

CITY OF  
**Modesto, California**

**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
**Fiscal Year Ended June 30, 2004**

**CITY OF MODESTO**  
 June 30, 2004  
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## **INTRODUCTORY SECTION**



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December 7, 2004

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

The Comprehensive Annual Financial Report (CAFR) of the City of Modesto for the fiscal year ended June 30, 2004, prepared by the Finance Department, is hereby submitted. Responsibility for the accuracy of the data, and the completeness and fairness of the presentation including all disclosures, rests with City management. We believe the data are accurate in all material respects and 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. These controls are designed to provide reasonable, but not absolute, assurance that assets are adequately safeguarded from waste, fraud and inefficient use. The system produces financial records that allow for the preparation of financial statements in conformity with generally accepted accounting principles. The concept of reasonable assurance recognizes that the cost of a control should not exceed its benefits. The evaluation of costs and benefits requires estimates and judgments by management.

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. The Charter also requires an annual audit of the books of account, financial records and transactions of all City departments 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 independent auditor's report 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.

### **The Financial Reporting Model**

The City's CAFR has been prepared as prescribed by Statement No. 34 of the Governmental Accounting Standards Board (GASB 34), "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments". This accounting standard requires a reporting model designed to demonstrate fiscal as well as operational accountability. The reporting model improves on the traditional fund-based model by adding a long-term and government-wide perspective on the City's finances. The CAFR under GASB 34 contains three sections:

1. The Introductory Section consists of this letter, an organization chart, and the Certificate of Achievement for Excellence in Financial Reporting presented by the Government Finance Officers Association for the City's June 30, 2003 CAFR. This section is intended to help readers get acquainted with the City, its organizational structure, and the scope of its services.

2. The Financial Section includes the basic financial statements, consisting of government-wide statements, fund statements, required disclosures in the form of notes to the financial statements, and the independent auditor's report. This section also includes management's discussion and analysis of the financial results for the fiscal year, as well as other required supplementary information. As an integral part of the basic financial statements, readers are encouraged to read the management's discussion and analysis beginning on page 5.
3. The Statistical Section presents multi-year statistics on financial trends, demographic data, and the fiscal capacity of the City. Also included in this section are continuing disclosure requirements information for bonds issued after July 3, 1995, as required by Securities and Exchange Commission Rule 15 (c) 2-12.

### **The Reporting Entity**

The 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, among other reasons, 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. Component units are discussed in more detail in Note I-A.

### **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 206,000. 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 other members. The Modesto City Council is elected on a non-partisan and at-large basis, meaning all 7 members represent the entire City rather than specific geographical areas within the City's boundaries. The City Council is responsible, among other things, 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 deputy City Managers 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 all 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 annual operating budget serves as the foundation for Modesto's financial planning and control. Budgetary control is maintained to ensure compliance with legal provisions of the annual appropriated budget as approved and modified by the City Council. As purchase orders are issued, corresponding amounts are encumbered for later payment so that appropriations may not be overspent.

## **Factors Affecting Financial Condition**

The information in the financial statements is perhaps best understood when considered from the broader perspective of the specific environment within which the City of Modesto operates.

### **Local economy**

As the State's economy continued to decelerate between 2003 and 2004, the City of Modesto's local economy experienced minimal effects from the sluggish times.

Modesto area employment in retail and manufacturing remained strong, employing over 45,200 workers, an increase of 1,400 jobs. Manufacturing accounts for about one-fifth of Stanislaus County's wage and salary workers with the retail industry trailing close behind. Agribusiness also remains an important element in the area with an annual County economy of more than \$4 billion.

Overall, the local economy remained strong with a slight drop in unemployment, including agricultural, from 10.3% in 2003 to 10.1% in October 2004. 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. Permit activity is expected to continue to decline through the remainder of 2004.

Retail sales continued to show modest increases during the year. Department stores and general retail remain the biggest sales tax generators, accounting for 45% of the City's total sales tax revenue. Sales taxes, as Modesto's largest revenue source, provided 28.6% of General fund revenues and grew by \$1.3 million in 2004.

The rate of growth of the last several years is not expected to continue. The City anticipates that current and future State budget problems will continue to have significant impacts on the City.

### **State Impacts**

The State of California's ongoing budget crisis continues to present significant challenges to the financial stability of California's local governments. Between fiscal 1991 and 2004, the State of California diverted \$34.8 million in local revenues from the City of Modesto into its own coffers. In the current fiscal year (2004), the State diverted \$6.6 million from Modesto, more than double the previous year's diversion. But there is hope. The passage of Proposition 1A in November 2004 promises to "stop the bleeding". But it does nothing to restore the local revenues lost over the years.

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 04, General fund reserves were \$11.7 million representing 11.4% of total General fund outflows.

**Cash management.** Under Section 2-3.401 of the Modesto Municipal Code, the Finance Department is responsible for depositing and investing funds in accordance with sound treasury management principles and applicable laws. The City's investment policy is reviewed and approved annually by the City Council. Direct responsibility for managing the City's investment portfolio rests with the Finance Director. Investments are made in accordance with the following criteria, in order of priority: safety, liquidity, and yield.

