U. S. Treasury securities, mutual funds, and external investment pools, that represent 5% or more of Major Governmental funds, fund level investments were for Other Governmental Funds are as follows at June 30, 2005:

<u>Issuer</u>	<u>Investment Type</u>	<u>Reported Amount</u>
AIG Matched Funding Corporation	Guaranteed Investment Contract	\$4,981,284

Investments in any one issuer, other than U. S. Treasury securities, mutual funds, and external investment pools, that represent 5% or more of Major Enterprise funds, fund level investments were for the Sewer Enterprise Fund are as follows at June 30, 2005:

<u>Issuer</u>	<u>Investment Type</u>	<u>Reported Amount</u>
Federal Home Loan Bank	Federal agency securities	\$3,195,876

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the City will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Under California Government Code Section 53651, depending on specific types of eligible securities, a bank must deposit eligible securities posted as collateral with its Agent having a fair value of 105% to 150% of the City's cash on deposit. All of the City's deposits are either insured by the Federal Depository Insurance Corporation (FDIC) or collateralized with pledged securities held in the trust department of the financial institution in the City's name.

The custodial credit risk for investments is the risk that, in the event of the failures of the counterparty (e.g. broker-dealer) to a transaction, the City will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The City's investment policy limits its exposure to custodial credit risk by requiring that all security transactions entered into by the City, including collateral for repurchase agreements, be conducted on a delivery-versus-payment basis. Securities are to be held by a third party custodian.

B. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2005 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$22,081,279			\$22,081,279
Construction in progress	13,221,545	\$5,040,370	\$9,052,367	9,209,548
Total capital assets, not being depreciated	<u>35,302,824</u>	<u>5,040,370</u>	<u>9,052,367</u>	<u>31,290,827</u>
Capital assets, being depreciated:				
Buildings	26,068,033	2,436,590		28,504,623
Improvements other than buildings	32,579,052	4,234,096		36,813,148
Furnishings and equipment	15,733,874	999,220	480,090	16,253,004
Equipment pool	25,948,694	2,107,015	1,954,048	26,101,661
Streets	403,455,337	10,744,783		414,200,120
Signalization	12,686,148	712,871		13,399,019
Bridges	14,129,030	11,370,131		25,499,161
Total capital assets, being depreciated	<u>530,600,168</u>	<u>32,604,706</u>	<u>2,434,138</u>	<u>560,770,736</u>
Less accumulated depreciation for:				
Buildings	(8,275,933)	(915,167)		(9,191,100)
Improvements other than buildings	(18,518,530)	(1,304,515)		(19,823,045)
Furnishings and equipment	(7,927,446)	(1,161,625)	386,483	(8,702,588)
Equipment pool	(11,338,234)	(2,171,018)	1,652,911	(11,856,341)
Streets	(169,629,073)	(10,616,402)		(180,245,475)
Signalization	(5,854,117)	(844,151)		(6,698,268)
Bridges	(435,324)	(39,554)		(474,878)
Total accumulated depreciation	<u>(221,978,657)</u>	<u>(17,052,432)</u>	<u>2,039,394</u>	<u>(236,991,695)</u>
Total capital assets, being depreciated, net	<u>308,621,511</u>	<u>15,552,274</u>	<u>394,744</u>	<u>323,779,041</u>
Governmental activities capital assets, net	<u>\$343,924,335</u>	<u>\$20,592,644</u>	<u>\$9,447,111</u>	<u>\$355,069,868</u>
	Beginning Balance	Additions	Deletions	Ending Balance
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$25,628,723	\$ 372,791		\$26,001,514
Construction in progress	17,959,611	6,669,093	\$3,478,164	21,150,540
Total capital assets, not being depreciated	<u>43,588,334</u>	<u>7,041,884</u>	<u>3,478,164</u>	<u>47,152,054</u>
Capital assets, being depreciated:				
Buildings	82,553,899	269,486		82,823,385
Improvements other than buildings	132,471,976	4004,804	3,883	136,472,897
Furnishings and equipment	5,404,831	1,527,747	1,189,363	5,743,215
Buses and fareboxes	15,116,742			15,116,742
Pipelines	121,751,065	5,803,355		127,554,420
Total capital assets, being depreciated	<u>357,298,513</u>	<u>11,605,392</u>	<u>1,193,246</u>	<u>367,710,659</u>
Less accumulated depreciation for:				
Buildings	(29,544,853)	(2,516,212)		(32,061,065)
Improvements other than buildings	(66,710,179)	(5,564,969)		(72,275,148)
Furnishings and equipment	(2,518,974)	(475,887)	406,158	(2,588,703)
Buses and fareboxes	(5,387,553)	(814,560)		(6,202,113)
Pipelines	(18,423,504)	(1,559,276)		(19,982,780)
Total accumulated depreciation	<u>(122,585,063)</u>	<u>(10,930,904)</u>	<u>406,158</u>	<u>(133,109,809)</u>
Total capital assets, being depreciated, net	<u>234,713,450</u>	<u>674,488</u>	<u>787,088</u>	<u>234,600,850</u>
Business-type activities capital assets, net	<u>\$278,301,784</u>	<u>\$7,716,372</u>	<u>\$4,265,252</u>	<u>\$281,752,904</u>

Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
General government	\$ 154,388
Community development	1,248,190
Highways and streets, including depreciation of general infrastructure assets	11,571,965
Public works	186,130
Parks and recreation	1,256,251
Public safety	57,153
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	<u>2,578,355</u>
Total depreciation expense – governmental activities	<u><u>\$17,052,432</u></u>
Business-type activities:	
Parking	\$ 388,777
Water	2,305,953
Sewer	5,092,264
Storm Drain	538,731
Airport	407,752
Bus	1,129,903
Golf	315,612
Community center	<u>751,912</u>
Total depreciation expense – business-type activities	<u><u>\$10,930,904</u></u>

C. LONG-TERM DEBT

Loans Payable

Governmental activities:

Loan payable to the California Energy Commission for the purpose of reimbursing the City for costs of replacing incandescent bulbs for traffic signals with Light Emitting diodes (LED's); interest at 3%; semi-annual installments on December 22 and June 22, in the amount of \$20,776 , including interest, through June 22, 2007.

\$ 80,077

No-interest loan payable to the Stanislaus County Economic Development Bank loan program, to pay master plan costs incurred by the City's Redevelopment Agency for the Kansas Avenue Business Park Project; no obligation to begin repayments until project is complete and revenue stream begins; final payment due in 2015 if not repaid sooner.

405,000

Total governmental activities loans payable

\$ 485,077

Business-type activities:

Water Enterprise Fund:

Loan payable to the State of California Department of Water Resources, assumed from Del Este Water Company at acquisition, for purposes of upgrading the water delivery system; interest at 3.2%; semi-annual installments on April 1 and October 1 of \$132,327, including interest, through October 1, 2015.

\$ 2,347,602

Annual debt service requirements to maturity for loans payable are as follows:

<u>Year Ending June 30,</u>	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ 39,443	\$ 2,110	\$ 191,562	\$ 73,091
2007	40,634	917	197,698	66,956
2008			203,908	60,745
2009			210,674	53,980
2010			217,307	47,346
2011-2015	405,000		1,195,477	127,790
2016			130,976	2,087
Total	<u>\$485,077</u>	<u>\$3,027</u>	<u>\$2,347,602</u>	<u>\$431,995</u>

Certificates of Participation

Governmental activities:

1993 Refunding Certificates of Participation (Community Center Project); serial certificates with annual maturities on November 1, in amounts from \$800,000 to \$1,040,000; interest rates from 5.3% - 5.6%; term certificates at 5.6% in the amount of \$4,740,000 maturing November 1, 2014, and in the amount of \$12,235,000 at 5.0% maturing November 1, 2023, with annual payments of \$1,090,000 to \$1,610,000 beginning in 2011.

\$ 22,455,000

Business-type activities:

Golf Enterprise Fund:

1993 Refunding Certificates of Participation (Golf Course Project); serial certificates with annual maturities on November 1, in amounts from \$195,000 to \$235,000; interest rates from 5.3% to 5.5%; term certificates at 5.6% in the amount of \$1,390,000 due November 1, 2014, and in the amount of \$3,585,000 at 5.0% due November 1, 2023, with annual payments ranging from \$250,000 to \$480,000 beginning in 2010.

\$ 6,050,000

Water Enterprise Fund:

1997 Refunding Certificates of Participation (Water Utility System Project); serial certificates with annual maturities on October 1, in amounts from \$740,000 to \$1,050,000; interest rates from 4.625% to 5.0%; term certificates at 5.4% in the amount of \$6,145,000 maturing on October 1, 2017, and in the amount of \$7,965,000 at 5.43% maturing on October 1, 2022, with annual payments from \$1,015,000 to \$1,765,000 beginning in 2013.

21,190,000

Total principal balances – business-type activities

27,240,000

Less:

Unamortized bond discount – Water Enterprise Fund

(407,726)

Deferred amount on refunding – Water Enterprise Fund

(1,374,107)

Total business-type activities certificates of participation

\$ 25,458,167

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

Year Ending June 30,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2006	\$ 800,000	\$ 1,155,110	\$ 935,000	\$1,360,896
2007	835,000	1,111,365	985,000	1,313,655
2008	885,000	1,064,925	1,030,000	1,265,125
2009	935,000	1,015,318	1,080,000	1,213,460
2010	985,000	962,517	1,135,000	1,158,241
2011-2015	5,780,000	3,902,390	6,650,000	4,829,350
2016-2020	6,250,000	2,281,750	8,610,000	2,878,090
2021-2024	5,985,000	617,375	6,815,000	580,025
Total	<u>\$22,455,000</u>	<u>\$12,110,750</u>	<u>\$27,240,000</u>	<u>\$14,598,851</u>

Lease Revenue Bonds – Governmental activities:

1997 Lease Revenue Bonds (John Thurman Field Renovation Project); term certificates bearing interest at 6.125% maturing November 1, 2016, with mandatory annual redemption of amounts from \$155,000 to \$305,000 on November 1. \$ 2,655,000

1998 Lease Revenue Bonds (Capital Improvements and Refinancing Project); serial certificates with annual maturities on September 1, in amounts from \$340,000 to \$910,000; interest payments at 4.1% to 4.8%; term certificates totaling \$55,305,000, maturing in 2016, 2020, 2024, 2029, and 2033, bearing interest rates of 4.75% to 5.125%, with annual payments beginning in 2014. Of the total principal, \$18,445,000 is payable through a reimbursement agreement with the Redevelopment Agency. 60,345,000

Total lease revenue bonds \$ 63,000,000

Annual debt service requirements to maturity for lease revenue bonds are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ 495,000	\$3,148,788
2007	545,000	3,124,228
2008	580,000	3,097,520
2009	635,000	3,068,427
2010	685,000	3,036,508
2011-2015	5,190,000	14,512,447
2016-2020	7,830,000	12,802,733
2021-2025	11,655,000	10,440,539
2026-2030	17,375,000	6,912,437
2031-2034	<u>18,010,000</u>	<u>1,904,962</u>
Total	<u><u>\$63,000,000</u></u>	<u><u>\$62,048,589</u></u>

Revenue Bonds – Business-type activities:

Sewer Enterprise Fund:

Wastewater Treatment Facility Revenue Bonds, Series 2005 Series A and B; Series A (non-taxable) interest payable on November 1 and May 1; serial certificates with annual maturities on November 1, in amounts from \$440,000 to \$3,230,000, with interest rates from 3.0% to 5.25%; Series B (taxable) interest payable on November 1 and May 1; serial certificates with annual maturities on November 1, in amounts from \$550,000 to \$1,115,000, with interest rates from 3.60% to 4.40%. \$ 39,235,000

Plus: Unamortized bond premium 2,300,405

Less: Deferred amount on refunding (3,847,977)

Total business-type activities revenue bonds \$ 37,687,428

Annual debt service requirements to maturity for revenue bonds are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ 990,000	\$ 1,926,462
2007	1,650,000	1,786,563
2008	1,710,000	1,722,230
2009	1,660,000	1,663,875
2010	1,710,000	1,613,325
2011-2015	9,785,000	6,764,500
2016-2020	12,530,000	4,045,475
2021-2023	9,200,000	741,563
Total	<u>\$39,235,000</u>	<u>\$20,263,993</u>

Notes Payable – Governmental activities:

Note payable to the Federal Housing and Development Department for the purpose of constructing the Neighborhood Center at Marshall Park and the expansion of the Maddux Youth Center; to be repaid using future Community Development Block Grant revenue; interest rates from 2.31% to 6.01%; semi-annual installments on August 1 and February 1 through August 2024.

\$4,500,000

Fleet Management Internal Service Fund:

Note payable for the acquisition of property related to the Police Fleet Shop; variable interest rate with a minimum of 6% and a maximum of 9%; monthly payments of \$3,010, including interest, through February 2012.

196,076

Total notes payable

\$4,696,076

Annual debt service requirements to maturity for these notes payable are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ 161,042	\$ 244,264
2007	169,588	238,940
2008	178,226	232,373
2009	187,968	224,759
2010	196,816	216,184
2011-2015	1,013,436	933,555
2016-2020	1,224,000	643,247
2021-2025	1,565,000	242,388
Total	<u>\$4,696,076</u>	<u>\$2,975,710</u>

Advance Refunding of Wastewater Treatment Revenue Bonds

The City issued \$36,495,000 of Wastewater Revenue Refunding Bonds, Series A , and \$2,740,000 Series B, for a total of \$39,235,000, to provide resources to purchase U.S. Treasury State and Local Government Series securities to fund irrevocable trust accounts. The purpose of these accounts is to generate resources sufficient to cover all future debt service payments on \$40,020,000 of three Wastewater Revenue Bond issues. As a result, the refunded bonds are considered to be defeased and the liabilities have been removed from the Sewer Fund, as well as the business-type activities column of the statement of net assets. The reacquisition price exceeded the net carrying

amount of the old debts by \$3,708,730. This amount is being netted against the new debt and amortized over the life of the new debt, which is equivalent to the life of the old debt. In addition to this amount, the remaining balance of deferred amount on refunding on the 1996 Refunding Revenue Bonds of \$139,247 is continuing to be amortized as required by generally accepted accounting principles.

The Series B refunding bonds were issued as taxable bonds because they were used to refund previously refunded bonds (the 1996 Refunding Revenue Bonds).

This advance refunding was undertaken to reduce the total debt service payments over the next 18 years by \$4,040,490 and resulted in an economic gain of \$2,200,707. In addition, the refunding allowed the City to modernize the master indenture.

Changes in Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2005, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Loans payable	\$ 523,363		\$ 38,286	\$ 485,077	\$ 39,443
Certificates of participation	23,215,000		760,000	22,455,000	800,000
Lease revenue bonds	63,455,000		455,000	63,000,000	495,000
Notes payable	4,719,663		23,587	4,696,076	161,042
Obligations under capital leases	1,335,182		438,349	896,833	451,929
Compensated absences	56,679,722	\$15,551,116	9,790,533	62,440,305	2,218,476
Claims liability	16,089,306	2,874,266	5,001,771	13,961,801	4,831,901
Governmental activities long-term liabilities	<u>\$166,017,236</u>	<u>\$18,425,382</u>	<u>\$16,507,526</u>	<u>\$167,935,092</u>	<u>\$8,997,791</u>
Business-type activities:					
Loan payable	\$ 2,533,380		\$185,778	\$ 2,347,602	\$ 191,562
Certificates of participation	28,125,000		885,000	27,240,000	935,000
Unamortized discounts	(429,901)		(22,175)	(407,726)	
Deferred amount on refunding	(1,448,843)		(74,736)	(1,374,107)	
Revenue bonds	41,285,000	\$39,235,000	41,285,000	39,235,000	990,000
Unamortized discounts	(198,785)		(198,785)		
Unamortized premium		2,300,405		2,300,405	
Deferred amount on refunding	(205,598)	(3,708,730)	(66,351)	(3,847,977)	
Capital lease		290,487		290,487	67,899
Developer advances	2,388,727		108,858	2,279,869	97,533
Business-type activities long-term liabilities	<u>\$72,048,980</u>	<u>\$38,117,162</u>	<u>\$42,102,589</u>	<u>\$68,063,553</u>	<u>\$2,281,994</u>

Principal balances are reported on the government-wide and enterprise funds statements of net assets net of unamortized issuance discounts and deferred amounts on refunding.

Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for them are included as part of the above totals for governmental activities. At year end \$216,621 of internal service funds obligations under notes payable and capital leases are included in the above amounts. Also, the compensated absences and claims liability balances relate to the internal service funds, and as such they are liquidated by the internal service funds.

D. OBLIGATIONS UNDER CAPITAL LEASES

Governmental Funds:

The City has acquired ballfield parking lot lighting and land for a park under capital lease agreements. The related liability is included in obligations under capital leases under governmental activities. The following is a schedule of the future minimum lease payments on the capital lease as of June 30, 2005:

<u>Year Ending June 30,</u>	
2006	\$ 468,977
2007	<u>463,803</u>
Total minimum lease payments	932,780
Less: amount representing interest	<u>(56,492)</u>
Present value of minimum lease payments	<u><u>\$ 876,288</u></u>

Assets subject to the above capital leases valued at \$2,066,827, net of \$30,922 accumulated depreciation, have been presented under governmental activities. Rental expenses incurred under operating leases are not material.