The City is in compliance with all statutory provisions of the California State Code, which regulates the financial affairs of cities. Investments are secured by the maximum collateral required under law, with maturities laddered at all times to ensure cash is available when needed. Investments of City funds are limited to the following:

- a) U.S. Government securities
- b) Certificates of deposit (or time deposits) with commercial banks and savings and loan institutions
- c) Bankers acceptances (prime only)
- d) Mutual funds
- e) Commercial paper (rated A-1 Moody's and P-1 Standard and Poor's)
- f) Local Agency Investment Fund
- g) Repurchase agreements
- h) Passbook savings account demand deposits
- i) Other investments as may be authorized by the State

Cash temporarily idle during the past year was invested primarily in U.S. Treasury securities, federal agency issues, and the State of California Local Agency Investment Fund. The rates of interest earned ranged from .98 to 7.00 percent and the amount of interest earned was \$2,653,555. Investments held on June 30, 2004 had maturities ranging from one day to four years, with 29 percent available with a one-day notice from the Local Agency Investment Fund.

**Risk Management.** The City is self-insured against liability and workers' compensation claims. As protection against catastrophic loss, the City is a member of the Authority for California Cities Excess Liability (ACCEL). Members fund a pool to finance large losses. The City continues its proactive liability risk management role through careful monitoring of losses, working closely with ACCEL's third-party claims administrator, and designing and implementing programs to minimize risks and reduce losses. In addition, the City's risk management division manages workers' compensation issues by inspecting work conditions and organizing safety-training programs to reduce employee exposure to hazards. Additional information on the City's insurance activity can be found in Notes II-H and III-A.

Modesto also maintains an Employee Benefits internal service fund (EBF) to pay portions of retiree health benefits and other employee related expenses. All liabilities are properly accrued and disclosed in these financial statements. The EBF has a significant unfunded liability of more than \$43 million. Additional information on the City's EBF can be found in Notes II-H and III-G.

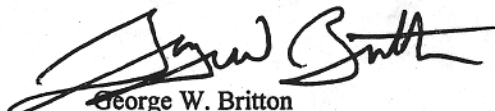
**Pension Plan.** The City provides pension benefits through a defined benefit pension plan, as part of the California Public Employees Retirement System (CalPERS). Active members contribute 7% or 9% of their salaries depending on classifications. The City pays some of the employee contributions by employee group agreements, and is also required to contribute the actuarially determined amounts necessary to fund the plan. State statutes establish the employee contribution rates, while the City's contribution rates are determined by CalPERS and may be amended. Further information on the pension plan can found in Note III-H.

#### Awards and Acknowledgments

For the twentieth 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, 2003. 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. The Certificate of Achievement is valid for a period of one year only. Staff believes that the current comprehensive annual financial report continues to meet the requirements of this program, and it will be submitted to the GFOA to determine its eligibility for another certificate.

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,

  
George W. Britton  
Acting 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, 2003

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.



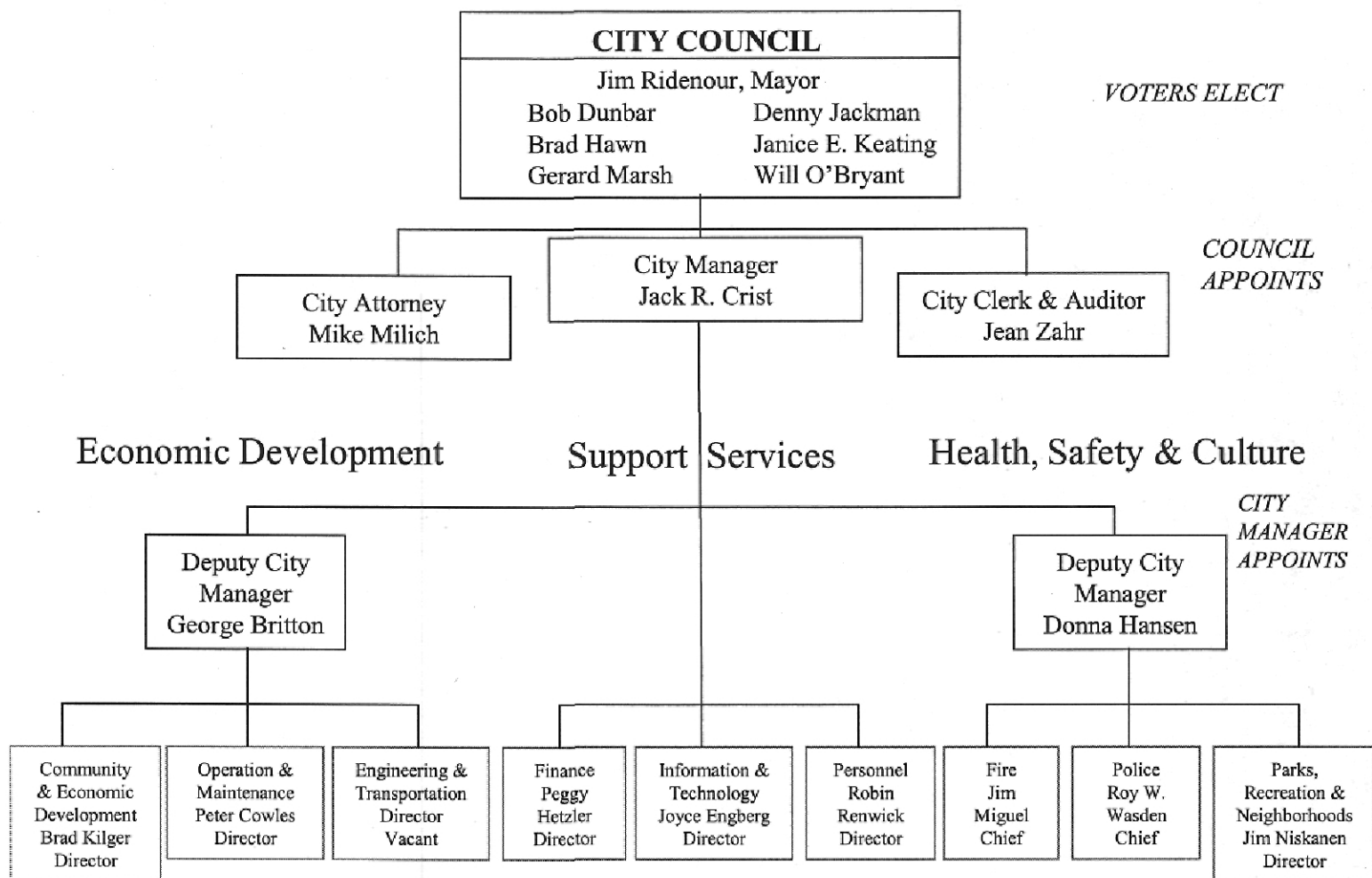
*Nancy L. Zjelke*

President

*Jeffrey R. Enen*

Executive Director

# CITY OF MODESTO



## Citizens 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
- Tuolumne River Regional Park Citizens Advisory Committee
- Youth Commission

## **FINANCIAL SECTION**

INDEPENDENT AUDITOR'S REPORT  
ON BASIC FINANCIAL STATEMENTS

ACCOUNTANCY CORPORATION  
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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, 2004, 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.

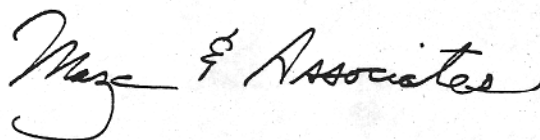
We conducted our audit in accordance with generally accepted auditing standards in the United States of America and the standards for financial audits contained in *Government Auditing Standards* (1994 Revision), issued by the Comptroller General of the United States. Those standards require that we 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, 2004 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 Budget and Actual statements for the general fund and special gas tax street 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 supplemental information listed in the Table of Contents is presented for purposes of additional analysis and is 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 24, 2004

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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, 2004. 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 2004 fiscal year by \$587,626,241 (*total net assets*). Of this amount, \$25,884,368 (*unrestricted net assets*) may be used to meet ongoing obligations to citizens and creditors, \$77,340,316 is restricted for specific purpose (*restricted net assets*), and \$484,401,557 is invested in capital assets, net of related debt.
- The City's total net assets increased by \$23,837,169. Approximately fifty-four percent of this increase is attributable to governmental activities.
- As of June 30, 2004, the City's governmental funds reported combined fund balances of \$105,563,682, an increase of \$5,325,136 in comparison with the prior year. Approximately 59% of the combined fund balances, \$62,222,989 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 \$20,979,369, or 23% of total General Fund expenditures. Of this, \$3.3 million is reserved for encumbrances and non-current assets, and \$6.0 million is designated for specific purposes, including \$4.4 million appropriated in the fiscal year 2004-05 budget. The unreserved/undesignated balance of \$11,661,101 represents 11.4% 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 increase of \$7,705,948 in comparison with the prior year. The increase resulted primarily from updated valuations for the compensated absences and insurance estimates (\$3 and \$3.8 million, respectively), and new debt from a federal Housing and Urban Development (HUD) Section 108 loan (\$4.5 million) that is secured by a pledge of future HUD entitlements. Normal maturities of business-type debt reduced that total by \$2.2 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

## Management's Discussion and Analysis (*continued*)

entirely to the City. Examples are the Redevelopment Agency of the City of Modesto and the Modesto Public Financing Authority.

**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 19 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 Special Gas Tax Street Improvement Special Revenue 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 pages 30 - 31 of this report.**

## Management's Discussion and Analysis *(continued)*

**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 33 – 57 of this report.

**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 60 - 63 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 \$587,626,241 at the close of the most recent fiscal year.

	Net Assets					
	Governmental activities		Business-type activities		Total	
	2004	2003	2004	2003	2004	2003
Current and other assets	\$178,321,292	\$175,496,954	\$49,467,641	\$ 47,513,640	\$227,788,933	\$223,010,594
Capital assets	343,924,335	324,840,552	278,301,784	272,412,855	622,226,119	597,253,407
Total assets	<u>522,245,627</u>	<u>500,337,506</u>	<u>327,769,425</u>	<u>319,926,495</u>	<u>850,015,052</u>	<u>820,264,001</u>
Current and other liabilities	15,862,170	16,738,347	8,460,425	9,376,314	24,322,595	26,114,661
Long-term liabilities	166,017,236	156,145,232	72,048,980	74,215,036	238,066,216	230,360,268
Total liabilities	<u>181,879,406</u>	<u>172,883,579</u>	<u>80,509,405</u>	<u>83,591,350</u>	<u>262,388,811</u>	<u>256,474,929</u>
Net assets:						
Invested in capital assets, net of related debt	275,171,096	259,156,770	209,230,461	206,792,699	484,401,557	465,949,469
Restricted net assets	76,577,126	65,766,576	763,190	756,245	77,340,316	66,522,821
Unrestricted net assets	(11,382,001)	2,530,581	37,266,369	28,786,201	25,884,368	31,316,782
Total net assets	<u>\$340,366,221</u>	<u>\$327,453,927</u>	<u>\$247,260,020</u>	<u>\$236,335,145</u>	<u>\$587,626,241</u>	<u>\$563,789,072</u>

The largest portion of the City's net assets, \$484,401,557 (82 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 \$25,884,368 (5 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 \$77,340,316 (13 percent) represents resources that are subject to external restrictions on how they may be used.

## Management's Discussion and Analysis *(continued)*

At the end of the 2004 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 \$23,837,169 during the current fiscal year. Approximately fifty-four percent of this increase is attributable to governmental activities.