Internal Service Funds

A leased printer valued at \$114,096, net of accumulated depreciation of \$117,346, is recorded in the Technology and Information Services Internal Service Fund. The following is a schedule of the future minimum lease payments on the Internal Service Fund capital lease as of June 30, 2005:

<u>Year Ending June 30,</u>	
2006 - Total minimum lease payments	\$21,003
Less: amount representing interest	<u>(458)</u>
Present value of minimum lease payments	<u><u>\$20,545</u></u>

Enterprise Funds

Two wheel loaders, valued at \$364,817, net of \$6,641 accumulated depreciation, are being leased under a capital lease arrangement. The following is a schedule of the future minimum lease payments on this capital lease as of June 30, 2005:

<u>Year Ending June 30,</u>	
2006	\$ 80,971
2007	80,971
2008	80,972
2009	<u>80,972</u>
Total minimum lease payments	323,886
Less: amount representing interest	<u>(33,399)</u>
Present value of minimum lease payments	<u><u>\$290,487</u></u>

E. DEVELOPER ADVANCES

The Del Este Water Company (Del Este) entered into various agreements with developers under which infrastructure components were either constructed on behalf of Del Este or cash was advanced to the company to construct the infrastructure. Agreements in existence at the time of the City’s acquisition of Del Este were assumed by the City. The terms of repayment call for no interest, with principal paid over a 40-year period. As of June 30, 2005, the total outstanding balance due under the agreements is \$2,279,869. The total annual payments fluctuate depending on the ending date of each agreement. At June 30, 2005, the amount of \$97,533 due during fiscal year 2006, has been reported as “current portion-developer advances” on the Proprietary Funds statement of net assets. The remaining \$2,182,336 of outstanding principal has been reported under noncurrent liabilities, as “developer advances.”

F. INTERFUND BALANCES

Interfund balances as of June 30, 2005 consist of the following:

Due to General Fund from:

Capital Grants Fund	\$3,509,000
Internal service funds	125,000
Total due to/due from	<u>\$3,634,000</u>

Advances from General Fund to:

Capital Facility Fees Fund	\$1,340,933
Other governmental funds	536,364
Total advances from General Fund	<u>1,877,297</u>
Advances from other governmental funds to Capital Facility Fees Fund	<u>193,927</u>
Advances from internal service funds to General Fund	<u>2,000,000</u>
Total advances from/advances to	<u>\$4,071,224</u>

All balances reported as “due to/due from” are short-term loans to cover temporary fund cash shortages as of June 30, 2005, and were repaid early in fiscal year 2006. Balances reported as “advance to/advance from” were for capital projects expenditures and are either in the process of being repaid or have scheduled repayments in future years. \$3,766,122 of advances are not currently scheduled for repayment during 2006.

G. RESERVES AND DESIGNATIONS OF FUND BALANCES

The City's reserves and designations at June 30, 2005 are comprised of the following:

	<u>General</u>	<u>Capital Grants</u>	<u>Capital Facility Fees</u>	<u>Other Governmental</u>
<u>Reserved for:</u>				
Encumbrances	\$985,47	\$5,428,181	\$3,046,450	\$ 6,586,392
Loan programs	92,28			13,020,789
Interfund advances	1,877,29			193,927
Set-aside requirement				4,024,787
Debt service				7,860,013
Total reserved	<u>\$2,955,05</u>	<u>\$5,428,181</u>	<u>\$3,046,450</u>	<u>\$31,685,908</u>
 <u>Designated for:</u>				
Pending projects	\$ 825,00		\$35,175,586	\$30,839,348
Subsequent year expenditures	<u>5,412,00</u>			
Total designated	<u>\$6,237,00</u>		<u>\$35,175,586</u>	<u>\$30,839,348</u>

1. Reserve for encumbrances - Amounts reserved for encumbrances represent the total of outstanding purchase orders and contracts which are scheduled for reappropriation in the next fiscal year.
2. Reserve for loan programs - Amounts equal to the outstanding housing program and small business notes receivable are reserved in the Housing and Community Development Fund Special Revenue Fund, General Fund and the Redevelopment Agency Capital Projects Fund.
3. Reserve for interfund advances - The City reserves an amount in each fund equal to the advances to other funds.
4. Reserve for Redevelopment Agency set-aside requirement - The portion of fund balance relating to State required low-to-moderate income housing set-aside, has been reserved in the Redevelopment Agency Capital Projects Fund.
5. Reserve for debt service - The total fund balances of the debt service funds are reserved for future debt service requirements.
6. Designation for pending projects - Designations for pending projects are established to fund projects approved but not yet appropriated.
7. Designation for subsequent year expenditures - Designations for subsequent year expenditures represent that portion of fund balance set aside for fiscal year 2005/06.

H. DEFICIT FUND EQUITY

The Capital Grants Capital Projects Fund has a deficit fund balance of \$2,669,258. Recognition of deferred revenue is expected to cure this deficit.

The Golf Enterprise Fund has a net assets deficit of \$1,374,104, due to a change in accounting policy several years ago, as well as revenues not keeping up with expenses. The City originally classified the 1993 Refunding Certificates of Participation as debt of the governmental funds, with construction proceeds transferred to the Golf Enterprise Fund when the certificates were issued. However, since the Golf Fund is paying, and is expected to continue paying, the entire debt service cost, it was decided that the balance of the debt should be recorded in the Golf fund. The Golf fund also is struggling due to competition and lagging revenues. Depreciation expense further contributes to the deficit.

The Insurance Internal Service fund has a net assets deficit of \$551,172. This deficit has decreased over the past year, and is expected to continue to do so as these funds are monitored closely.

The Employee Benefits Management Internal Service Fund has a net assets deficit of \$48,004,541. It exists partially because the total compensated absences balance previously classified as debt of the governmental funds was included in this fund at its inception several years ago, and has never been fully funded. In addition, the City normally contracts for an actuarial valuation of the sick leave liability on an annual basis. For 2005, it was decided to estimate the sick leave liability based on the prior actuarial study, resulting in an increase of approximately \$6 million. The City is continuing to charge a higher benefit rate to help reduce this deficit. In addition, one-time revenues having to do with employee benefits are deposited to this fund.

I. INTERFUND TRANSFERS

The following is a schedule of interfund transfers.

	Transfers from:							Total
	General Fund	Capital Facility Fees	Other Govern-mental	Water	Sewer	Other Enterprise	Internal Service	
<u>Transfers to:</u>								
General Fund		\$337,110	\$1,269,886	\$218,902	\$131,670	\$24,519	\$ 300	\$ 1,982,387
Capital Grants		115,632	1,908,310					2,023,942
Capital Facility Fees	\$ 127,000	49,865		7,000		6,000		189,865
Other Governmental	7,282,515	330,508	6,153,225					13,766,248
Water	528,000							528,000
Sewer	228,000						99,119	327,119
Other Enterprise	686,551		159,585					846,136
Internal Service	468,750			3,125	3,125			475,000
Total	<u>\$9,320,816</u>	<u>\$833,115</u>	<u>\$9,491,006</u>	<u>\$229,027</u>	<u>\$134,795</u>	<u>\$30,519</u>	<u>\$99,419</u>	<u>\$20,138,697</u>

In general, the City uses interfund transfers to (1) move revenues from the funds that collect them to the funds that statute or budget requires to expend them, (2) use unrestricted revenues collected in the General Fund to help finance various programs and capital projects accounted for in other funds in accordance with budgetary authorization, and (3) move cash to debt service funds from the funds responsible for payment as debt service payments become due.

J. NOTES RECEIVABLE

The notes receivable in the Other Governmental Funds of \$13,228,421, net of \$70,054 allowance for doubtful accounts, consist of loans made for low-income housing rehabilitation, property improvement and small business origination. The loans are collateralized by deeds of trust on the improved properties, are generally interest free with the exception of a small number of direct loans bearing annual interest at 3 or 5 percent and, with a few exceptions, require no repayment of principal until the loans reach maturity.

The General Fund notes receivable of \$92,283 consist of small business loans. These notes were determined to be ineligible for federal grant funds; therefore, the General Fund purchased them from the Housing and Community Development Special Revenue Fund.

Loans to employees for computer acquisition make up the \$3,096 notes receivable balance in the Internal Service Funds. The maximum loan period is 3 years, with payment deducted from paychecks.

K. APPROVED LOANS PAYABLE

The approved loans payable in the Housing and Community Development Special Revenue Fund of \$207,632 consist of amounts being held for rehabilitation of properties using funds provided by federal grants. The liability is expected to be liquidated within one year.

L. SPECIAL ITEMS

These expenses in the Water and Sewer Enterprise funds represent legal costs incurred in pursuit of mitigating damages from the manufacturers of perchlorethylene, or PCE, a common chemical used in the dry cleaning industry. This chemical has seeped into the groundwater through sewer lines when improperly disposed, and threatens the City's groundwater supplies. Modesto has been proactive in attempting to recover damages and future cleanup costs from the dry cleaners and their insurers, and has also instituted litigation with the manufacturers. In the current year the City received \$6,775,569 in insurance recoveries and settlements from some of the smaller defendants.

III. OTHER INFORMATION

A. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to and illnesses of employees; and natural disasters. The City maintains the Insurance Internal Service Fund to account for and finance its risks of loss. Under this program, the City is self-insured for the following risks up to the maximum amount per claim as follows: workers' compensation \$750,000; liability \$1,000,000; employee disability \$216,000; and dental care \$1,200. In July 1995, the City dropped its self-insured health plan, and now offers a variety of commercial plans to its employees. The City purchases commercial insurance for property loss, airport liability, and for claims in excess of the preceding self-insured coverage amounts.

For liability claims, the City is one of twelve members of the Authority for California Cities Excess Liability (ACCEL) risk pool. This pool covers City claims between \$1,000,000 and \$3,000,000. The purpose of the pool is to spread the adverse effect of losses among the member agencies. The City contributes its pro rata share of anticipated losses to the pool. Should actual losses among participants be greater than anticipated, the City will be assessed its pro rata share of that deficiency. Conversely, if the actual losses are less than anticipated, the City will be refunded its pro rata share of the excess. Commercial insurance covers claims over \$3,000,000, up to an additional \$20,000,000 per claim. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

All operating funds participate in the program and make payments to the Insurance Fund based on historical cost and/or actuarial estimates of the amounts needed to pay prior and current year claims, and to allow accrual of estimated incurred but not reported claims and allocated loss adjustment expenses. Insurance premiums to commercial insurers are also processed through the Insurance Fund. The total claims liability at June 30, 2005 is

\$13,961,801 consisting of \$11,250,000 workers' compensation, \$2,240,000 general liability, \$336,320 dental, \$68,636 disability, and \$66,845 vision. Workers' compensation and general liability claims liabilities are estimated on an actuarial basis. The current portion of the total claims liability is estimated to be \$4,831,901 and the balance of \$9,129,900 is reported as a long-term liability on the statement of net assets. These claim estimates are based on the requirements of Governmental Accounting Standards Board Statement 10, and include estimated claims incurred but not yet reported and allocated loss adjustment expenses as of June 30, 2005. Changes in the Insurance Fund claims liability during the fiscal years ended June 30, 2004 and June 30, 2005 were:

	<u>Claims Liability July 1</u>	<u>Current-Year Claims and Changes in Estimates</u>	<u>Current-Year Claim Payments</u>	<u>Claims Liability June 30</u>
2003-04	\$12,274,875	\$9,382,084	\$(5,567,653)	\$16,089,306
2004-05	\$16,089,306	\$2,874,266	\$(5,001,771)	\$13,961,801

B. SPECIAL ASSESSMENT DEBT WITHOUT CITY COMMITMENT

Special assessment districts have been established in various areas of the City to provide improvements to properties located in those districts. Properties are assessed for the cost of the improvements; these assessments are payable solely by the property owners over the term of the debt issued to finance the improvements. The City is not legally obligated to pay these debts or be the purchaser of last resort of foreclosed properties in the special assessment districts, nor is it obligated to advance City funds to repay this debt in the event of default by any property owners. The City functions as an agent for the property owners by collecting assessments and forwarding collections to trustees for payment to bond holders. At June 30, 2005, the balance of these districts' outstanding debt was as follows:

<u>Issue</u>	<u>Outstanding Amount</u>
Improvement District #29 - Street and Water System Improvements	\$185,000
Public Facilities District #6 - Street and Water System Improvements	<u>30,000</u>
	<u>\$215,000</u>

C. CONDUIT DEBT OBLIGATIONS

From time to time, the City has issued revenue bonds to provide financial assistance to private-sector entities for the acquisition and construction of industrial, commercial, health care, and multiple-family housing facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from developer payments on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private-sector entity served by the bond issuance. Neither the City, the State, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are considered conduit debt obligations and are not reported as liabilities in the accompanying financial statements.

As of June 30, 2005 there were seven series of conduit revenue bonds outstanding. The aggregate principal amount payable for these multiple-family housing and health care facility bond issues, issued between 1993 and 2002, was \$46,425,000.

D. COMMITMENTS AND CONTINGENCIES

The City is involved in litigation relating to tort claims, workers' compensation claims and other claims such as contract actions and inverse condemnation actions for which the City is self-insured. Management and the City's legal counsel anticipate there will be no material effect on the financial statements beyond the amounts accrued in the Insurance Internal Service Fund.

The City receives funding from a number of federal, state and local grant programs, principally the Federal Highway Administration, Community Development Block Grants, and Federal Transit Administration grants. These programs are subject to financial and compliance review by the grantors. Accordingly, the City's compliance with applicable grant

requirements will be determined at some future date. Expenditures, if any, which may be disallowed by the granting agencies cannot be determined at this time. The City does not expect the undeterminable amounts of disallowed expenditures, if any, to materially affect the basic financial statements. Receipt of these federal, state and local grant revenues is not assured in the future.

The City has commitments of \$25,041,268 of June 30, 2005 for contracts awarded but not completed and other outstanding purchase orders. This amount consists of \$985,474 in the General Fund, \$5,428,181 in the Capital Grants Fund, \$3,046,450 in the Capital Facility Fees Fund, \$6,586,392 in other governmental funds, \$6,248,437 in the enterprise funds, and \$2,746,334 in the internal service funds. Commitments of the governmental funds are recorded as fund balance reserves for encumbrances on the balance sheet. As of June 30, 2005, there are major contracts and other purchase orders outstanding for the Virginia Corridor trail project, Maddox Youth Center improvements, 9th Street bridge replacement, water and sewer system improvements, update of the wastewater master plan, railroad crossing and other major street improvement, and purchase of police patrol vehicles.

E. JOINT VENTURES AND JOINTLY GOVERNED ORGANIZATION

Tuolumne River Regional Park

The City participates with Stanislaus County and the City of Ceres in the operation and development of the Tuolumne River Regional Park (TRRP). The governing body consists of 2 members from the County Board of Supervisors, 2 members from the Modesto City Council, and 1 member from the Ceres City Council. The TRRP board prepares the annual budget, which must be approved by both cities' councils and the board of supervisors. Each participant has an equity interest in the capital assets of TRRP based on the percentage of cumulative contributions paid. The City's contribution to TRRP was \$140,591 for the fiscal year ended June 30, 2005. As of June 30, 2005 the City's investment in this joint venture was \$1,625,586, and is included in governmental activities on the statement of net assets. Financial statements for TRRP are prepared by the City of Modesto Finance Department.

Stanislaus Drug Enforcement Agency

Stanislaus County (County) and the cities of Modesto, Oakdale, Ceres, Patterson, Turlock, Riverbank and Newman are the participants in the Stanislaus Drug Enforcement Agency (SDEA). The purpose of the SDEA is to maintain a specially trained police unit to assist each of the participating agencies in the enforcement of drug control laws, and to study, plan, and set priorities for effective enforcement of such laws throughout Stanislaus County. The governing board consists of the sheriff of Stanislaus County and the chief of police of each participating city. All participants contribute to the funding of the SDEA budgeted expenditures, based on population and assessed property value. The City's contribution to the SDEA for the fiscal year ended June 30, 2005 was \$606,662, consisting of a \$301,809 cash contribution and in-kind services valued at \$304,853. The City's investment in this joint venture was estimated to be \$778,825 as of June 30, 2005, based on the most recent available information. This amount is reported in governmental activities in the statement of net assets. The City also has an interest in the financial assets of the SDEA due to a pass through grant. The receivable amount of \$59,558 is reported as part of due from governments in the General Fund. Financial statements of the SDEA are prepared by Stanislaus County.

City-County Capital Improvements and Financing Agency

The City and Stanislaus County formed the City-County Capital Improvements and Financing Agency (Agency) to provide for the design, construction, ownership, operation, management and financing of a City-County administration center located in Modesto's downtown redevelopment area. The governing body is a commission consisting of 2 members of the City Council, 2 members of the County Board of Supervisors, the County Chief Executive Officer, and the City Manager. The commission is responsible for developing an annual budget and determining the annual contribution rates, subject to approval by both the City and the County. The Stanislaus County Auditor Controller was the fiscal administrator during the construction phase, which was finalized at the end of June 2003. Since then, the City of Modesto has been the fiscal administrator. For the fiscal year ended June 30, 2005, the City's contribution to the

Agency was \$605,505. The City's equity interest in the Agency is \$15,537,704, equal to its fixed asset contributions to date net of depreciation, and is reported in governmental activities as investments in joint ventures in the Statement of Net Assets. Financial statements of the Agency will be available from the Agency after the initial audit of the Agency's books has been completed.

Stanislaus Waste-to-Energy Financing Agency

The City participates with Stanislaus County in the Stanislaus Waste-to-Energy Financing Agency (Agency). The Agency was created to provide financing for a facility that generates power from solid waste. The costs of operating the Agency, if any, are shared equally by the participants. The governing body consists of 2 members each from the County Board of Supervisors and the Modesto City Council. As of June 30, 2005, the City has no equity interest. Stanislaus County Treasurer's office prepares the Agency's financial statements.

Regional Fire Training Center

The City has entered into an agreement with the Yosemite Community College District (YCCD) and Stanislaus County for the use and management of the regional fire training center at Modesto Junior College. The executive board consists of the YCCD Chancellor, the President of Modesto Junior College, the City Manager of the City of Modesto, and the Chief Executive Officer of Stanislaus County. The YCCD is responsible for accounting and for monitoring the center's budget. All three entities share in the operating costs. Initial construction costs were paid by the YCCD from borrowed funds, with the City and County reimbursing a portion of these costs in exchange for future use of the center. The City has paid its share of the construction costs in full. Title to the constructed asset is held by the YCCD; therefore, the City has no equity interest.

F. TREATMENT AND DELIVERY AGREEMENT

In 1992, the City entered into a treatment and delivery agreement with the Modesto Irrigation District (MID) and the Del Este Water Company (Del Este). The City assumed Del Este's interest and obligations under the agreement when it acquired Del Este in July 1995. Under the agreement, MID built and operates a surface water treatment plant on the Tuolumne River for the purpose of providing a long-term source of domestic treated water for the City. MID is the sole owner of the project, and has all management and operations responsibility. In exchange for the treated water, the City has agreed to pay: all debt service on bonds issued by MID for the construction of the project; a raw water charge as set forth in the agreement; project operation, administration, and maintenance costs; and insurance on the project. Gross revenues of the City's Water Fund are irrevocably pledged for the punctual payment of the MID debt service and all obligations of the City under any parity debt. Current parity debt of the City consists of the 1997 Water System Improvement Project Refunding Certificates of Participation, and the California Safe Drinking Water Act loan (Note II-C). The minimum annual amount payable to MID, consisting of the debt service component only, is \$6,005,935. The treatment plant completed all tests and began commercial operations on May 15, 1995, at which time the City began paying for raw water and operations. The total cash paid to MID during the fiscal year ended June 30, 2005 was \$10,606,823, which is reported as "water purchases" expense on the proprietary funds statement of revenues, expenses and changes in net assets in the amount of \$10,062,438, and as prepaid expense of \$941,175. Prior year prepaid expense of \$396,790 reduced the amount of cash paid during the current fiscal year. The total outstanding on the MID bonds is \$79,490,000.

G. POST-RETIREMENT HEALTH CARE BENEFITS

In addition to the pension benefits described below in Note III-H, the City provides health care benefits to employees who retire from the City, under contractual agreements with all employee groups. All full-time employees, except firefighters who receive a cash payout, are eligible to set aside a percentage of accumulated sick leave upon retirement, to be used for payment of future health care premiums to a choice of four insurance plans. The City has no obligation to pay premiums for retirees with no accumulated sick leave. The estimated liability for current retirees' future premiums is \$11,399,688 as of June 30, 2005. The estimated current portion of \$1,438,312 is fully funded. The long-term portion of \$9,961,379 is partially funded, with the balance being funded over time by charges to the City's

operating funds. The current and long-term portions are reported in the Employee Benefits Management Fund as part of the compensated absences liability balances.

H. DEFINED BENEFIT PENSION PLAN

Plan Description

The City contributes to the California Public Employees Retirement System (CalPERS), an agent multiple-employer public employee defined benefit pension plan, which acts as a common investment and administrative agent for participating public entities in California. CalPERS provides retirement and disability benefits, and death benefits to plan members and beneficiaries. Benefit provisions and all other requirements are established by state statute and city ordinance. Copies of CalPERS' annual financial report may be obtained from their executive office: 400 P Street, Sacramento, CA 95814. An annual financial report for the City's portion of the plan is not available.

Funding Policy

Participants are required to contribute 7% (9% for safety employees) of their annual covered salary, of which the City pays the majority on behalf of the employees. The City is required to contribute at an actuarially determined rate; the current rate is 3.059% of annual covered payroll for non-safety employees and 23.376% for safety employees. The contribution requirements of plan members and the City are established and may be amended by CalPERS.

Annual Pension Cost

For 2005, the City's annual pension cost of \$8,276,570 for CalPERS was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 2002 actuarial valuation using the entry age normal actuarial cost method. This is a projected benefit cost method, which takes into account those benefits that are expected to be earned in the future as well as those already accrued. The actuarial assumptions included (a) 8.25% investment rate of return (net of administrative expenses), (b) projected annual merit or seniority salary increases that vary by length of service, and (c) no post-retirement benefit increases. Both (a) and (b) included an inflation component of 3.5%. The actuarial value of the City's CalPERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a three-year period (smoothed market value). The City's CalPERS unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2004 was 32 years for both the miscellaneous and safety plans.

THREE-YEAR TREND INFORMATION FOR PERS – ALL PLANS

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/03	\$3,713,757	100%	-
6/30/04	\$4,348,620	100%	-
6/30/05	\$8,276,570	100%	-

SCHEDULE OF FUNDING PROGRESS FOR PERS

Actuarial Valuation Date	Actuarial Value of Assets (A)	Entry Age Actuarial Accrued Liability (B)	Overfunded (Underfunded) Actuarial Accrued Liability (A – B)	Funded Ratio (A/B)	Covered Payroll (C)	Overfunded (Underfunded) Actuarial Liability as Percentage of Covered Payroll [(A – B)/C]
6/30/02:						
Misc.	\$191,091,770	\$172,691,324	\$18,400,446	110.7%	\$36,758,914	50.1%
Safety	203,690,944	217,632,177	(13,941,233)	93.6%	23,772,877	(58.6)%
6/30/03:						
Misc.	\$194,253,457	\$198,259,563	\$(4,006,106)	98.0%	\$39,440,399	10.2%
Safety	208,797,417	237,995,854	(29,198,437)	87.7%	25,316,473	(115.3)%
6/30/04:						
Misc.	\$204,261,809	\$212,669,957	\$(8,408,148)	96.0%	\$41,083,600	20.5%
Safety	221,621,121	257,554,567	(35,933,446)	86.0%	29,085,514	(123.5)%

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REQUIRED SUPPLEMENTARY INFORMATION

CITY OF MODESTO
SCHEDULE OF REVENUES - BUDGET (GAAP BASIS)
AND ACTUAL - GENERAL FUND
Year ended June 30, 2005

	Budget		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
TAXES:				
Utility users tax	\$ 16,405,602	\$ 15,749,177	\$ 15,622,652	\$ (126,525)
Property tax	12,986,686	12,000,000	11,316,694	(683,306)
Transient occupancy tax	2,451,708	2,174,236	2,098,303	(75,933)
Franchise tax	3,208,236	2,347,618	2,677,392	329,774
Business license tax	9,785,070	9,785,070	9,726,816	(58,254)
Total taxes	44,837,302	42,056,101	41,441,857	(614,244)
LICENSES AND PERMITS	59,000	59,000	63,652	4,652
INTERGOVERNMENTAL:				
Sales tax	21,466,222	21,147,003	21,277,711	130,708
In-lieu sales tax	6,560,734	6,560,734	5,310,702	(1,250,032)
Motor vehicle license fees	10,529,248	13,033,497	16,403,864	3,370,367
State	1,788,000	2,188,000	2,798,989	610,989
County	149,812	149,812	78,898	(70,914)
Federal	75,000	185,000	367,700	182,700
Other intergovernmental	103,221	557,767	636,692	78,925
Total intergovernmental	40,672,237	43,821,813	46,874,556	3,052,743
CHARGES FOR SERVICES:				
General government	3,051,917	3,051,917	2,851,567	(200,350)
Community development	3,644,094	3,744,094	3,678,763	(65,331)
Public works	921,436	929,893	1,136,642	206,749
Parks and recreation	1,966,646	1,960,783	2,036,721	75,938
Public safety	1,857,854	2,559,285	2,687,881	128,596
Other current charges for services	263,000	263,000	261,940	(1,060)
Indirect cost recovery	2,897,776	2,890,495	2,890,494	(1)
Total charges for services	14,602,723	15,399,467	15,544,008	144,541
SPECIAL ASSESSMENT	166,000	166,000	106,442	(59,558)
INTEREST AND RENT	507,481	510,781	982,728	471,947
NET INCREASE (DECREASE) IN FAIR VALUE OF INVESTMENTS			46,933	46,933
FINES AND FORFEITURES	469,728	533,928	562,876	28,948
MISCELLANEOUS:				
Mandated cost recovery	500	25,500	180,568	155,068
Other	388,015	398,015	594,269	196,254
Total miscellaneous	388,515	423,515	774,837	351,322
Total revenues	\$ 101,702,986	\$ 102,970,605	\$ 106,397,889	\$ 3,427,284

The notes to required supplementary information are an integral part of this schedule

CITY OF MODESTO
SCHEDULE OF EXPENDITURES BY FUNCTION - BUDGET
(GAAP BASIS) AND ACTUAL - GENERAL FUND
Year ended June 30, 2005

	Budget		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
General government:				
City council	\$ 213,281	\$ 213,281	\$ 193,119	\$ 20,162
Personnel/training	1,371,813	1,424,939	1,260,916	164,023
City manager	1,401,449	1,386,092	1,245,442	140,650
Community broadcasting	48,877	35,211	17,871	17,340
City attorney	1,765,298	2,351,055	2,294,387	56,668
City clerk/auditor	501,219	517,219	466,699	50,520
Finance	5,571,658	6,088,121	5,982,243	105,878
Total general government	<u>10,873,595</u>	<u>12,015,918</u>	<u>11,460,677</u>	<u>555,241</u>
Community development	<u>5,327,374</u>	<u>5,421,708</u>	<u>4,997,522</u>	<u>424,186</u>
Public works:				
Engineering and Transportation Dept:				
Construction administration/permits	1,011,161	844,387	698,886	145,501
Engineering administration	1,096,437	1,164,724	997,525	167,199
Total public works	<u>2,107,598</u>	<u>2,009,111</u>	<u>1,696,411</u>	<u>312,700</u>
Parks and recreation:				
Operations and Maintenance Dept:				
Service and maintenance	5,396,369	5,273,424	4,923,951	349,473
Graffiti abatement	192,969	296,787	295,179	1,608
Community Services & Neighborhood Connection:				
Administration	784,413	926,120	900,944	25,176
Planning and development	437,322	448,210	440,412	7,798
Culture	1,372,691	1,468,687	1,453,930	14,757
Recreation division	3,013,458	2,957,947	2,811,572	146,375
Facilities	813,109	739,204	686,479	52,725
Total parks and recreation	<u>12,010,331</u>	<u>12,110,379</u>	<u>11,512,467</u>	<u>597,912</u>
Public safety:				
Fire protection	23,194,980	23,173,957	22,977,210	196,747
Police protection	45,968,450	47,222,631	46,968,506	254,125
Total public safety	<u>69,163,430</u>	<u>70,396,588</u>	<u>69,945,716</u>	<u>450,872</u>
Total expenditures by department	<u>99,482,328</u>	<u>101,953,704</u>	<u>99,612,793</u>	<u>2,340,911</u>
Debt service:				
Principal retirement	9,249	9,249	9,248	1
Interest	1,729	1,729	1,729	
Total debt service	<u>10,978</u>	<u>10,978</u>	<u>10,977</u>	<u>1</u>
Total expenditures	<u>\$ 99,493,306</u>	<u>\$ 101,964,682</u>	<u>\$ 99,623,770</u>	<u>\$ 2,340,912</u>

The notes to required supplementary information are an integral part of this schedule

CITY OF MODESTO
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2005

BUDGETARY INFORMATION - The City follows these procedures annually in establishing the budgetary data reflected in the budgetary comparison schedules:

1. The City Manager submits to the City Council a proposed budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing them.
2. The City Council reviews the proposed budget at specially scheduled sessions, which are open to the public. The Council also conducts a public hearing on the proposed budget to obtain comments from interested persons.
3. Prior to July 1, the budget is legally adopted through passage of an ordinance. This budget is reported as the Original Budget in the budgetary comparison schedules.
4. During the fiscal year, changes to the adopted budget may be authorized, as follows:
 - a. Items requiring City Council action - appropriation of fund balance reserves; transfers of appropriations between funds; appropriation of any non-departmental revenue; new interfund loans or advances; and creation of new capital projects or increases to existing capital projects.
 - b. Items delegated to the City Manager - transfers between departments within funds; appropriation of unbudgeted departmental revenues; and approval of transfers that increase salary and benefit appropriations.
 - c. Items delegated to the Finance Director - approval authority over any changes in or transfers from budgeted allocations for Internal Service Fund charges.
 - d. Items delegated to Department Heads - allocation of departmental appropriations to line item level.
5. Formal budgetary accounting is employed as a management tool for all funds. Annual budgets are legally adopted and amended as required for the general, special revenue, enterprise and internal service funds. Project length budgets are adopted for the capital projects funds. All budgets are prepared on a basis consistent with generally accepted accounting principles (GAAP), and budgetary comparisons for the general and major special revenue funds are presented on this basis in the required supplementary information. A debt service payment schedule for the debt service funds is also approved as part of the budget process.
6. Budget amounts are reflected after all authorized amendments and revisions. This budget is reported as the Final Budget in the budgetary comparison schedules.
7. For each legally adopted operating budget, expenditures may not exceed budgeted appropriations at the activity level. The legal appropriation basis is at the level called "department". A "department" for legal appropriation purposes may be a single organization (e.g., City Attorney), or an entire department having multiple organizations within the same fund (e.g., Operations and Maintenance), or an entire fund (e.g., Downtown Improvement District). All departments and funds completed the year within their legally authorized expenditures. Encumbrance accounting, under which purchase orders, contracts and other commitments are recorded to reserve the applicable appropriations, is employed in the governmental funds.

The City does, however, honor the contracts represented by year-end encumbrances and the subsequent year's appropriations provide authority to complete these transactions.

**COMBINING AND INDIVIDUAL FUND
STATEMENTS AND SCHEDULES**

Nonmajor Governmental Funds

Nonmajor Special Revenue Funds

Special Revenue Funds include funds which are restricted as to use by the Federal or State governments, and special purpose funds established by authority of the City Council. Nonmajor Special Revenue Funds include:

OPERATING GRANTS FUND – To account for a variety of governmental fund operating grants, including law enforcement grants.

LOCAL TRANSPORTATION FUND – To account for revenues and expenditures of Local Transportation Fund allocations for streets, urban trails, and non-motorized facilities. Allocations for the City bus system are reported directly in the Bus Enterprise Fund.

TRAFFIC SAFETY FUND – To account for receipts and expenditures of traffic safety fines.

SPECIAL GAS TAX STREET IMPROVEMENT FUND – To account for State-collected, locally-shared gas tax monies. These funds may be used for all street purposes including construction, purchase of rights-of-way, and maintenance.

DOWNTOWN IMPROVEMENT DISTRICT FUND – To account for the fiscal activities of Business Improvement Area A of the City of Modesto.

HOUSING AND COMMUNITY DEVELOPMENT FUND – To account for grants and other monies received and disbursed for projects developed and administered under the Housing and Community Development Act of 1974.

STRATEGIC PLANNING AND DEVELOPMENT FUND – Established to provide a funding source for future village planning, general plan update and other large expenses related to planning and development. This fund was originally financed with an apportionment of the PERS rebate related to AB702. Subsequent funding has been provided by transfers from the General Fund. Future funding will be provided by fees imposed on private development.

Nonmajor Capital Projects Funds

Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities other than those financed by proprietary funds. Nonmajor Capital Projects Funds include:

SPECIAL FUND FOR CAPITAL OUTLAYS – To account for capital outlay authorized by the City Council. No monies placed in this fund are to be disbursed except for this purpose unless authorized by a vote of the people.

PARKS FUND – To account for a discretionary transfer of General Fund property tax revenue to provide for the development of parks within the City, as directed by the City Council.

McHENRY MANSION RESTORATION FUND – To account for donations and other revenues received and appropriated for the purpose of restoring the McHenry Mansion.