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	
	2004	2003	2004	2003	2004	2003
Revenues:						
Program revenues:						
Charges for services	\$34,974,310	\$35,257,694	\$68,058,033	\$63,067,620	\$103,032,343	\$98,325,314
Operating grants and contributions	15,975,814	9,413,521	6,217,613	5,119,474	22,193,427	14,532,995
Capital grants and contributions	18,368,908	23,297,198	10,145,892	13,603,460	28,514,800	36,900,658
General revenues:						
Taxes	44,126,680	41,403,791	211,961	187,859	44,338,641	41,591,650
Grants and contributions not restricted for specific purposes	37,408,713	38,555,584			37,408,713	38,555,584
Unrestricted investment earnings	1,004,974	3,645,205	857,751	2,003,214	1,862,725	5,648,419
Miscellaneous	2,479,871	2,220,976			2,479,871	2,220,976
Total revenues	154,339,270	153,793,969	85,491,250	83,981,627	239,830,520	237,775,596
Expenses:						
General government	13,954,909	12,557,259			13,954,909	12,557,259
Community development	10,517,243	13,823,955			10,517,243	13,823,955
Highways and streets	23,136,950	19,656,219			23,136,950	19,656,219
Public works	6,458,522	6,843,742			6,458,522	6,843,742
Parks and recreation	12,682,746	16,723,475			12,682,746	16,723,475
Public safety	68,258,235	64,410,214			68,258,235	64,410,214
Interest on long-term debt	4,515,439	4,612,885			4,515,439	4,612,885
Parking			651,330	1,153,145	651,330	1,153,145
Water			27,051,982	30,874,820	27,051,982	30,874,820
Sewer			21,386,084	23,266,170	21,386,084	23,266,170
Storm drain			5,327,334	5,940,261	5,327,334	5,940,261
Airport			1,120,922	971,865	1,120,922	971,865
Bus			10,122,176	9,745,477	10,122,176	9,745,477
Golf			2,432,202	2,475,913	2,432,202	2,475,913
Community center			2,078,752	2,390,517	2,078,752	2,390,517
Total expenses	139,524,044	138,627,749	70,170,782	76,818,168	209,694,826	215,445,917
Increase in net assets before transfers and special item	14,815,226	15,166,220	15,320,468	7,163,459	30,135,694	22,329,679
Transfers	(1,902,932)	(1,824,890)	1,902,932	1,824,890		-
Special item			(6,298,525)	(4,753,884)	(6,298,525)	(4,753,884)
Change in net assets	12,912,294	13,341,330	10,924,875	4,234,465	23,837,169	17,575,795
Net assets - beginning	327,453,927	314,112,597	236,335,145	232,100,680	563,789,072	546,213,277
Net assets - ending	\$340,366,221	\$327,453,927	\$247,260,020	\$236,335,145	\$587,626,241	\$563,789,072

## Management's Discussion and Analysis (*continued*)

**Governmental activities.** Governmental activities increased the City's net assets by \$12,912,294, accounting for 54 percent of the total growth in net assets of the City. Taxes are up about \$3 million over 2003, from Property (\$2 million) and Utility Users taxes. Expenses in total are up less than a million dollars, but changed significantly between functions. Community Development expenses were less because the Community Facilities Districts focused more on construction projects, which are not expensed. Highways and streets increased, and Parks and Recreation decreased, due to a reclassification of the Community Forestry services, which is largely funded from streets-related sources. And Public Safety increases are related to higher salaries and benefits, and more grant revenues devoted to the protection of the community.

**Business-type activities.** Business-type activities increased the City's net assets by \$10,924,875. As detailed in the schedule on page 12, the Water, Sewer, Storm Drain, Airport, Bus and Parking enterprises posted net incomes during the period. Net losses were experienced by the 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 up about \$5 million, primarily from water and sewer utility charges. And those increases are largely the result of growth rather than utility rate changes. 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 significantly less in the current year. Finally, expenses for water are lower due to an adjustment in the payment for treated water from the Modesto Irrigation District, and an adjustment for the allocation of City internal services funds.

### 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, 2004, the City's governmental funds reported combined fund balances of \$105,563,682, an increase of \$5,325,136 from the prior year. Approximately 59% of the combined fund balances, \$62,222,989, 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 (\$6,283,226); 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 (\$14,365,614); 3) to liquidate contractual commitments of the period (\$19,566,757); 4) to maintain cash-on-hand in various departments (\$14,180); and 5) to meet Redevelopment Agency low and moderate income housing set-aside requirements (\$3,110,916).

The General Fund is the chief operating fund of the City. At June 30, 2004, unreserved fund balance of the General Fund was \$17,651,800 while total fund balance was \$20,979,369. 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 19 percent of total fund expenditures, while total fund balance represents 23 percent of that same amount. The prior year ratios were 24% and 27%, respectively. This spend-down of fund balance was planned and budgeted for the year.

Revenues of governmental funds totaled \$153,836,320 in fiscal year 2003-2004, which represents an increase of 3.6% from fiscal year 2002-2003.

Expenditures of governmental funds totaled \$151,735,882 in fiscal year 2003-2004, representing an increase of 10% over the prior year. This increase was attributable to some large capital projects, including the Kansas/Needham Overpass and the 9<sup>th</sup> Street Bridge Seismic Replacement.

## Management's Discussion and Analysis *(continued)*

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

Revenues by Source	Revenues Classified by Source – Governmental Funds					
	FY 2004		FY 2003		Increase (decrease)	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent Change
Taxes	\$44,185,552	28.7%	\$41,405,014	27.9%	\$2,780,538	6.7%
Licenses and permits	250,129	.2%	169,108	.1%	81,021	47.9%
Intergovernmental	70,583,373	45.9%	66,228,880	44.6%	4,354,493	6.6%
Charges for services	33,203,507	21.6%	31,789,634	21.5%	1,413,873	4.4%
Special assessments	386,368	.3%	2,015,090	1.4%	(1,628,722)	(80.8)%
Interest and rent	2,911,392	1.9%	3,712,219	2.5%	(800,827)	(21.6)%
Net increase (decrease) in fair value	(1,458,065)	(.9)%	(339,331)	(.2)%	(1,118,734)	(329.7)%
Fines and forfeits	1,294,193	.8%	1,030,389	0.7%	263,804	25.6%
Miscellaneous	2,479,871	1.5%	2,220,976	1.5%	258,895	11.7%
<b>Total</b>	<b>\$153,836,320</b>	<b>100.0%</b>	<b>\$148,231,979</b>	<b>100.0%</b>	<b>\$5,604,341</b>	<b>3.8%</b>

- Taxes – Property and Utility Users taxes, and Redevelopment Agency Tax Increment (an allocation of property taxes) all increased about \$1million each over the prior year.
- Intergovernmental – State sales taxes and motor vehicle license fees make up over half of these revenues. Even while vehicle license fees actually decreased due to State cutbacks, the overall increase over the prior year is largely due to more aggressive grant collections.
- Special assessments – Approximately \$1.7 million was received in the prior year in the Capital Facilities Fees Debt Service Fund, resulting in the retirement of the related long-term debt.
- Interest and rent - Interest revenues declined about \$2 million, due mainly to lagging interest rates. While interest rates began to turn around towards the end of the year, certain longer-term investments were fixed with lower rates. A new contract investment advisor is expected to help us maximize our returns in the future.
- Miscellaneous – The most significant component in 2003 was a \$500,000 settlement related to the construction of the new police headquarters building. For 2004, the largest component was developer contributions toward planning for a new hospital to be built in Modesto.

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

Expenditures by Function	Expenditures By Function Governmental Funds					
	FY 2004		FY 2003		Increase/(Decrease)	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent Change
General government	\$11,878,443	7.8%	\$11,352,860	8.3%	\$525,583	4.6%
Community development	10,113,628	6.7%	13,123,011	9.6%	(3,009,383)	(22.9)%
Highways and streets	11,568,810	7.6%	8,559,729	6.3%	3,009,081	35.2%
Public works	4,876,115	3.2%	5,420,867	4.0%	(544,752)	(10.0)%
Parks and recreation	11,374,052	7.5%	14,848,478	10.8%	(3,474,426)	(23.4)%
Public safety	62,747,623	41.4%	56,576,055	41.4%	6,171,568	10.9%
Capital outlay	33,092,718	21.8%	19,031,609	13.9%	14,061,109	73.9%
Debt Service-principal retirement	1,563,472	1.0%	3,111,203	2.3%	(1,547,731)	(49.7)%
Debt Service-interest charges	4,502,666	3.0%	4,580,409	3.4%	(77,743)	(1.7)%
Debt Service-other	18,355	0%	57,038	.0%	(38,683)	(67.8)%
<b>Total</b>	<b>\$151,735,882</b>	<b>100.0%</b>	<b>\$136,661,259</b>	<b>100.0%</b>	<b>\$15,074,623</b>	<b>11.0%</b>

## Management's Discussion and Analysis *(continued)*

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

- Operations – the overall costs of operation, including salary increases and utility rates, increased in the general government, highways and streets, public works, and public safety functions. Salary increases were generally 3.0% in the General Fund and 3.25% for public safety. Highways and streets increased, and Parks and Recreation decreased, due to a reclassification of the Community Forestry services, which is largely funded from streets-related sources. Community Development went down because the Community Facilities Districts changed from reimbursing developers to building projects directly (capital outlay).
- Capital outlay –Major capital outlays for the current year included major progress on the replacement of the 9<sup>th</sup> Street Bridge (\$10 million), and increased construction by the Community Facilities Districts (\$4 million), particularly storm drainage improvements in Village I.

Other financing sources and uses are presented below to illustrate changes from the prior year:

### Other Financing Sources (Uses) Governmental Funds

	FY 2004	FY 2003	Increase/(Decrease)	
			Amount	Percent
Transfers in	\$19,332,436	\$14,601,556	\$4,730,880	32.4%
Transfers out	(20,819,979)	(15,441,935)	(5,378,044)	(34.8)%
Proceeds of loan payable	212,241	192,759	19,482	10.1%
Proceeds of note payable	4,500,000	-	4,500,000	100.0%
Net financing sources (uses)	\$3,224,698	\$ (647,620)	\$3,872,318	598.0%

- Transfers - 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.

The net transfers *from* governmental funds for 2004 was \$1,487,543, compared to \$840,379 in the prior year. This net transfer is *to* the proprietary funds, and consists mainly of operating subsidies to Community Center and Golf operations, and to the Fleet internal services fund for new vehicles and equipment.

Both transfers in and out were more in 2004 than the prior year, because all streets related activities were relocated into the Gas Tax special revenue fund, requiring more transfer activity from various funding sources to consolidate this function.

- Proceeds of note payable – 2004 includes \$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. This loan will be paid back from future Community Development Block Grant (CDBG) entitlements.
- 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. 2003 represents the first draw down on this loan. The entire \$405 thousand that was authorized has now been borrowed. The entire amounts of these loans are reported as a capital expenditure and offset by other financing source in the year received. Future payments are recorded as debt service principal and interest expenditures when they occur.