REDEVELOPMENT AGENCY FUND – To account for the construction of capital projects financed by the Redevelopment Agency of the City of Modesto.

IMPROVEMENT DISTRICTS FUND – To account for the construction of public improvements deemed to benefit properties against which special assessments are levied.

COMMUNITY FACILITIES DISTRICTS FUND – To account for the construction of public improvements deemed to benefit properties against which special taxes are levied.

Nonmajor Debt Service Funds

Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest. Nonmajor Debt Service Funds include:

REDEVELOPMENT AGENCY FUND – To account for certificates of participation issued to finance the acquisitions and construction of the Modesto Centre Plaza.

PUBLIC FINANCING AUTHORITY FUND – To account for payment of debt issued to finance projects authorized by the Modesto Public Financing Authority.

CITY OF MODESTO
COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
June 30, 2005

	Special Revenue					
	Operating Grants	Local Transportation	Traffic Safety	Special Gas Tax Street Improvement	Downtown Improvement District	Housing and Community Development
ASSETS						
Cash and cash equivalents	\$ 1,007,118	\$ 167,217	\$ 896,621	\$ 6,462,016	\$ 42,765	\$ 2,199,912
Cash and cash equivalents with fiscal agent						4,521,129
Receivables:						
Accounts	49,878			618,824		27,432
Interest	6,478	18,911		34,810	2,330	8,419
Utilities, net	5,470			6,457		
Taxes				193,038		
Due from governments	603,575	1,408,394		210,660		1,225,790
Notes receivable, net						12,293,548
Restricted assets:						
Cash and cash equivalents						
Advances to other funds						
Total assets	\$ 1,672,519	\$ 1,594,522	\$ 896,621	\$ 7,525,805	\$ 45,095	\$ 20,276,230
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	\$ 44,757		\$ 26,594	\$ 297,792	\$ 78	\$ 252,462
Accrued salaries and benefits	43,967			58,938		8,223
Approved loans payable						207,632
Deferred revenues	553,338	\$ 1,594,522		217,116		
Payable from restricted assets:						
Refundable deposits						
Advances from other funds						
Total liabilities	642,062	1,594,522	26,594	573,846	78	468,317
Fund balances:						
Reserved for:						
Encumbrances	139,045	342,929	55,075	1,483,057		6,203
Loan programs						12,085,916
Interfund advances						
Set-aside requirement						
Debt service						
Unreserved/designated for:						
Pending projects			814,952	5,468,902	45,017	7,715,794
Unreserved/undesignated	891,412	(342,929)				
Total fund balances	1,030,457	(342,929)	870,027	6,951,959	45,017	19,807,913
Total liabilities and fund balances	\$ 1,672,519	\$ 1,594,522	\$ 896,621	\$ 7,525,805	\$ 45,095	\$ 20,276,230

Strategic Planning and Development	Capital Projects					
	Special Fund for Capital Outlays	Parks	McHenry Mansion Restoration	Redevelop- ment Agency	Improvem- ment Districts	Community Facilities Districts
\$ 1,814,456	\$ 897,525	\$ 1,077,470	\$ 6,208	\$ 6,729,537	\$ 27,596	\$ 13,409,544
	1,733,600			22,563		285,000
7,000	7,448	5,713	191	19,544		55,912
						192,901
				934,873		
						290,973
	193,927					
<u>\$ 1,821,456</u>	<u>\$ 2,832,500</u>	<u>\$ 1,083,183</u>	<u>\$ 6,399</u>	<u>\$ 7,706,517</u>	<u>\$ 27,596</u>	<u>\$ 14,234,330</u>
\$ 1,352	\$ 987			\$ 9,462		\$ 121,939
						2,513
						240,038
						290,973
		\$ 531,364				5,000
<u>1,352</u>	<u>987</u>	<u>531,364</u>		<u>9,462</u>		<u>660,463</u>
481,962	70,488	6,250		596,927		3,404,456
	193,927			934,873		
				4,024,787		
1,338,142	2,567,098	545,569	\$ 6,399	2,140,468	\$ 27,596	10,169,411
<u>1,820,104</u>	<u>2,831,513</u>	<u>551,819</u>	<u>6,399</u>	<u>7,697,055</u>	<u>27,596</u>	<u>13,573,867</u>
<u>\$ 1,821,456</u>	<u>\$ 2,832,500</u>	<u>\$ 1,083,183</u>	<u>\$ 6,399</u>	<u>\$ 7,706,517</u>	<u>\$ 27,596</u>	<u>\$ 14,234,330</u>

(continued)

CITY OF MODESTO
COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS (Continued)
June 30, 2005

	Debt Service		Total
	Redevelopment Agency	Public Financing Authority	
<u>ASSETS</u>			
Cash and cash equivalents	\$ 855,562		\$ 35,593,547
Cash and cash equivalents with fiscal agent	1,978,980	\$ 5,297,047	13,838,319
Receivables:			
Accounts			696,134
Interest	45,515		212,271
Utilities, net			11,927
Taxes	153,918		539,857
Due from governments			3,448,419
Notes receivable, net			13,228,421
Restricted assets:			
Cash and cash equivalents			290,973
Advances to other funds			193,927
Total assets	\$ 3,033,975	\$ 5,297,047	\$ 68,053,795
<u>LIABILITIES AND FUND BALANCES</u>			
Liabilities:			
Accounts payable	\$ 471,009		\$ 1,226,432
Accrued salaries and benefits			113,641
Approved loans payable			207,632
Deferred revenues			2,605,014
Payable from restricted assets:			
Refundable deposits			290,973
Advances from other funds			536,364
Total liabilities	471,009		4,980,056
Fund balances:			
Reserved for:			
Encumbrances			6,586,392
Loan programs			13,020,789
Interfund advances			193,927
Set-aside requirement			4,024,787
Debt service	2,562,966	\$ 5,297,047	7,860,013
Unreserved/designated for:			
Pending projects			30,839,348
Unreserved/undesignated			548,483
Total fund balances	2,562,966	5,297,047	63,073,739
Total liabilities and fund balances	\$ 3,033,975	\$ 5,297,047	\$ 68,053,795

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CITY OF MODESTO
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
Year ended June 30, 2005

	Special Revenue					
	Operating Grants	Local Transportation	Traffic Safety	Special Gas Tax Street Improvement	Downtown Improvement District	Housing and Community Development
REVENUES:						
Taxes				\$ 743,061	\$ 201,308	
Licenses and permits	\$ 55,735			9,367		
Intergovernmental	1,485,127	\$ 4,615,631		4,394,038		\$ 4,516,791
Charges for services	2,790,343			1,941,381		86,376
Special assessments levied	1,254					
Interest and rent	18,562	43,041		46,886	715	323,450
Net increase (decrease) in fair value of investments	2,865	4,277		6,212	82	6,457
Fines and forfeits	9,828		\$ 1,073,768			
Miscellaneous	356,973			67,932		10,732
Total revenues	<u>4,720,687</u>	<u>4,662,949</u>	<u>1,073,768</u>	<u>7,208,877</u>	<u>202,105</u>	<u>4,943,806</u>
EXPENDITURES:						
Current:						
General government	274,984					
Community development					184,125	2,869,389
Highways and streets		365,963		11,067,841		
Public works	3,322,579	34,040				
Parks and recreation	4,890					
Public safety	1,350,569		88,864			
Capital outlay:						
General government						
Community development						534,537
Highways and streets		136,107		1,261,950		
Parks and recreation						
Public safety	221,083		12,820			
Debt service:						
Principal retirement				38,286		
Interest				3,267		
Other						
Total expenditures	<u>5,174,105</u>	<u>536,110</u>	<u>101,684</u>	<u>12,371,344</u>	<u>184,125</u>	<u>3,403,926</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(453,418)</u>	<u>4,126,839</u>	<u>972,084</u>	<u>(5,162,467)</u>	<u>17,980</u>	<u>1,539,880</u>
OTHER FINANCING SOURCES (USES):						
Transfers in	896,661	49,000		6,424,895		
Transfers out		(4,175,839)	(584,000)	(937,614)		(480,065)
TOTAL OTHER FINANCING SOURCES (USES)	<u>896,661</u>	<u>(4,126,839)</u>	<u>(584,000)</u>	<u>5,487,281</u>		<u>(480,065)</u>
NET CHANGE IN FUND BALANCES	443,243		388,084	324,814	17,980	1,059,815
FUND BALANCES, July 1	587,214		481,943	6,627,145	27,037	18,748,098
FUND BALANCES, June 30	<u>\$ 1,030,457</u>	<u>\$</u>	<u>\$ 870,027</u>	<u>\$ 6,951,959</u>	<u>\$ 45,017</u>	<u>\$ 19,807,913</u>

Strategic Planning and Development	Capital Projects					
	Special Fund for Capital Outlays	Parks	McHenry Mansion Restoration	Redevelop- ment Agency	Improve- ment Districts	Community Facilities Districts
				\$ 1,133,492		
\$ 1,282,003		\$ 5,000 23,680				\$ 5,992,914
31,277	\$ 82,451	25,589	\$ 122	121,492		294,999
3,426	4,483	2,411	13	11,762		28,330
284,409	56,500	14,681		1,399,212		
<u>1,601,115</u>	<u>143,434</u>	<u>71,361</u>	<u>135</u>	<u>2,665,958</u>		<u>6,316,243</u>
1,089,783	934,914 26,284			744,873		2,033,697
	32,782	152,952				
	7,232					
				32,026		2,830,028
	162,110 223,530	112,925				
<u>1,089,783</u>	<u>1,386,852</u>	<u>265,877</u>		<u>776,899</u>		<u>4,863,725</u>
511,332	(1,243,418)	(194,516)	135	1,889,059		1,452,518
	485,301 (763,141)	422,041 (101,737)		240,754 (1,568,618)		
	(277,840)	320,304		(1,327,864)		
511,332	(1,521,258)	125,788	135	561,195		1,452,518
1,308,772	4,352,771	426,031	6,264	7,135,860	\$ 27,596	12,121,349
<u>\$ 1,820,104</u>	<u>\$ 2,831,513</u>	<u>\$ 551,819</u>	<u>\$ 6,399</u>	<u>\$ 7,697,055</u>	<u>\$ 27,596</u>	<u>\$ 13,573,867</u>

(continued)

CITY OF MODESTO
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS (Continued)
Year ended June 30, 2005

	Debt Service		Total
	Redevelopment Agency	Public Financing Authority	
REVENUES:			
Taxes	\$ 2,775,960		\$ 4,853,821
Licenses and permits			65,102
Intergovernmental			15,016,587
Charges for services			12,116,697
Special assessments levied			1,254
Interest and rent	307,367	\$ 264,018	1,559,969
Net increase (decrease) in fair value of investments	(2,303)		68,015
Fines and forfeits			1,083,596
Miscellaneous			2,190,439
Total revenues	3,081,024	264,018	36,955,480
EXPENDITURES:			
Current:			
General government			274,984
Community development			7,856,781
Highways and streets			11,460,088
Public works			3,356,619
Parks and recreation			157,842
Public safety			1,472,215
Capital outlay:			
General government			7,232
Community development			3,396,591
Highways and streets			1,398,057
Parks and recreation			275,035
Public safety			457,433
Debt service:			
Principal retirement	760,000	455,000	1,253,286
Interest	1,196,070	3,171,144	4,370,481
Other	546,049	7,596	553,645
Total expenditures	2,502,119	3,633,740	36,290,289
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	578,905	(3,369,722)	665,191
OTHER FINANCING SOURCES (USES):			
Transfers in	1,883,618	3,363,978	13,766,248
Transfers out	(879,992)		(9,491,006)
TOTAL OTHER FINANCING SOURCES (USES)	1,003,626	3,363,978	4,275,242
NET CHANGE IN FUND BALANCES	1,582,531	(5,744)	4,940,433
FUND BALANCES, July 1	980,435	5,302,791	58,133,306
FUND BALANCES, June 30	\$ 2,562,966	\$ 5,297,047	\$ 63,073,739

CITY OF MODESTO
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET (GAAP BASIS) AND ACTUAL - OPERATING GRANTS SPECIAL REVENUE FUND
Year ended June 30, 2005

	Budget		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Licenses and permits	\$ 20,000	\$ 20,000	\$ 55,735	\$ 35,735
Intergovernmental	716,904	2,815,430	1,485,127	(1,330,303)
Charges for services	3,418,349	3,680,081	2,790,343	(889,738)
Special assessments			1,254	1,254
Interest and rent - interest		2,938	18,562	15,624
Net increase in fair value of investments			2,865	2,865
Fines and forfeits	200	200	9,828	9,628
Miscellaneous	337,273	361,897	356,973	(4,924)
Total revenues	<u>4,492,726</u>	<u>6,880,546</u>	<u>4,720,687</u>	<u>(2,159,859)</u>
EXPENDITURES;				
General government	506,000	537,367	274,984	262,383
Highways and streets	445,061	42,310		42,310
Public works	3,312,042	4,030,134	3,322,579	707,555
Parks and recreation		543,487	4,890	538,597
Public safety	1,145,746	2,336,029	1,571,652	764,377
Total expenditures	<u>5,408,849</u>	<u>7,489,327</u>	<u>5,174,105</u>	<u>2,315,222</u>
DEFICIENCY OF REVENUES (UNDER) EXPENDITURES	<u>(916,123)</u>	<u>(608,781)</u>	<u>(453,418)</u>	<u>155,363</u>
OTHER FINANCING SOURCES:				
Transfers in	<u>1,029,694</u>	<u>914,521</u>	<u>896,661</u>	<u>(17,860)</u>
NET CHANGE IN FUND BALANCE	113,571	305,740	443,243	137,503
FUND BALANCES, JULY 1	<u>587,214</u>	<u>587,214</u>	<u>587,214</u>	
FUND BALANCES, JUNE 30	<u>\$ 700,785</u>	<u>\$ 892,954</u>	<u>\$ 1,030,457</u>	<u>\$ 137,503</u>

CITY OF MODESTO
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET (GAAP BASIS) AND ACTUAL - LOCAL TRANSPORTATION SPECIAL REVENUE FUND
Year ended June 30, 2005

	Budget		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Intergovernmental	\$ 3,468,211	\$ 4,206,544	\$ 4,615,631	\$ 409,087
Interest and rent - interest			43,041	43,041
Net increase in fair value of investments			4,277	4,277
Miscellaneous	(5,912)	(5,912)		5,912
Total revenues	<u>3,462,299</u>	<u>4,200,632</u>	<u>4,662,949</u>	<u>462,317</u>
EXPENDITURES:				
Highways and streets			502,070	(502,070)
Parks and recreation	342,592	342,592	34,040	308,552
Public works	196,076	595,076		595,076
Total expenditures	<u>196,076</u>	<u>595,076</u>	<u>536,110</u>	<u>401,558</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>3,266,223</u>	<u>3,605,556</u>	<u>4,126,839</u>	<u>521,283</u>
OTHER FINANCING SOURCES (USES):				
Transfers in		60,000	49,000	(11,000)
Transfers out	(2,463,757)	(4,931,636)	(4,175,839)	755,797
TOTAL OTHER FINANCING SOURCES (USES)	<u>(2,463,757)</u>	<u>(4,871,636)</u>	<u>(4,126,839)</u>	<u>744,797</u>
NET CHANGE IN FUND BALANCE	802,466	(1,266,080)		1,266,080
FUND BALANCES, JULY 1	<u> </u>	<u> </u>	<u> </u>	<u> </u>
FUND BALANCE (DEFICITS), JUNE 30	<u>\$ 802,466</u>	<u>\$ (1,266,080)</u>	<u>\$</u>	<u>\$ 1,266,080</u>

CITY OF MODESTO
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET (GAAP BASIS) AND ACTUAL - TRAFFIC SAFETY SPECIAL REVENUE FUND
Year ended June 30, 2005

	Budget		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Motor vehicle fines	\$ 625,000	\$ 765,000	\$ 1,073,768	\$ 308,768
EXPENDITURES;				
Public safety		251,971	101,684	150,287
EXCESS OF REVENUES OVER EXPENDITURES	625,000	513,029	972,084	158,481
OTHER FINANCING USES:				
Transfers out	(584,000)	(584,000)	(584,000)	
NET CHANGE IN FUND BALANCE	41,000	(70,971)	388,084	158,481
FUND BALANCES, JULY 1	481,943	481,943	481,943	
FUND BALANCES, JUNE 30	\$ 522,943	\$ 410,972	\$ 870,027	\$ 158,481

CITY OF MODESTO
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL - SPECIAL
GAS TAX STREET IMPROVEMENT SPECIAL REVENUE FUND
Year Ended June 30, 2005