## 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	Special	Capital	Special	Capital	Debt	
	Fund	Gas Tax Fund	Facility Fees Fund	Revenue Funds	Projects Funds	Service Funds	
Revenues	\$95,029,721	\$11,920,543	\$9,052,895	\$15,695,209	\$19,295,889	\$2,842,063	\$153,836,320
Expenditures	(90,918,060)	(18,571,180)	(4,989,880)	(10,171,357)	(21,511,441)	(5,573,964)	(151,735,882)
Other financing sources/ (uses), net	(9,534,481)	8,248,843	(1,578,714)	(72,511)	3,534,158	2,627,403	3,224,698
Net change in fund balances	(5,422,820)	1,598,206	2,484,301	5,451,341	1,318,606	(104,498)	5,325,136
Fund balance July 1	26,402,189	5,028,939	24,304,096	15,701,723	22,413,875	6,387,724	100,238,546
Fund balance June 30	<u>\$20,979,369</u>	<u>\$6,627,145</u>	<u>\$26,788,397</u>	<u>\$21,153,064</u>	<u>\$23,732,481</u>	<u>\$6,283,226</u>	<u>\$105,563,682</u>

The fund balance of the City's General Fund decreased by \$5,422,820 during the fiscal year. The key factor in this decrease is the overall increase in net transfers out to other funds (\$8.8 million), offset by \$1.5 million increase in net revenues over expenditures.

The Special Gas Tax Street Improvement Fund's fund balance increased due to recognition of revenue for the Kansas/Needham Overpass project that was completed during the year.

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, although not as much as in previous years because capital expenditures increased 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	Storm			Community			
			Parking	Drain	Airport	Bus	Golf	Center	
Operating revenues	\$31,353,046	\$25,292,995	\$890,263	\$5,227,844	\$559,479	\$2,077,503	\$2,160,223	\$496,680	\$68,058,033
Operating expenses	(26,757,108)	(22,120,393)	(1,263,316)	(5,765,450)	(1,110,094)	(10,183,912)	(2,072,980)	(2,208,514)	(71,481,767)
Operating income (loss)	4,595,938	3,172,602	(373,053)	(537,606)	(550,615)	(8,106,409)	87,243	(1,711,834)	(3,423,734)
Non-operating revenues (expenses), net	(1,533,868)	(760,657)	620,930	(17,172)	343,009	6,042,265	(324,120)	418,033	4,788,420
Income (loss) before capital contributions, transfers and special items	3,062,070	2,411,945	247,877	(554,778)	(207,606)	(2,064,144)	(236,877)	(1,293,801)	1,364,686
Contributions, transfers and special items	(2,418,666)	(1,337,453)	-	1,500,467	1,445,215	5,625,101	70,000	865,635	5,750,299
Net income (loss)	<u>\$643,404</u>	<u>\$1,074,492</u>	<u>\$247,877</u>	<u>\$945,689</u>	<u>\$1,237,609</u>	<u>\$3,560,957</u>	<u>\$(166,877)</u>	<u>\$(428,166)</u>	<u>\$7,114,985</u>

The Water, Sewer, Storm Drain, Airport, Bus and Parking enterprises posted net incomes during the period. Moderate net losses were experienced by the 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 net losses overall.

## Management's Discussion and Analysis *(continued)*

Revenues in both the Water and Sewer utility funds rose during the year, primarily due to normal growth in the customer bases. Expenses were impacted by normal inflation, offset in the Water fund by a slight reduction in water purchases. While both funds posted net incomes for the year, these gains were relatively low. In both funds, the continuance of pay-as-you-go capital financing would need to rely largely on increased net incomes, as would the issuance of bonds for capital purposes. To that end, the City Council has recently approved a series of significant water rate increases, to become effective January 1, 2005. Sewer rates were raised 4% in October 2003, with further rate studies on the horizon.

### 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 million, while total appropriations were increased \$3.2 million, or about 3%. 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. The major changes were prior-year encumbrance balances that were rolled-over to 2004, plus an improved benefit package for Modesto police officers approved by the City Council to improve officer retention and recruitment.

Revenues came in \$3.3 million lower than estimates, primarily due to the State of California withholding a portion of Motor Vehicle License Fees.

Expenditures, overall, were \$5.3 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, 2004, amounted to \$622,226,119 (net of accumulated depreciation). The total increase in the City's investment in capital assets for the current period was 4.8 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)
	2004	2003	2004	2003	2004	2003	Percent Change
Land	\$22,081,279	\$22,033,045	\$25,628,723	\$25,605,723	\$47,710,002	\$47,638,768	.1%
Buildings	17,792,100	16,943,855	53,009,046	54,054,360	70,801,146	70,998,215	(.3%)
Improvements	14,060,522	14,891,591	65,761,797	69,417,714	79,822,319	84,309,305	(5.3%)
Furnishings and equipment	7,806,428	6,972,532	2,885,857	3,064,435	10,692,285	10,036,967	6.5%
Equipment pool	14,610,460	15,175,698			14,610,460	15,175,698	(3.7%)
Streets	233,826,264	232,412,834			233,826,264	232,412,834	.6%
Signalization	6,832,031	6,384,320			6,832,031	6,384,320	7.0%
Bridges	13,693,706	3,174,392			13,693,706	3,174,392	331.4%
Buses and fare boxes			9,729,189	6,157,362	9,729,189	6,157,362	58.0%
Pipelines			103,327,561	99,299,532	103,327,561	99,299,532	4.1%
Construction in progress	13,221,545	6,852,285	17,959,611	14,813,729	31,181,156	21,666,014	43.9%
<b>Total</b>	<b>\$343,924,335</b>	<b>\$324,840,552</b>	<b>\$278,301,784</b>	<b>\$272,412,855</b>	<b>\$622,226,119</b>	<b>\$597,253,407</b>	<b>4.2%</b>

## Management's Discussion and Analysis (continued)

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

- Bridges – the Kansas/Needham Overpass was completed this year, providing an unobstructed crossing over the Union Pacific Railroad tracks.
- Buses and fare boxes - federal funds were used for the purchase of 11 new buses for the Modesto Area Express (MAX) expanded routes.

The City's infrastructure assets are recorded at historical cost in the government-wide financial statements as required by GASB Statement No. 34. 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 40-41 of this report.

### Long-term debt

At June 30, 2004, the City had total long-term liabilities outstanding of \$238,066,216, net of unamortized discounts and deferred amounts on refunding, as compared to \$230,360,268 in the prior year. This amount was comprised of \$63,455,000 of lease revenue bonds, \$49,461,256 of certificates of participation, \$40,880,617 of revenue bonds payable, \$56,679,722 of estimated compensated absences, \$16,089,306 of claims liability, \$3,056,743 of loans payable, \$2,388,727 of developer advances, \$1,335,182 of capital leases, and \$4,719,663 of notes payable. During the year, retirement of debt and other reductions amounted to \$19,039,006, and new debt and other additions totaled 26,744,954. The most significant additions were (in millions): compensated absences (\$3.0), claims liabilities (\$3.8) and notes payable (\$4.5, in the form of a new HUD Section 108 loan). Additional information on the City's long-term debt can be found in note II.C on pages 42-48 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 \$43 million, which includes the \$56.7 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 2004, the CPI-Western Urban was 2.8%.
- *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 3%.
- *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. Permit activity is expected to continue to decline through the remainder of 2004.
- *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 Silicon Valley, resources are drying up and businesses are in trouble. However, the City's revenue is certainly affected by the State budget.
- *State Budget* – The State of California continues to face large deficits, currently projected to be in excess of \$10 billion. The State 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. For the fiscal year 2003-2004, the State has withheld over \$3.4 million of vehicle license fees, with promises to repay these funds in 2007. So far, Modesto has met these challenges with belt-tightening strategies and maintaining prudent reserves.
- Major revenue growth is estimated for FY 2005 at 2.4%. Overall revenue growth is estimated at 2.3%.

## Management's Discussion and Analysis *(continued)*

- 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.

All of these factors were considered in preparing the City's budget for fiscal year 2004.

During the current fiscal year, unreserved fund balance in the General Fund decreased by \$5,356,829, to \$17,651,800. Of this amount, \$6 million is designated for specific purposes, including \$4.4 million appropriated in the fiscal year 2004-05 budget. The unreserved/undesignated balance of \$11,661,101 presents 11.4% of total General Fund outflows, versus the City Council's target of 8%. The budget adopted for fiscal year 2003-2004 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, 2004**

	<u>Governmental</u> Activities	<u>Business-type</u> Activities	<u>Total</u>
<u>ASSETS</u>			
Cash and cash equivalents	\$ 125,211,205	\$ 39,226,150	\$ 164,437,355
Accounts receivable, net	1,592,505	713,342	2,305,847
Interest receivable	286,960	216,506	503,466
Utility billings receivable, net	592,005	6,044,670	6,636,675
Taxes receivable	9,939,964	3,872	9,943,836
Due from governments, net	9,714,309	2,845,930	12,560,239
Due from JPA	46,542		46,542
Notes receivable, net	12,371,680		12,371,680
Prepaid expenses		396,790	396,790
Internal balances	789,640	(789,640)	
Inventories	331,115		331,115
Unamortized costs of debt issuance		810,021	810,021
Investments in joint ventures	17,445,367		17,445,367
Capital assets:			
Land and construction in progress	35,302,824	43,588,334	78,891,158
Other capital assets, net of accumulated depreciation	<u>308,621,511</u>	<u>234,713,450</u>	<u>543,334,961</u>
<b>Total assets</b>	<u><b>522,245,627</b></u>	<u><b>327,769,425</b></u>	<u><b>850,015,052</b></u>
<u>LIABILITIES</u>			
Accounts payable	8,036,948	2,674,099	10,711,047
Accrued salaries and benefits	521,526	99,755	621,281
Approved loans payable	366,503		366,503
Interest payable	1,280,645	735,417	2,016,062
Unearned revenues	3,879,744	4,144,127	8,023,871
Refundable deposits	1,776,804	807,027	2,583,831
Long-term liabilities:			
Due within one year	9,569,647	2,444,688	12,014,335
Due in more than one year	<u>156,447,589</u>	<u>69,604,292</u>	<u>226,051,881</u>
<b>Total liabilities</b>	<u><b>181,879,406</b></u>	<u><b>80,509,405</b></u>	<u><b>262,388,811</b></u>
<u>NET ASSETS</u>			
Invested in capital assets, net of related debt	275,171,096	209,230,461	484,401,557
Restricted for:			
Capital projects	48,796,917	763,190	49,560,107
Housing and community development	18,748,098		18,748,098
Other purposes	9,032,111		9,032,111
Unrestricted	<u>(11,382,001)</u>	<u>37,266,369</u>	<u>25,884,368</u>
<b>Total net assets</b>	<u><b>\$ 340,366,221</b></u>	<u><b>\$ 247,260,020</b></u>	<u><b>\$ 587,626,241</b></u>