	<u>Budget</u>			Variance with
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	Final Budget - Positive (Negative)
REVENUES:				
Intergovernmental:				
State grants	\$ 3,916,370	\$ 3,916,370	\$ 3,254,375	\$ (661,995)
County			7,973	7,973
Federal grants	13,329,047	13,329,047	398,378	(12,930,669)
Other grants			733,312	733,312
Total intergovernmental revenues	<u>17,245,417</u>	<u>17,245,417</u>	<u>4,394,038</u>	<u>(12,851,379)</u>
Taxes	585,000	700,000	743,061	43,061
Licenses and permits	10,760	10,760	9,367	(1,393)
Charges for services	1,658,029	1,777,653	1,941,381	163,728
Interest and rent			46,886	46,886
Net decrease in fair value of investments			6,212	6,212
Miscellaneous	150,312	179,083	67,932	(111,151)
Total revenues	<u>19,649,518</u>	<u>19,912,913</u>	<u>7,208,877</u>	<u>(12,704,036)</u>
EXPENDITURES:				
Current:				
Highway and streets	12,026,114	12,960,895	12,329,791	631,104
Debt service:				
Principal retirement	38,286	38,286	38,286	
Interest	3,267	3,267	3,267	
Total expenditures	<u>12,067,667</u>	<u>13,002,448</u>	<u>12,371,344</u>	<u>631,104</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>7,581,851</u>	<u>6,910,465</u>	<u>(5,162,467)</u>	<u>(12,072,932)</u>
OTHER FINANCING SOURCES (USES):				
Transfers in		6,696,855	6,424,895	(271,960)
Transfers out		(3,210,413)	(937,614)	2,272,799
TOTAL OTHER FINANCING SOURCES (USES)		<u>3,486,442</u>	<u>5,487,281</u>	<u>2,000,839</u>
NET CHANGE IN FUNDS BALANCE	7,581,851	10,396,907	324,814	(10,072,093)
FUND BALANCES, JULY 1	<u>6,627,145</u>	<u>6,627,145</u>	<u>6,627,145</u>	
FUND BALANCES, JUNE 30	<u>\$ 14,208,996</u>	<u>\$ 17,024,052</u>	<u>\$ 6,951,959</u>	<u>\$ (10,072,093)</u>

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCE - BUDGET (GAAP BASIS) AND ACTUAL - DOWNTOWN
IMPROVEMENT DISTRICT SPECIAL REVENUE FUND
Year ended June 30, 2005

	Budget		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Taxes - business license tax	\$ 190,000	\$ 190,000	\$ 201,308	\$ 11,308
Interest and rent - interest	2,000	2,000	715	(1,285)
Net increase in fair value of investments			82	82
Total revenues	<u>192,000</u>	<u>192,000</u>	<u>202,105</u>	<u>10,105</u>
EXPENDITURES - community development				
Downtown improvement district administration:				
Professional and contractual services	161,558	154,277	160,983	(6,706)
Materials and supplies	7,354	7,354	7,235	119
Other	22,540	22,540	15,907	6,633
Total expenditures	<u>191,452</u>	<u>184,171</u>	<u>184,125</u>	<u>46</u>
NET CHANGE IN FUND BALANCE	548	7,829	17,980	10,151
FUND BALANCES, JULY 1	<u>27,037</u>	<u>27,037</u>	<u>27,037</u>	
FUND BALANCES, JUNE 30	<u>\$ 27,585</u>	<u>\$ 34,866</u>	<u>\$ 45,017</u>	<u>\$ 10,151</u>

CITY OF MODESTO
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL - HOUSING
AND COMMUNITY DEVELOPMENT SPECIAL REVENUE FUND
Year ended June 30, 2005

	<u>Budget</u>		<u>Actual</u>	Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Intergovernmental - federal grants	\$ 4,331,715	\$ 6,815,644	\$ 4,516,791	\$ (2,298,853)
Charges for services	125,377	101,938	86,376	(15,562)
Interest and rent - interest	200,200	180,002	323,450	143,448
Net increase in fair value of investments			6,457	6,457
Miscellaneous	464		10,732	10,732
Total revenues	<u>4,657,756</u>	<u>7,097,584</u>	<u>4,943,806</u>	<u>(2,153,778)</u>
EXPENDITURES - community development				
Housing program	5,957,756	9,238,342	2,834,028	6,404,314
Removal of architectural barriers		914,675	569,898	344,777
Total expenditures	<u>5,957,756</u>	<u>10,153,017</u>	<u>3,403,926</u>	<u>6,749,091</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>(1,300,000)</u>	<u>(3,055,433)</u>	<u>1,539,880</u>	<u>4,595,313</u>
OTHER FINANCING USES:				
Transfers out		(4,701,498)	(480,065)	4,221,433
TOTAL OTHER FINANCING SOURCES (USES)		<u>(4,701,498)</u>	<u>(480,065)</u>	<u>4,221,433</u>
NET CHANGE IN FUND BALANCE	(1,300,000)	(7,756,931)	1,059,815	8,816,746
FUND BALANCES, JULY 1	<u>18,748,098</u>	<u>18,748,098</u>	<u>18,748,098</u>	
FUND BALANCES, JUNE 30	<u>\$ 17,448,098</u>	<u>\$ 10,991,167</u>	<u>\$ 19,807,913</u>	<u>\$ 8,816,746</u>

CITY OF MODESTO
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL - STRATEGIC
PLANNING AND DEVELOPMENT SPECIAL REVENUE FUND
Year ended June 30, 2005

	Budget		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Charges for services		\$ 1,209,228	\$ 1,282,003	\$ 72,775
Special assessments levied				
Interest and rent - interest			31,277	31,277
Net increase in fair value of investments			3,426	3,426
Miscellaneous		284,408	284,409	1
Total revenues		<u>1,493,636</u>	<u>1,601,115</u>	<u>107,479</u>
EXPENDITURES:				
Community development	653,549	2,456,534	1,089,783	1,366,751
Public works				
Total expenditures	<u>653,549</u>	<u>2,456,534</u>	<u>1,089,783</u>	<u>1,366,751</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(653,549)	(962,898)	511,332	1,474,230
NET CHANGE IN FUND BALANCE	(653,549)	(962,898)	511,332	1,474,230
FUND BALANCES, JULY 1	\$ 1,308,772	1,308,772	1,308,772	
FUND BALANCES, JUNE 30	<u>\$ 655,223</u>	<u>\$ 345,874</u>	<u>\$ 1,820,104</u>	<u>\$ 1,474,230</u>

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Nonmajor Enterprise Funds

Enterprise Funds are established to account for activities that render services on a user-charge basis to the general public. Nonmajor Enterprise Funds include:

PARKING FUND – Revenues in this fund consist of charges for off-street parking and the downtown parking garage, as well as in-lieu parking fees. The revenue is used to develop and maintain parking facilities.

STORM DRAIN FUND – To account for storm drain improvements, operations and maintenance. The activities of the fund include street cleaning, rock well maintenance, and compliance with Federal and State water quality standards on storm water discharge.

AIRPORT FUND – To account for all airport operations as stipulated in the City-Stanislaus County agreement of January 1968. Amounts received from the Federal government, State of California, and Stanislaus County, requiring matching amounts by the City, are recorded in this fund and are appropriated to finance approved capital projects.

BUS FUND – Pursuant to the terms of a Federal grant agreement, the City has agreed to provide mass transportation service. All operating, maintenance, and capital expenditures are appropriated in this fund. Buses are operated by a private contractor under the terms of a supervisory agreement with the City. A separate contract agreement provides Dial-a-Ride service for the elderly and handicapped.

GOLF FUND – Revenues in this fund consist of fees charged for using the City's golf courses. The revenue is used to improve, operate, and maintain golf courses.

COMMUNITY CENTER FUND – Accounted for in this fund are all amounts collected for the purpose of operating and maintaining the Modesto Centre Plaza Community Center. Revenues include room rental, catering fees, ticket sales, and other charges for using the center.

CITY OF MODESTO
COMBINING STATEMENT OF NET ASSETS - NONMAJOR ENTERPRISE FUNDS
June 30, 2005

	Parking	Storm Drain	Airport
<u>ASSETS</u>			
Current assets:			
Cash and cash equivalents	\$ 765,299	\$ 689,777	\$ 1,134,628
Cash and cash equivalents with fiscal agent			
Receivables:			
Accounts	113,359	6,189	16,085
Interest	2,710	39,090	3,816
Utilities, net		548,874	
Taxes			202
Due from governments		4,538	70,179
Property held for resale	630,000		
Total current assets	1,511,368	1,288,468	1,224,910
Capital assets:			
Land and construction in progress	3,142,479	1,416,352	2,499,967
Other capital assets, net of accumulated depreciation	8,392,085	15,488,974	6,020,565
Total assets	13,045,932	18,193,794	9,745,442
<u>LIABILITIES</u>			
Current liabilities:			
Accounts payable	17,120	70,976	17,935
Accrued salaries and benefits	1,327	13,722	3,508
Interest payable			
Current portion - long-term debt			
Deferred revenues	109,372	(9,684)	
Total current liabilities	127,819	75,014	21,443
Noncurrent liabilities:			
Long-term debt:			
Certificates of participation			
Total liabilities	127,819	75,014	21,443
<u>NET ASSETS</u>			
Invested in capital assets, net of related debt	11,534,564	16,905,326	8,520,532
Unrestricted	1,383,549	1,213,454	1,203,467
Total net assets	\$ 12,918,113	\$ 18,118,780	\$ 9,723,999

<u>Bus</u>	<u>Golf</u>	<u>Community Center</u>	<u>Total</u>
\$ 3,299,281	\$ 248,977	\$ 478,384	\$ 6,616,346
	606,895		606,895
7,880	11,444	61,524	216,481
14,746	5,386	842	66,590
			548,874
			202
1,358,068	1,149		1,433,934
			630,000
<u>4,679,975</u>	<u>873,851</u>	<u>540,750</u>	<u>10,119,322</u>
5,446,098	494,938	3,764,844	16,764,678
<u>15,233,590</u>	<u>3,564,958</u>	<u>12,344,428</u>	<u>61,044,600</u>
<u>25,359,663</u>	<u>4,933,747</u>	<u>16,650,022</u>	<u>87,928,600</u>
667,828	3,561	51,506	828,926
11,971		8,534	39,062
	52,568		52,568
	195,000		195,000
<u>1,912,998</u>	<u>201,722</u>		<u>2,214,408</u>
<u>2,592,797</u>	<u>452,851</u>	<u>60,040</u>	<u>3,329,964</u>
	<u>5,855,000</u>		<u>5,855,000</u>
<u>2,592,797</u>	<u>6,307,851</u>	<u>60,040</u>	<u>9,184,964</u>
20,679,688	(1,383,209)	16,109,272	72,366,173
<u>2,087,178</u>	<u>9,105</u>	<u>480,710</u>	<u>6,377,463</u>
<u>\$ 22,766,866</u>	<u>\$ (1,374,104)</u>	<u>\$ 16,589,982</u>	<u>\$ 78,743,636</u>

CITY OF MODESTO
COMBINING STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET ASSETS - NONMAJOR ENTERPRISE FUNDS
Year ended June 30, 2005

	<u>Parking</u>	<u>Storm Drain</u>	<u>Airport</u>
OPERATING REVENUES:			
Charges for services	\$ 908,920	\$ 5,147,033	\$ 556,131
Miscellaneous		15,184	3,084
Total operating revenues	<u>908,920</u>	<u>5,162,217</u>	<u>559,215</u>
OPERATING EXPENSES:			
Salaries and wages	214,441	1,159,968	295,877
Contractual services	169,051	1,907,846	37,976
Utilities	98,972	40,181	81,794
Maintenance and supplies	126,053	917,833	86,825
Insurance	27,213	20,825	42,535
Employee benefits	40,424	324,241	86,829
Administration services	64,649	846,849	22,769
Allocated indirect administrative costs	26,679	249,352	38,256
Other	95	14,739	43,052
Depreciation	388,777	538,731	407,752
Total operating expenses	<u>1,156,354</u>	<u>6,020,565</u>	<u>1,143,665</u>
OPERATING INCOME (LOSS)	<u>(247,434)</u>	<u>(858,348)</u>	<u>(584,450)</u>
NONOPERATING REVENUES (EXPENSES)			
Operating grants			
Gain (Loss) on disposition of capital assets		(202,242)	62
Tax revenue			260,064
Tax expense	(15,261)		(292)
Interest income	18,742	22,929	18,798
Net increase in fair value of investments	1,631	2,219	2,040
Rental income			160,102
Interest expense			
Total nonoperating revenues (expenses)	<u>5,112</u>	<u>(177,094)</u>	<u>440,774</u>
LOSS BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	<u>(242,322)</u>	<u>(1,035,442)</u>	<u>(143,676)</u>
Capital contributions		3,814,837	106,006
Transfers in		36,271	
Transfers out		(1,102)	
CHANGE IN NET ASSETS	<u>(242,322)</u>	<u>2,814,564</u>	<u>(37,670)</u>
NET ASSETS (DEFICIT), July 1	<u>13,160,435</u>	<u>15,304,216</u>	<u>9,761,669</u>
NET ASSETS (DEFICIT), June 30	<u>\$ 12,918,113</u>	<u>\$ 18,118,780</u>	<u>\$ 9,723,999</u>

<u>Bus</u>	<u>Golf</u>	<u>Community Center</u>	<u>Total</u>
\$ 2,001,116	\$ 2,115,659	\$ 504,338	\$ 11,233,197
263,390	53		281,711
2,264,506	2,115,712	504,338	11,514,908
779,291		825,025	3,274,602
6,377,757	1,571,890	49,933	10,114,453
78,121	1,193	150,355	450,616
1,656,557	8,113	282,549	3,077,930
22,305	10,080	49,845	172,803
250,687		188,724	890,905
462,554	33,870	15,335	1,446,026
277,794	92,135		684,216
80,225	4,736	29,390	172,237
1,129,903	315,612	751,912	3,532,687
11,115,194	2,037,629	2,343,068	23,816,475
(8,850,688)	78,083	(1,838,730)	(12,301,567)
7,525,367			7,525,367
			(202,180)
			260,064
		(5,389)	(20,942)
98,363	53,787	9,179	221,798
8,875	333	375	15,473
77,051		441,424	678,577
	(318,612)		(318,612)
7,709,656	(264,492)	445,589	8,159,545
(1,141,032)	(186,409)	(1,393,141)	(4,142,022)
555,818			4,476,661
6,882		802,983	846,136
(23,417)	(6,000)		(30,519)
(601,749)	(192,409)	(590,158)	1,150,256
23,368,615	(1,181,695)	17,180,140	77,593,380
\$ 22,766,866	\$ (1,374,104)	\$ 16,589,982	\$ 78,743,636

CITY OF MODESTO
COMBINING STATEMENT OF CASH FLOWS - NONMAJOR ENTERPRISE FUNDS
Year ended June 30, 2005

	Parking	Storm Drain	Airport
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers and users	\$ 905,016	\$ 5,069,245	\$ 720,909
Receipts from interfund services provided		23,607	
Payments to suppliers	(374,720)	(2,177,601)	(270,210)
Payments to employees	(254,113)	(1,479,452)	(381,811)
Payments for interfund services used	(156,238)	(1,854,162)	(166,779)
Net cash provided (used) by operating activities	119,945	(418,363)	(97,891)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Operating grants received			
Taxes received			260,064
Transfers in		36,271	
Transfers out		(1,102)	
Net cash provided (used) by noncapital financing activities		35,169	260,064
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Acquisition and construction of capital assets	(630,000)	(462,938)	(111,089)
Principal repayments			
Interest paid			
Capital grants received			294,264
Net cash used by capital and related financing activities	(630,000)	(462,938)	183,175
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest received	16,032	19,243	15,408
Net increase in the fair value of investments	1,632	2,219	2,040
Net cash provided by investing activities	17,664	21,462	17,448
Net increase (decrease) in cash and cash equivalents	(492,391)	(824,670)	362,796
CASH AND CASH EQUIVALENTS, JULY 1	1,257,690	1,514,447	771,832
CASH AND CASH EQUIVALENTS, JUNE 30	\$ 765,299	\$ 689,777	\$ 1,134,628
RECONCILIATION TO STATEMENT OF NET ASSETS:			
Cash and cash equivalents	\$ 765,299	\$ 689,777	\$ 1,134,628
Cash and cash equivalents with fiscal agent			
TOTAL CASH AND CASH EQUIVALENTS	\$ 765,299	\$ 689,777	\$ 1,134,628

<u>Bus</u>	<u>Golf</u>	<u>Community Center</u>	<u>Total</u>
\$ 2,365,465	\$ 2,153,749	\$ 938,328	\$ 12,152,712
(7,831,933)	(1,611,005)	(502,788)	(12,768,257)
(1,024,997)		(1,010,381)	(4,150,754)
(1,031,640)	(137,213)	(131,550)	(3,477,582)
<u>(7,523,105)</u>	<u>405,531</u>	<u>(706,391)</u>	<u>(8,220,274)</u>
6,533,328	30,704		6,564,032
6,882		802,983	260,064
<u>(23,417)</u>	<u>(6,000)</u>		<u>846,136</u>
<u>6,516,793</u>	<u>24,704</u>	<u>802,983</u>	<u>7,639,713</u>
(528,157)	(1)	(436,780)	(2,168,965)
	(185,000)		(185,000)
	(320,215)		(320,215)
<u>555,818</u>			<u>850,082</u>
<u>27,661</u>	<u>(505,216)</u>	<u>(436,780)</u>	<u>(1,824,098)</u>
83,617	53,233	8,555	196,088
8,875	333	375	15,474
<u>92,492</u>	<u>53,566</u>	<u>8,930</u>	<u>211,562</u>
(886,159)	(21,415)	(331,258)	(2,193,097)
<u>4,185,440</u>	<u>877,287</u>	<u>809,642</u>	<u>9,416,338</u>
<u>\$ 3,299,281</u>	<u>\$ 855,872</u>	<u>\$ 478,384</u>	<u>\$ 7,223,241</u>
\$ 3,299,281	\$ 248,977	\$ 478,384	\$ 6,616,346
	<u>606,895</u>		<u>606,895</u>
<u>\$ 3,299,281</u>	<u>\$ 855,872</u>	<u>\$ 478,384</u>	<u>\$ 7,223,241</u>

(continued)

CITY OF MODESTO
COMBINING STATEMENT OF CASH FLOWS - NONMAJOR ENTERPRISE FUNDS (Continued)
Year ended June 30, 2005

	Parking	Storm Drain	Airport
RECONCILIATION OF OPERATING INCOME (LOSS)			
TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
Operating income (loss)	\$ (247,434)	\$ (858,348)	\$ (584,450)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	388,777	538,731	407,752
Rental income			160,102
Taxes paid	(15,261)		1,398
Change in assets and liabilities:			
(Increase) decrease in accounts receivable	(113,276)	2,627	(98)
(Increase) in utilities receivable		(71,992)	
Increase (decrease) in accounts payable and accrued expenses	(2,985)	(34,138)	(83,490)
Increase in accrued salaries and benefits	752	4,757	895
Increase in deferred revenues	109,372		
Total adjustments	367,379	439,985	486,559
Net cash provided (used) by operating activities	\$ 119,945	\$ (418,363)	\$ (97,891)

**NONCASH INVESTING, CAPITAL AND FINANCING
ACTIVITIES:**

Capital asset additions accrued at year end		
Capital assets transferred from other funds	\$	3,140,901
Developer infrastructure contributions		673,936

<u>Bus</u>	<u>Golf</u>	<u>Community Center</u>	<u>Total</u>
\$ <u>(8,850,688)</u>	\$ <u>78,083</u>	\$ <u>(1,838,730)</u>	\$ <u>(12,301,567)</u>
1,129,903	315,612	751,912	3,532,687
77,051		441,424	678,577
		(5,389)	(19,252)
23,908	19,119	(7,434)	(75,154)
			(71,992)
91,740	(26,201)	(51,542)	(106,616)
4,981		3,368	14,753
	18,918		128,290
<u>1,327,583</u>	<u>327,448</u>	<u>1,132,339</u>	<u>4,081,293</u>
\$ <u><u>(7,523,105)</u></u>	\$ <u><u>405,531</u></u>	\$ <u><u>(706,391)</u></u>	\$ <u><u>(8,220,274)</u></u>
\$ 5,521			\$ 5,521
			3,140,901
			673,936

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Internal Service Funds

Internal Service Funds are established to finance and account for services and commodities furnished by a designated agency of a governmental unit to other departments of the same governmental unit. Since the services and commodities are supplied exclusively to other departments of a governmental jurisdiction, they are distinguishable from those public services which are rendered to the public in general and which are accounted for in General, Special Revenue, or Enterprise Funds. Internal Service Funds include:

FLEET MANAGEMENT FUND – To provide the maintenance necessary for the City's equipment pool, which serves the needs of all City departments.

CENTRAL SERVICES FUND – To provide office supplies, various maintenance and construction materials, records storage, and mail services to all City departments.

INFORMATION AND TECHNOLOGY SERVICES FUND – To finance and account for the replacement, upgrade and maintenance of the City's network and technology infrastructure, and to develop and implement a coordinated City-wide information technology plan.

INSURANCE FUND – To finance and account for the City's insurance and risk management programs.

EMPLOYEE BENEFITS MANAGEMENT FUND – To account for all compensated absences and other employee benefits. Insurance benefits for current employees are accounted for in the Insurance Fund.

BUILDING SERVICES FUND – To account for the true cost of occupying and maintaining office space, to better reflect the value of that space, and to accumulate amounts for future building repair costs.

CITY OF MODESTO
COMBINING STATEMENT OF NET ASSETS - INTERNAL SERVICE FUNDS
June 30, 2005

	Fleet Management	Central Services	Information & Technology Services	Insurance
<u>ASSETS</u>				
Current assets:				
Cash and cash equivalents	\$ 12,271,369	\$ 399,914	\$ 1,974,400	\$ 13,280,037
Receivables:				
Accounts receivable				296,449
Interest	11,593	984	5,584	130,918
Inventories		375,519		
Advances to other funds	2,000,000			
Total current assets	14,282,962	776,417	1,979,984	13,707,404
Noncurrent assets:				
Notes receivable, net				
Land and construction in progress	821,033			
Other capital assets, net of accumulated depreciation	15,332,443	52,665	1,895,242	37,559
Total assets	30,436,438	829,082	3,875,226	13,744,963
<u>LIABILITIES</u>				
Current liabilities:				
Accounts payable	86,497	59,334	82,496	330,246
Accrued salaries and benefits	16,114	3,697	15,543	4,088
Due to other funds				
Current portion - compensated absences				
Current portion - claims liability				4,831,901
Current portion - long-term debt	25,042		20,545	
Total current liabilities	127,653	63,031	118,584	5,166,235
Noncurrent liabilities:				
Compensated absences				
Claims liability				9,129,900
Long-term debt:				
Notes payable	171,034			
Total liabilities	298,687	63,031	118,584	14,296,135
<u>NET ASSETS</u>				
Invested in capital assets, net of related debt	15,957,400	52,665	1,874,697	37,559
Unrestricted	14,180,351	713,386	1,881,945	(588,731)
Total net assets	\$ 30,137,751	\$ 766,051	\$ 3,756,642	\$ (551,172)

<u>Employee Benefits Management</u>	<u>Building Services</u>	<u>Total</u>
\$ 14,960,709	\$ 2,869	\$ 42,889,298
48,927	1,426	346,802
	78	149,157
		375,519
		<u>2,000,000</u>
<u>15,009,636</u>	<u>4,373</u>	<u>45,760,776</u>
3,096		3,096
		821,033
<u>6,967</u>	<u>205,623</u>	<u>17,530,499</u>
<u>15,019,699</u>	<u>209,996</u>	<u>64,115,404</u>
583,324	52,974	1,194,871
611	12,509	52,562
	125,000	125,000
2,218,476		2,218,476
		4,831,901
		<u>45,587</u>
<u>2,802,411</u>	<u>190,483</u>	<u>8,468,397</u>
60,221,829		60,221,829
		9,129,900
		<u>171,034</u>
<u>63,024,240</u>	<u>190,483</u>	<u>77,991,160</u>
6,967	205,623	18,134,911
<u>(48,011,508)</u>	<u>(186,110)</u>	<u>(32,010,667)</u>
\$ <u><u>(48,004,541)</u></u>	\$ <u><u>19,513</u></u>	\$ <u><u>(13,875,756)</u></u>

CITY OF MODESTO
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET ASSETS - INTERNAL SERVICE FUNDS
Year ended June 30, 2005

	<u>Fleet Management</u>	<u>Central Services</u>	<u>Information & Technology Services</u>	<u>Insurance</u>
OPERATING REVENUES:				
Charges for services	\$ 7,909,002	\$ 312,325	\$ 3,747,717	\$ 18,369,695
Sales		3,034,646		
Cost of sales		(2,768,263)		
Total operating revenues	<u>7,909,002</u>	<u>578,708</u>	<u>3,747,717</u>	<u>18,369,695</u>
OPERATING EXPENSES:				
Salaries and wages	1,071,999	235,892	1,228,711	345,171
Contractual services	415,719	55,403	564,705	58,666
Utilities	7,544	989	258,857	1,219
Maintenance and supplies	2,242,353	42,153	1,173,741	12,740
Insurance	62,405	7,115	29,188	10,518,935
Claims expense				2,874,266
Employee benefits	352,109	81,903	379,639	115,343
Administration services	35,712	6,467	1,898	1,242,420
Allocated indirect administrative costs	264,010			
Other	12,936	577	43,963	30,583
Depreciation	2,213,790	8,415	316,978	8,808
Total operating expenses	<u>6,678,577</u>	<u>438,914</u>	<u>3,997,680</u>	<u>15,208,151</u>
OPERATING INCOME (LOSS)	<u>1,230,425</u>	<u>139,794</u>	<u>(249,963)</u>	<u>3,161,544</u>
NONOPERATING REVENUES (EXPENSES)				
Loss on disposition of capital assets	(158,523)	(10,442)		
Interest income		6,414	39,485	246,083
Net increase (decrease) in fair value of investments		592		26,374
Interest expense	(12,538)		(3,134)	
Total nonoperating revenues (expenses)	<u>(171,061)</u>	<u>(3,436)</u>	<u>36,351</u>	<u>272,457</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	1,059,364	136,358	(213,612)	3,434,001
Capital contributions	706,694			
Transfers in		25,000	450,000	
Transfers out	(99,419)			
CHANGE IN NET ASSETS	1,666,639	161,358	236,388	3,434,001
NET ASSETS (DEFICITS), July 1	<u>28,471,112</u>	<u>604,693</u>	<u>3,520,254</u>	<u>(3,985,173)</u>
NET ASSETS (DEFICITS), June 30	<u>\$ 30,137,751</u>	<u>\$ 766,051</u>	<u>\$ 3,756,642</u>	<u>\$ (551,172)</u>

<u>Employee Benefits Management</u>	<u>Building Services</u>	<u>Total</u>
\$ 35,153,103	\$ 1,764,854	\$ 67,256,696
		3,034,646
		(2,768,263)
<u>35,153,103</u>	<u>1,764,854</u>	<u>67,523,079</u>
3,736,158	787,316	7,405,247
90,210	172,522	1,357,225
	189,895	458,504
29,703	227,772	3,728,462
894	18,414	10,636,951
		2,874,266
35,563,972	300,629	36,793,595
42,920	67,519	1,396,936
		264,010
62,653	4,858	155,570
2,338	28,026	2,578,355
<u>39,528,848</u>	<u>1,796,951</u>	<u>67,649,121</u>
<u>(4,375,745)</u>	<u>(32,097)</u>	<u>(126,042)</u>
		(168,965)
286,752	(1,608)	577,126
29,448	(175)	56,239
		(15,672)
<u>316,200</u>	<u>(1,783)</u>	<u>448,728</u>
(4,059,545)	(33,880)	322,686
		706,694
		475,000
		(99,419)
(4,059,545)	(33,880)	1,404,961
<u>(43,944,996)</u>	<u>53,393</u>	<u>(15,280,717)</u>
<u>\$ (48,004,541)</u>	<u>\$ 19,513</u>	<u>\$ (13,875,756)</u>

CITY OF MODESTO
COMBINING STATEMENT OF CASH FLOWS - INTERNAL SERVICE FUNDS
Year ended June 30, 2005

	Fleet Management	Central Services	Information & Technology Services	Insurance
CASH FLOWS FROM OPERATING ACTIVITIES:				
Receipts from customers and users	\$ 224,399	\$ 20,474		\$ 16,868
Receipts from interfund services provided	7,702,645	558,234	\$ 3,747,717	18,350,643
Payments to suppliers	(2,598,594)	(126,684)	(1,976,123)	(10,949,518)
Payment of insurance claims				(5,001,771)
Payments to employees	(1,417,748)	(316,344)	(1,604,548)	(459,535)
Payments for interfund services used	(511,765)	(76,233)	(73,584)	(1,288,412)
Net cash provided (used) by operating activities	<u>3,398,937</u>	<u>59,447</u>	<u>93,462</u>	<u>668,275</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Transfers in		25,000	450,000	
Transfers out	(99,419)			
Due to other funds				
Net cash provided (used) by noncapital financing activities	<u>(99,419)</u>	<u>25,000</u>	<u>450,000</u>	
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Acquisition and construction of capital assets	(1,242,241)		(276,072)	
Principal repayments	(23,587)		(24,871)	
Interest paid	(12,538)		(3,134)	
Net cash used by capital and related financing activities	<u>(1,278,366)</u>		<u>(304,077)</u>	
CASH FLOWS FROM INVESTING ACTIVITIES:				
Interest received		5,430	33,901	202,262
Net increase in the fair value of investments		592		26,374
Net cash provided by investing activities		<u>6,022</u>	<u>33,901</u>	<u>228,636</u>
Net increase (decrease) in cash and cash equivalents	2,021,152	90,469	273,286	896,911
CASH AND CASH EQUIVALENTS, JULY 1	<u>10,250,217</u>	<u>309,445</u>	<u>1,701,114</u>	<u>12,383,126</u>
CASH AND CASH EQUIVALENTS, JUNE 30	<u>\$ 12,271,369</u>	<u>\$ 399,914</u>	<u>\$ 1,974,400</u>	<u>\$ 13,280,037</u>

<u>Employee Benefits Management</u>	<u>Building Services</u>	<u>Total</u>
		\$ 261,741
\$ 35,104,334	\$ 1,763,428	67,227,001
	(483,162)	(16,134,081)
(33,510,554)	(1,081,446)	(5,001,771)
(48,513)	(165,606)	(38,390,175)
<u>1,545,267</u>	<u>33,214</u>	<u>(2,164,113)</u>
		5,798,602
		475,000
		(99,419)
	(20,000)	(20,000)
	<u>(20,000)</u>	<u>355,581</u>
		(9,266)
	(9,266)	(1,527,579)
		(48,458)
		(15,672)
	<u>(9,266)</u>	<u>(1,591,709)</u>
286,751	(1,318)	527,026
29,448	(175)	56,239
<u>316,199</u>	<u>(1,493)</u>	<u>583,265</u>
1,861,466	2,455	5,145,739
<u>13,099,243</u>	<u>414</u>	<u>37,743,559</u>
<u>\$ 14,960,709</u>	<u>\$ 2,869</u>	<u>\$ 42,889,298</u>

(continued)

CITY OF MODESTO
COMBINING STATEMENT OF CASH FLOWS - INTERNAL SERVICE FUNDS (Continued)
Year ended June 30, 2005

	<u>Fleet Management</u>	<u>Central Services</u>	<u>Information & Technology Services</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
Operating income (loss)	\$ 1,230,425	\$ 139,794	\$ (249,963) \$
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	2,213,790	8,415	316,978
Change in assets and liabilities:			
(Increase) decrease in accounts receivable	18,042		
(Increase) in notes receivable			
Decrease in inventories		(44,404)	
Increase (decrease) in accounts payable and accrued expenses	(69,680)	(45,809)	22,645
Increase in accrued salaries and benefits payable	6,360	1,451	3,802
Increase in compensated absences			
Decrease in claims liability			
Total adjustments	<u>2,168,512</u>	<u>(80,347)</u>	<u>343,425</u>
Net cash provided (used) by operating activities	<u>\$ 3,398,937</u>	<u>\$ 59,447</u>	<u>\$ 93,462</u> \$
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:			
Capital assets transferred in	\$ 706,694		

<u>Insurance</u>	<u>Employee Benefits Management</u>	<u>Building Services</u>	<u>Total</u>
<u>3,161,544</u>	\$ <u>(4,375,745)</u>	\$ <u>(32,097)</u>	\$ <u>(126,042)</u>
8,808	2,338	28,026	2,578,355
(2,184)	(48,927)	(1,426)	(34,495)
	28,863		28,863
			(44,404)
(373,367)	178,025	32,212	(255,974)
979	130	6,499	19,221
	5,760,583		5,760,583
<u>(2,127,505)</u>			<u>(2,127,505)</u>
<u>(2,493,269)</u>	<u>5,921,012</u>	<u>65,311</u>	<u>5,924,644</u>
<u>668,275</u>	\$ <u>1,545,267</u>	\$ <u>33,214</u>	\$ <u>5,798,602</u>
			\$ 706,694

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AGENCY FUNDS

Agency Funds account for assets held by the City as an agent for individuals, governmental entities and non-public organizations.

Special Assessments – To account for collection of special assessments from property owners and forwarding these collections to trustees for payment to bondholders.

Tuolumne River Regional Park – To account for cash and investments of the Tuolumne River Regional Park, a joint powers agency between the City of Modesto, Stanislaus County and City of Ceres. The agency provides financing, development, and maintenance of the Tuolumne River Regional Park facilities. The cash and investments of the Park are invested as part of the City's investment pool.

City-County Capital Improvements and Financing Agency - To account for cash and investments of the City-County Capital Improvements and Financing Agency, a joint powers agency between the City of Modesto and Stanislaus County. The agency built and maintains a joint City-County government complex in downtown Modesto. The cash and investments of the Agency are invested as part of the City's investment pool.

CITY OF MODESTO
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES AGENCY FUNDS
Year ended June 30, 2005

	Balance June 30, 2004	Additions	Deletions	Balance June 30, 2005
<hr/> <u>Special Assessments</u> <hr/>				
<u>ASSETS</u>				
Cash and cash equivalents	\$ 219,765	\$ 98,626	\$ 197,975	\$ 120,416
Cash and cash equivalents with fiscal agent	117,441	872		118,313
Cash and cash equivalents	<u>\$ 337,206</u>	<u>\$ 99,498</u>	<u>\$ 197,975</u>	<u>\$ 238,729</u>
 <u>LIABILITIES</u>				
Dues to special assessment bondholders	<u>\$ 337,206</u>	<u>\$ 99,498</u>	<u>\$ 197,975</u>	<u>\$ 238,729</u>
 <hr/> <u>Tuolumne River Regional Park</u> <hr/>				
<u>ASSETS</u>				
Cash and cash equivalents	<u>\$ 299,721</u>	<u>\$ 685,424</u>	<u>\$ 669,447</u>	<u>\$ 315,698</u>
 <u>LIABILITIES</u>				
Deposits held as agent for others	<u>\$ 299,721</u>	<u>\$ 685,424</u>	<u>\$ 669,447</u>	<u>\$ 315,698</u>
 <hr/> <u>City/County Joint Powers Financing Authority</u> <hr/>				
<u>ASSETS</u>				
Cash and cash equivalents	<u>\$ 42</u>	<u>\$ 1,496,298</u>	<u>\$ 1,382,745</u>	<u>\$ 113,595</u>
 <u>LIABILITIES</u>				
Deposits held as agent for others	<u>\$ 42</u>	<u>\$ 1,496,298</u>	<u>\$ 1,382,745</u>	<u>\$ 113,595</u>
 <hr/> <u>Totals - All Agency Funds</u> <hr/>				
<u>ASSETS</u>				
Cash and cash equivalents	\$ 519,528	\$ 2,280,348	\$ 2,250,167	\$ 549,709
Cash and cash equivalents with fiscal agent	117,441	872		118,313
	<u>\$ 636,969</u>	<u>\$ 2,281,220</u>	<u>\$ 2,250,167</u>	<u>\$ 668,022</u>
 <u>LIABILITIES</u>				
Due to special assessment bondholders	\$ 337,206	\$ 99,498	\$ 197,975	\$ 238,729
Deposits held as agent for others	299,763	2,181,722	2,052,192	429,293
	<u>\$ 636,969</u>	<u>\$ 2,281,220</u>	<u>\$ 2,250,167</u>	<u>\$ 668,022</u>

STATISTICAL SECTION

CITY OF MODESTO
GOVERNMENT-WIDE REVENUES
Last Ten Fiscal Years
(amounts expressed in thousands)

Fiscal Year	PROGRAM REVENUES			GENERAL REVENUES				Total
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Taxes	Intergovernment revenue Not Restricted to Specific Programs	Unrestricted Investment Earnings	Miscellaneous	
2002	\$95,516	\$14,800	\$16,889	\$37,942	\$39,547	\$8,098	\$1,112	\$213,904
2003	\$98,325	\$14,533	\$36,901	\$41,592	\$38,556	\$5,648	\$2,221	\$237,776
2004	\$103,032	\$22,193	\$28,515	\$44,339	\$37,409	\$1,863	\$2,480	\$239,831
2005	\$110,737	\$21,262	\$31,298	\$46,555	\$44,696	\$6,283	\$3,792	\$264,623

NOTE: The above information is not available for the last ten years as the government-wide financial statements were not a required part of the financial statements until 2002. As such, the above information will not be available for the last ten years until 2011.

CITY OF MODESTO
GOVERNMENT-WIDE EXPENSES BY FUNCTION
Last Ten Fiscal Years
(amounts expressed in thousands)

Fiscal Year	General Government	Community Development	Highways and Streets	Public Works	Parks and Recreation	Public Safety	Interest on Long-term Debt	Parking	Water	Sewer	Storm Drain	Airport	Bus	Golf	Community Center	Total
2002	\$12,085	\$7,961	\$18,281	\$4,646	\$15,440	\$56,563	\$4,737	\$696	\$27,830	\$23,339	\$5,572	\$1,130	\$8,629	\$2,441	\$2,173	\$191,523
2003	\$12,557	\$13,824	\$19,656	\$6,844	\$16,723	\$64,410	\$4,613	\$1,153	\$30,875	\$23,266	\$5,940	\$972	\$9,746	\$2,476	\$2,391	\$215,446
2004	\$13,955	\$10,517	\$23,137	\$6,459	\$12,683	\$68,258	\$4,515	\$651	\$27,052	\$21,386	\$5,327	\$1,121	\$10,122	\$2,432	\$2,079	\$209,694
2005	\$15,273	\$14,106	\$23,722	\$5,264	\$13,334	\$71,239	\$4,988	\$1,163	\$30,691	\$22,422	\$6,111	\$1,132	\$11,075	\$2,355	\$2,323	\$225,198

NOTE: The above information is not available for the last ten years as the government-wide financial statements were not a required part of the financial statements until 2002. As such, the above information will not be available for the last ten years until 2011.

CITY OF MODESTO
GENERAL GOVERNMENTAL EXPENDITURES BY FUNCTION (1)
Last Ten Fiscal Years

<u>Year Ended June 30</u>	<u>General Government</u>	<u>Community Development</u>	<u>Highways and Streets</u>	<u>Public Works</u>	<u>Parks and Recreation</u>	<u>Public Safety</u>	<u>Capital Outlay</u>	<u>Debt Service</u>	<u>Total</u>
1996	\$ 9,471,466		\$ 9,519,874	\$ 3,414,399	\$ 8,713,861	\$ 38,886,484		\$ 3,783,059	\$ 73,789,143
1997	9,229,119		10,756,336	3,658,718	9,269,256	41,269,058		3,804,752	77,987,239
1998	9,959,685		7,522,651	3,583,622	9,783,260	45,377,215		4,871,263	81,097,696
1999	10,601,869		12,288,853	4,915,685	10,001,917	46,470,551		7,075,155	91,354,030
2000	10,808,432		14,150,611	4,444,216	10,661,706	45,912,600		7,055,948	93,033,513
2001	11,283,157		10,244,794	4,513,156	11,691,094	49,888,819		5,875,943	93,496,963
2002	10,112,841	\$ 6,836,202	7,961,328	4,614,294	13,558,505	52,608,768	\$ 5,592,006	6,073,382	107,357,326
2003	10,938,635	7,216,938	7,743,346	4,325,317	13,402,710	56,571,767	10,772,096	7,290,650	118,261,459
2004	11,878,443	8,103,089	10,840,446	4,874,460	11,201,299	62,727,488	10,143,741	5,626,493	125,395,459
2005	11,731,586	9,119,156	11,433,804	5,053,030	11,438,667	70,842,759	2,813,315	6,188,389	128,620,706

NOTE: (1) Includes General, Special Revenue, and Debt Service Funds.

**CITY OF MODESTO
GENERAL REVENUES BY SOURCE (1)
Last Ten Fiscal Years**

Year Ended June 30	Taxes (2)	Licenses and Permits	Inter-governmental	Charges for Services	Special Assessments	Interest and Rent	Fines and Forfeits	Miscellaneous	Total
1996	\$ 44,607,144	\$ 207,969	\$ 18,837,062	\$ 4,291,429	\$ 251,880	\$ 2,126,551	\$ 661,675	\$ 2,349,333	\$ 73,333,043
1997	44,796,523	178,291	20,842,290	5,852,125	285,408	1,987,852	761,451	1,482,358	76,186,298
1998	47,574,649	132,659	19,405,954	6,660,069	235,558	2,205,536	965,941	1,102,410	78,282,776
1999	51,775,542	127,182	24,112,359	6,977,522	180,314	1,961,020	1,329,768	874,868	87,338,575
2000	55,897,017	122,669	25,250,266	7,605,327	284,317	2,053,260	1,280,123	1,247,889	93,740,868
2001	61,810,784	183,226	25,373,037	8,642,823	309,649	2,738,665	1,278,945	2,921,497	103,258,626
2002	37,189,157	173,348	58,715,696	15,410,128	823,091	2,113,712	1,055,966	1,412,373	116,893,471
2003	40,581,244	169,108	63,361,617	16,507,447	2,015,090	2,171,490	1,030,389	1,648,415	127,484,800
2004	43,158,243	250,129	58,202,271	18,500,378	386,368	1,905,097	1,294,193	2,409,895	126,106,574
2005	45,162,186	128,754	61,886,143	21,644,111	107,696	2,085,993	1,646,472	1,494,883	134,156,238

NOTE: (1) Includes General, Special Revenue, and Debt Service Funds.

CITY OF MODESTO
PROPERTY TAX LEVIES AND COLLECTIONS
Last Ten Fiscal Years

Year Ended June 30,	Total Tax Levy (1)	Current Tax Collections	Percent of Levy Collected	Delinquent Tax Collections	Total Tax Collections	Total Collections As Percent of Current Levy (2)	Delinquent Taxes	Outstanding Delinquent Taxes as Percent of Current Levy
1996	\$ 6,860,591	\$ 6,830,585	99.56%		\$ 6,830,585	99.56%		
1997	6,874,632	6,805,779	99.00	\$ (9,055)	6,796,724	98.87		
1998	6,802,072	6,761,188	99.40	22,718	6,783,906	99.73		
1999	6,901,321	6,822,805	98.86	60,368	6,883,173	99.74		
2000	7,185,664	7,192,544	100.09	13,267	7,205,811	100.28		
2001	7,576,428	7,536,691	99.48	13,269	7,549,960	99.65		
2002	8,312,582	8,249,461	99.24	11,028	8,260,489	99.37		
2003	9,172,429	9,118,481	99.41	16,174	9,134,655	99.59		
2004	9,709,897	9,440,383	97.22	107,388	9,547,771	98.33		
2005	10,568,415	10,133,222	95.88	24,163	10,157,385	96.11		

NOTES: (1) Source of Data: Stanislaus County Auditor, includes exempt organizations.
(2) Total collections include taxes resulting from "escape assessments". These are comprised of assessments to property not known to exist when the original roll was compiled and other adjustments to the roll.

CITY OF MODESTO
ASSESSED AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY (1)
Last Ten Fiscal Years

Year Ended June 30	Real Property		Personal Property		Total		Ratio of Total Assessed to Total Estimated Actual Value
	Assessed Value	Estimated Actual Value	Assessed Value	Estimated Actual Value	Assessed Value	Estimated Actual Value	
1996	\$6,658,660,668	\$6,658,660,668	\$312,116,805	\$312,116,805	\$6,970,777,473	\$6,970,777,473	100%
1997	6,696,422,127	6,696,422,127	301,314,838	301,314,838	6,997,736,965	6,997,736,965	100
1998	6,733,847,244	6,733,847,244	314,105,845	314,105,845	7,047,953,089	7,047,953,089	100
1999	6,814,118,056	6,814,118,056	364,091,322	364,091,322	7,178,209,378	7,178,209,378	100
2000	7,113,017,315	7,113,017,315	374,764,312	374,764,312	7,487,781,627	7,487,781,627	100
2001	8,284,751,572	8,284,751,572	465,640,345	465,640,345	8,750,391,917	8,750,391,917	100
2002	9,240,625,466	9,240,625,466	400,351,138	400,351,138	9,640,976,604	9,640,976,604	100
2003	10,005,769,331	10,005,769,331	229,231,096	299,231,096	10,305,000,427	10,305,000,427	100
2004	10,516,523,400	10,516,523,400	433,048,483	433,048,483	10,949,571,883	10,949,571,883	100
2005	11,405,079,179	11,405,079,179	504,487,150	504,487,150	11,909,566,329	11,909,566,329	100

NOTES: (1) Source of Information: Stanislaus County Auditor (AC 4001), Assessor - Last Equalized Roll.

CITY OF MODESTO
PROPERTY TAX RATES - ALL OVERLAPPING GOVERNMENTS
(PER \$100 OF ASSESSED VALUE)
Last Ten Fiscal Years

<u>Year Ended June 30</u>	<u>Stanislaus County</u>	<u>School Bonds (1)</u>	<u>Total</u>
1996	1.00	.0964	1.0964
1997	1.00	.1009	1.1009
1998	1.00	.1044	1.1044
1999	1.00	.0581	1.0581
2000	1.00	.0920	1.0920
2001	1.00	.0930	1.0930
2002	1.00	.0824	1.0824
2003	1.00	.0815	1.0815
2004	1.00	.0782	1.0782
2005	1.00	.0678	1.0678

Source of Data: Stanislaus County Auditor - Tax Rates 2003-2004.
(1) Modesto School Districts Only

CITY OF MODESTO
SPECIAL ASSESSMENT BILLINGS AND COLLECTIONS
Last Ten Fiscal Years

<u>Year Ended June 30,</u>	<u>Current Assessments Billed</u>	<u>Current Assessments Collected</u>	<u>Ratio of Collections to Amount Due</u>	<u>Outstanding Assessments</u>
1996	\$ 234,634	\$ 227,308	97	\$ 2,092,386
1997	256,195	251,065	98	1,868,041
1998	195,534	190,925	98	1,621,381
1999	190,789	190,789	100	1,309,337
2000	169,936	168,438	99	1,104,311
2001	165,123	150,614	91	893,551
2002	132,168	129,352	98	626,095
2003	166,446	160,767	97	448,031
2004	125,263	123,747	99	258,779
2005	103,320	98,493	95	118,152
	(1)	(2)		(3)

- (1) Principal levied on prior year tax roll in 2004/05
- (2) Total received on current year tax roll
- (3) Total of Assessment Receivable

CITY OF MODESTO
COMPUTATION OF DIRECT AND OVERLAPPING DEBT
June 30, 2005

<u>Jurisdiction</u>	<u>Net Debt Outstanding (1)</u>	<u>Percentage Applicable to City of Modesto (2)</u>	<u>Amount Applicable to City of Modesto</u>
Direct debt:			
City of Modesto	\$ <u>0</u>	100%	\$ <u>0</u>
Overlapping debt - school districts:			
Ceres Unified District	24,714,806	10.0	17,918,234
Modesto Elementary School District	17,845,000	72.5	12,937,625
Modesto High School District	79,476,180	68.5	54,441,183
Sylvan School District	9,890,000	85.0	8,406,500
Salida Union Elementary District	1,805,000	27.0	487,350
Stanislaus Union School District	<u>4,110,000</u>	33.0	<u>1,356,300</u>
Total overlapping debt	<u>137,840,986</u>		<u>77,628,958</u>
Total direct and overlapping debt	\$ <u><u>137,840,986</u></u>		\$ <u><u>95,547,192</u></u>

NOTES: Source of data for School Districts: Stanislaus County Auditor.
(1) Gross debt outstanding less applicable amounts in debt service funds.
(2) Determined by ratio of assessed valuation of property subject to taxation in overlapping portion to valuation of all property subject to taxation in the jurisdiction.

CITY OF MODESTO
CONTINUING DISCLOSURE REQUIREMENTS INFORMATION
Year Ended June 30, 2005

Wastewater Revenue Refunding Bonds, Series 2005 A and B

Connection charge information: The Sewer Enterprise imposes connection fees on a on-time basis to new users of the sewer system and to users who significantly expand their usage. The fees have three components:

Connection charge: \$500 per Equivalent Dwelling Unit for residential units and \$2,000 per acre for commercial and industrial property
 Sub-trunk sewer charge: \$645 per acre
 Connection (lateral) charge: \$33 per linear foot of lot frontage adjacent to the sewer line.

<u>Category</u>	<u>Customer Base by Type of Account</u>		
	<u>Number of Accounts</u>	<u>% of Total Accounts</u>	<u>% of Customer Revenues</u>
Residential	57,301	95.27%	48.4%
Commercial	2,796	4.65%	16.6%
Industrial	51	0.08%	35.0%

Ten Largest Users of Sewer Facilities, Year Ended 6/30/05

<u>User</u>	<u>% of Sewer Operating Revenue</u>
1) Stanislaus Foods	5.82%
2) Del Monte Foods	5.67%
3) Signature Fruit Company	5.44%
4) Frito Lay	2.04%
5) Modesto Tallow	1.90%
6) Gallo Winery	1.87%
7) City of Ceres	1.50%
8) Foster Farms	1.44%
9) Nestle USA	0.51%
10) FMC Corp	0.27%

The average single-family residence monthly sewer charge is \$14.26.

<u>Commercial Group</u>	<u>Minimum Charge First 1,680 Cubic Feet</u>	<u>Charge Per 1,000 Gallons Additional</u>
Group 1	\$21.95	\$1.73
Group 2	25.29	2.04
Group 3	31.00	2.47
Group 4	37.19	2.98

Industrial users pay a minimum charge of \$10.00, with additional charges of: \$892.23 per million gallons of flow, \$105.52 per 1,000 pounds of excess biochemical oxygen demand (BOD), and \$07.14 per 1,000 pounds of excess suspended solids (SS).

There was a 3% rate increase during the 2005 fiscal year.

The Annual Budget of the City of Modesto is available from the City of Modesto Finance Department.

Updates of other required disclosures may be found elsewhere in this report, as follows:

Statement of Revenues, Expenses and Changes in Fund Net Assets	Page 27	
Principal Amount of Bonds and Other Parity Debt	Pages 43 and 45	(Note III-C)
Historical Debt Service Coverage	Page 117	

(continued)

CITY OF MODESTO
CONTINUING DISCLOSURE REQUIREMENTS INFORMATION (continued)
Year Ended June 30, 2005

Modesto Public Financing Authority Lease Revenue Bonds, Series 1997
John Thurman Field Renovation Project

Update of Stadium and Insurance Information

In connection with its agreement with the Modesto A's minor league professional baseball team to continue playing baseball in Modesto, the City renovated and improved the John Thurman Field stadium. This Project was partially funded by the Series 1997 Lease Revenue Bonds. The improvements meet or exceed the requirements of the Professional Baseball Agreement between Major League Baseball and the National Association of Professional Baseball Leagues, which governs minor league baseball. Stadium improvements included expansion of seating from 2,500 to 4,000; expanded parking capacity, with improved lighting and security; renovation to the club house for both the Modesto Nuts (replaced the Modesto A's) and visiting teams; expansion of outfield dimensions; and addition of a state-of-the-art public address and speaker system. The Modesto A's played their home games in the renovated stadium from opening day, May 7, 1997, through the 2004 season.

In September, 2004, the Colorado Rockies signed a two-year player development contract with Modesto's minor league franchise. This contract assured that the City of Modesto would have minor league baseball at John Thurman Field through the 2006 season. Currently, the City of Modesto has a two-year license agreement and a field maintenance agreement with the Modesto Nuts Baseball Club, which expire on December 31, 2005. These agreements have been renegotiated and a new contract for the 2006 baseball season is expected to go to the City Council for approval on December 14, 2005.

All insurance required by the Lease Revenue Bond legal documents is currently in full effect. Coverage includes public liability, property damage, fire and extended coverage, and rental interruption insurance.

The Annual Budget of the City of Modesto is available from the City of Modesto Finance Department.

(continued)

CITY OF MODESTO
CONTINUING DISCLOSURE REQUIREMENTS INFORMATION (continued)
Year Ended June 30, 2005

1997 Water Utility System Refinancing Project, Refunding Revenue Certificates of Participation, and Modesto Irrigation District Financing Authority Domestic Water Project Refunding Revenue Bonds, Series 1998D

Reserve Account Requirement as of 6/30/05	\$0 (covered by surety bond, issued by Federal Guaranty Insurance Company)
Balance in Parity Reserve Account as of 6/30/05	\$0
Balance in Rate Stabilization Account as of 6/30/05	\$2,846,800

Ten Largest Customers of Water Utility System, Year Ended 6/30/05

<u>Customer</u>	<u>Business Type</u>	<u>% of Total Water Sales Revenue</u>
1) Stanislaus Foods	Cannery	1.91%
2) Signature Fruit	Cannery	0.81%
3) Foster Farms	Dairy Processor	0.70%
4) E & J Gallo Winery	Winery	0.53%
5) Del Monte Foods	Cannery	0.50%
6) Nestle Food Company	Food Processor	0.45%
7) Yosemite Community College	Community College	0.43%
8) Memorial Hospital	Hospital	0.42%
9) Modesto Tallow	Tallow Works	0.36%
10) Doctors Hospital	Hospital	0.29%

Water Sales Revenue, Year Ended 6/30/05

Residential - flat rates	\$19,117,312
Commercial, industrial and municipal - metered rates	10,846,671
Total Water Sales	<u><u>\$29,963,983</u></u>

The average monthly flat rate service charge for residential customers is \$27.81.

Current Water Rates and Charges as of 6/30/05 - Commercial Accounts

<u>Meter Size</u>	
3/4"	\$9.01
1"	12.78
1 1/2"	22.13
2"	33.38
3"	63.43
4"	97.19
6"	190.95
8"	303.49
10"	434.84
12"	809.95

In addition to these minimum charges, commercial accounts are charge \$1.01 per 100 cubic feet of water used.

There was a change in the distribution of rate charges to various types of accounts on January 1, 2005.

(1) Water Fund parity debt obligation, issued by the Modesto Irrigation District Financing Authority, on behalf of the City, and pursuant to the 1992 Treatment and Delivery Agreement between the District and the City. Balance of these bonds as of 6/30/05 is \$79,490,000 (continued)

CITY OF MODESTO
CONTINUING DISCLOSURE REQUIREMENTS INFORMATION (CORRECTED)

1997 Water Utility System Refinancing Project, Refunding Revenue Certificates of Participation, and
Modesto Irrigation District Financing Authority Domestic Water Project Refunding Revenue Bonds, Series 1998D

Water Utility System - Debt Service Coverage
Fiscal Year 2005

Gross Operating Revenues:	
Charges for services	\$31,315,920
DBCP and PCE settlements	2,960,781
Connection charges	1,371,958
Interest and rental income	<u>279,616</u>
Total Gross Operating Revenues	<u>35,928,275</u>
Operating Expenses:	
Total operating expenses	29,227,465
Less: Depreciation	(2,305,953)
T&DA debt service component paid to MID	(7,015,057)
Plus: Property taxes	82,673
Operating transfers	<u>218,902</u>
Total Operating Expenses	<u>20,208,030</u>
Net Operating Revenues	<u>\$15,720,245</u>
Total Debt Service:	
1997 Refunding Certificates of Participation	1,784,908
Treatment & Delivery Agreement	7,015,057
CDWR Loan	<u>264,654</u>
Total Debt Service	<u>\$9,064,619</u>
Debt Service Coverage (Net Operating Revenues/Total Debt Service)	1.73

Updates of other required disclosures may be found elsewhere in this report, as follows:

Water Utility System Statement of Net Assets	Page 26	
Water Utility System Revenues and Expenses	Page 27	
Principal Amount of Certificates Outstanding	Page 42	(Note III-C)

CITY OF MODESTO
REVENUE BOND COVERAGE
WASTEWATER TREATMENT FACILITY REVENUE BONDS
Last Ten Fiscal Years

Year Ended June 30,	Gross Revenue (1)	Operating Expenses (2)	Net Revenue Available for Debt Service	Total Debt Service (3)	Coverage (4)
1996	\$18,753,549	\$9,615,007	\$9,138,542	\$1,793,798	5.09
1997	19,239,545	11,068,264	8,171,281	1,721,999	4.75
1998	20,191,250	11,192,431	8,998,819	3,637,239	2.47
1999	20,192,478	11,204,247	8,988,231	3,551,320	2.53
2000	19,490,824	12,380,840	7,109,984	3,549,445	2.00
2001	21,102,892	13,244,750	7,858,142	3,549,180	2.21
2002	22,288,061	17,117,917	5,170,144	3,550,017	1.46
2003	24,623,786	15,664,660	8,959,126	3,551,958	2.52
2004	26,123,771	16,687,958	9,435,813	3,550,120	2.67
2005	30,137,146	16,476,917	13,660,229	3,549,633	3.85

Notes: (1) Gross revenue consists of all receipts of the Sewer fund, including charges for services, interest and rental income, connection fees and litigation settlements not otherwise restricted.

(2) Total Sewer Fund operating expenses exclusive of depreciation. Beginning with fiscal year 1996 this figure also includes allocated indirect costs and property taxes. Beginning 2005, the portion of transfers out to other funds, if any, that would have otherwise been an operating expense of the Sewer Fund have been included.

(3) Includes total principal and interest of Wastewater Treatment Facility Revenue Bonds, Series 1993 and 1997, and Refunding Revenue Bonds, Series 1987 and 1996, through 2005. During the 2005 fiscal year, these issues were refunded by Wastewater Refunding Revenue Bonds, Series 2005 A and 2005 B. The first debt service payment on the refunding bonds is due on November 1, 2005.

CITY OF MODESTO
PROPERTY VALUE, CONSTRUCTION AND BANK DEPOSITS
Last Ten Fiscal Years

Year Ended June 30,	Construction		Residential Construction		Property Value (2)		Bank Deposits (3)
	# Units (1)	Value	# Units (1)	Value	Total	Nontaxable	
1996	32	\$ 6,724,177	380	\$ 30,083,213	\$ 7,187,220,462	\$ 445,585,075	\$ 1,383,751,000
1997	45	10,535,229	342	33,969,698	7,220,036,341	450,211,445	1,629,186,000
1998	50	24,797,092	709	75,798,048	7,296,729,257	477,617,315	1,367,241,000
1999	75	58,547,153	841	97,787,802	7,462,151,063	519,931,885	1,451,027,000
2000	77	73,649,309	1558	206,898,633	7,799,561,770	548,087,273	1,533,773,000
2001	68	71,621,454	1,649	296,190,623	8,316,911,484	579,400,459	1,692,629,000
2002	72	38,753,224	1,147	223,302,334	9,105,226,864	594,428,278	1,896,410,000
2003	37	30,191,287	1,032	195,225,744	10,011,289,445	619,046,040	2,057,175,000
2004	53	40,021,323	675	126,544,736	10,949,571,883	656,663,151	2,295,231,000
2005	49	61,595,140	914	137,807,931	11,909,566,329	691,198,921	N/A

Source of Data: (1) City of Modesto, Building Inspection Division, Community Development Department.
(2) Stanislaus County Assessor.
(3) Source-Findley Reports, Inc., Anaheim, CA.

CITY OF MODESTO
PRINCIPAL PAYERS OF PROPERTY TAX
Year Ended June 30, 2005

<u>Taxpayer</u>	<u>Type of Business</u>	<u>Assessed Value</u>	<u>Percent of Total</u>
National Medical Hospitals	Medical	\$ 122,632,284	1.16%
Macerich Vintage Faire Associates	Shopping Center	87,279,769	0.82%
Foster Farms Dairy	Food Processing	84,235,744	0.80%
Phenix Management Corp.	Food Processing	57,872,140	0.55%
Stanislaus Partners	Real Estate	51,693,024	0.49%
Liljenquist Modesto	Real Estate	46,419,915	0.44%
HRC Modesto, LLC	Real Estate	33,150,000	0.31%
Pan Pacific Retail	Retail	27,666,852	0.26%
Gallo Glass Co.	Manufacturing	22,334,125	0.21%
Mc Clatchy Newspapers	Publishing	21,477,460	0.20%
All others			94.76%
			<u>100%</u>

Source of Data: Stanislaus County Assessor

CITY OF MODESTO
SCHEDULE OF INSURANCE POLICIES IN FORCE
June 30, 2005

Coverage	Company	Policy Number(s)	Limits of Liability	Term	Premium	Retention or Deductible
Airport Comprehensive Gen. Liability Hanger keepers Legal Liability Contractual Liability	Old Republic Insurance Co.	PR0002309-01	\$30,000,000	6/30/05 - 6/30/06	\$25,356	\$0
Gen. Liability Auto Liability Errors & Omissions (excludes Airport)	ACCEL	ACC0506MOD51	\$4,000,000	7/1/05 - 7/01/06	\$461,958	\$1,000,000 (SIR)
City Property (buildings & contents) Fire Trucks-(Collison) All vehicles Flood	PEPIP (various carriers)	PPROP0506	\$1,000,000,000 per occurrence w/ various sub-limits per occurrence	7/1/05 - 7/1/06	\$250,700	\$10,000 per occurrence \$250,000 flood zone A&V: \$100,000 excluding zones A & Z
Boiler & Machinery	VARIOUS	PBOILER0506	100,000,000	7/1/05 - 7/1/06	\$4,115	\$2,500
Tuolumne River Regional Park Errors and Omissions	EVANSTON INSURANCE CO.	SLIP3000-05	\$ 5,000,000	9/29/05 - 9/29/06	\$5,858	\$ 0
Workers' Compensation	CSAC-EIA	CPEIA-05-EWC-04	150,000,000 subject to \$750,000 SIR	7/1/05- 6/30/06	\$181,021	SIR to 5 mil.
Faithful Performance and Crime Bond (All Officers & Employees)	Great American Insurance Co.	GVT124-37-03-06	Emp. Dishonesty/Forgery \$ 1,000,000 Theft/Destruction \$250,000 Computer Fraud \$1,000,000	4/1/05- 4/1/06	\$6,042	\$10,000 \$5,000 \$10,000
Sabotage & Terrorism	Various		\$250,000,000	7/1/05 - 7/1/06 Cost included w/PEPIP		\$10,000 per occurrence
City/County Capital Improvements - JPA (SLIP)	Evanston	SLIP 3000-05	\$5,000,000 per occurrence	9/29/05 - 9/29/06	\$4,668	\$0
Pollution Liability	American Int'l. Specialty Lines Insurance Co.	PLS2676534	\$50,000	4/11/05 - 4/11/08	\$301,769	\$100,000
City/County Property/ Boiler Machinery	Various	PROPPO506 PBOILER 0506	\$1,000,000 per occurrence w/sub limits	7/01/05 - 7/01/06	\$44,453	\$10,000 per occurrence

Source of data: City of Modesto Risk Manager

CITY OF MODESTO
DEMOGRAPHIC AND MISCELLANEOUS STATISTICAL DATA
June 30, 2005

Date of incorporation	August 6, 1884
Date of adoption of present City charter	January 14, 1963
Form of government (March 12, 1951)	Council-Manager
Elevation	91 feet
Area in square miles	36.21

Demographic statistics:

Population (1):	
1910	4,034
1920	9,241
1930	13,842
1940	16,379
1950	17,389
1960	36,585
1970	61,712
1980	106,963
1990	164,730
2000	188,286
01/01/05	207,634

Housing units:

1980 (2)	42,570
1990 (3)	60,878
2000 (4)	67,683
2002 (4)	60,878
2005 (1)	72,615

Median housing unit value (6)	\$325,000.00
Median monthly rent (4)	\$719.00
Median age (4)	35.4
Median family income (5)	\$52,560.00

Education level of population 25 or older (4):

Elementary	24.9%
High School	50.7%
College	16.5%

Election Information:

Registered voters, last general municipal election	90,835
Votes cast, last municipal election	27,845
Percentage of voter balloting	30.65

(Continued)

- Sources of data: (1) State of California Department of Finance
(2) 1980 U.S. Census.
(3) 1990 U.S. Census.
(4) 2000 U.S. Census.
(5) State of Calif. - Dept. of Housing & Community Development
(6) Central Valley Association of Realtors

CITY OF MODESTO
DEMOGRAPHIC AND MISCELLANEOUS STATISTICAL DATA (continued)
June 30, 2005

Permanent employees authorized	1,295.225
Fire Protection: Underwriter's Classification - Class 2	
Fire Stations	11
Positions authorized	175
Number of fire hydrants	7,060
Police Protection:	
Police Station	1
Area command offices	2
Positions authorized (includes 10 unfunded positions)	378
Number of vehicles	235
Recreational Areas (acres):	
Developed Parks	
59 fully or partially developed	446.41
1 Regional Park (TRRP developed)	74.00
Undeveloped Parks	
5 Neighborhood	31.00
2 Community	62.00
2 Regional	456.30
Total: 9 Undeveloped Parks	549.30
Special Facilities	
1 Baseball stadium	20.00
3 Golf courses	363.29
Total: 4 Special Facilities	383.29
Total Recreational Areas	1,453.00
Building Permits:	
Permits issued in 2004-2005	5,892
Estimated cost of construction	\$336,155,358
Streets:	
Streets (miles)	624
Street lights	13,247
Traffic signals	195
Parking Facilities:	
Number of parking lots (incl. garages)	11
Number of off-street parking spaces	2,402

(Continued)

CITY OF MODESTO
DEMOGRAPHIC AND MISCELLANEOUS STATISTICAL DATA (continued)
June 30, 2005

Elderly and handicapped van service:	
Number of vehicles	11
Seating capacity vans	12
Average weekday number of passengers	390
Average miles per month	40,116
Airport:	
For year ended June 30, 2005	
Number of passengers enplaned	20,869
Number of passengers deplaned	20,582
Total aircraft movements	72,343
Annual fuel consumption in gallons	896,442
Total number of tenant aircraft	190
Total acreage	450
Parking apron acreage	9
Aircraft tie down acreage	28
Automobile parking acreage	10
Length of longest runway in feet	5,911
Number of hangars	109
Number of air carriers scheduled per day	4
Number of runways	2
Bus Service:	
Number of buses	40
Number of routes	19
Miles of routes	251
Seating capacity per bus	36
Average weekday number of passengers	10,157
Average miles per month	126,904
Frequency of service	30 min. & 60 min.
Sewer Service:	
Plant capacity in million gallons per day	70.00
Miles of storm sewers	125.40
Miles of sanitary laterals	471.54
Miles of sanitary trunks and industrial	80.68
Water Service:	
Average daily consumption in gallons	66,993,216
Number of wells	113

Sources of data: Various City departments