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

**CITY OF MODESTO**  
**STATEMENT OF ACTIVITIES**  
**Year ended June 30, 2004**

	Program Revenues			
Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b>FUNCTIONS/PROGRAMS:</b>				
Governmental activities:				
General government	\$ 13,954,909	\$ 3,321,760	\$ 128,000	
Community development	10,517,243	9,592,055	3,210,092	
Highways and streets	23,136,950	2,005,336	8,424,431	\$ 18,118,440
Public works	6,458,522	9,267,650	405,647	(386,114)
Parks and recreation	12,682,746	3,992,598	303,366	441,916
Public safety	68,258,235	6,794,911	3,504,278	194,666
Interest on long-term debt	4,515,439			
Total governmental activities	139,524,044	34,974,310	15,975,814	18,368,908
Business-type activities:				
Parking	651,330	890,263		
Water	27,051,982	31,353,046	75,407	1,504,088
Sewer	21,386,084	25,292,995		1,050,169
Storm Drain	5,327,334	5,227,844		1,364,608
Airport	1,120,922	559,479		1,445,215
Bus	10,122,176	2,077,503	6,142,206	4,781,812
Golf	2,432,202	2,160,223		
Community Center	2,078,752	496,680		
Total business-type activities	70,170,782	68,058,033	6,217,613	10,145,892
<b>Total</b>	<b>\$ 209,694,826</b>	<b>\$ 103,032,343</b>	<b>\$ 22,193,427</b>	<b>\$ 28,514,800</b>

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

Grants and contributions not restricted to specific programs:

  Sales tax

  Motor vehicle license fee

  Other

Unrestricted investment earnings

Miscellaneous

Transfers

Special item

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
\$ (10,505,149)		\$ (10,505,149)
2,284,904		2,284,904
5,411,257		5,411,257
2,828,661		2,828,661
(7,944,866)		(7,944,866)
(57,764,380)		(57,764,380)
(4,515,439)		(4,515,439)
<u>(70,205,012)</u>		<u>(70,205,012)</u>
	\$ 238,933	238,933
	5,880,559	5,880,559
	4,957,080	4,957,080
	1,265,118	1,265,118
	883,772	883,772
	2,879,345	2,879,345
	(271,979)	(271,979)
	<u>(1,582,072)</u>	<u>(1,582,072)</u>
	<u>14,250,756</u>	<u>14,250,756</u>
<u>(70,205,012)</u>	<u>14,250,756</u>	<u>(55,954,256)</u>
14,659,986		14,659,986
11,294,599		11,294,599
	204,091	204,091
3,183,871		3,183,871
2,110,909		2,110,909
3,455,535		3,455,535
9,231,136		9,231,136
190,644		190,644
	7,870	7,870
27,151,779		27,151,779
9,052,449		9,052,449
1,204,485		1,204,485
1,004,974	857,751	1,862,725
2,479,871		2,479,871
(1,902,932)	1,902,932	
	<u>(6,298,525)</u>	<u>(6,298,525)</u>
<u>83,117,306</u>	<u>(3,325,881)</u>	<u>79,791,425</u>
12,912,294	10,924,875	23,837,169
<u>327,453,927</u>	<u>236,335,145</u>	<u>563,789,072</u>
<u>\$ 340,366,221</u>	<u>\$ 247,260,020</u>	<u>\$ 587,626,241</u>

**CITY OF MODESTO**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**June 30, 2004**

	General	Special Gas Tax Street Improvement	Capital Facility Fees	Other Governmental	Total Governmental
<u>ASSETS</u>					
Cash and cash equivalents	\$ 11,110,511	\$ 2,219,409	\$ 28,833,185	\$ 28,844,730	\$ 71,007,835
Cash and cash equivalents with fiscal agent				14,683,007	14,683,007
Receivables:					
Accounts	376,284	710,486		193,428	1,280,198
Interest	16,456	24,490	59,592	87,364	187,902
Utilities, net	592,005				592,005
Taxes	9,077,338	183,982		678,644	9,939,964
Due from governments	249,265	4,536,405		4,928,639	9,714,309
Due from other funds	1,700,000			1,700,000	3,400,000
Due from JPA	46,542				46,542
Notes receivable, net	92,283			12,247,438	12,339,721
Prepaid expenses/expenditures					
Restricted assets:					
Cash and cash equivalents	1,445,486			331,318	1,776,804
Advances to other funds	2,153,901			238,495	2,392,396
<b>Total assets</b>	<b>\$ 26,860,071</b>	<b>\$ 7,674,772</b>	<b>\$ 28,892,777</b>	<b>\$ 63,933,063</b>	<b>\$ 127,360,683</b>
<u>LIABILITIES AND FUND BALANCES</u>					
Liabilities:					
Accounts payable	\$ 1,707,233	\$ 355,590	\$ 460,371	\$ 4,054,910	\$ 6,578,104
Accrued salaries and benefits	453,761			34,424	488,185
Approved loans payable				366,503	366,503
Due to other funds				3,255,000	3,255,000
Deferred revenues	274,222	692,037		3,973,750	4,940,009
Payable from restricted assets:					
Refundable deposits	1,445,486			331,318	1,776,804
Advances from other funds	2,000,000		1,644,009	748,387	4,392,396
<b>Total liabilities</b>	<b>5,880,702</b>	<b>1,047,627</b>	<b>2,104,380</b>	<b>12,764,292</b>	<b>21,797,001</b>
Fund balances:					
Reserved	3,327,569	677,269	1,990,741	37,345,114	43,340,693
Unreserved:					
Designated, reported in:					
General fund	5,990,699				5,990,699
Special revenue funds				9,484,223	9,484,223
Capital projects funds			24,797,656	17,768,083	42,565,739
Undesignated, reported in:					
General fund	11,661,101				11,661,101
Special revenue funds		5,949,876		(35,697)	5,914,179
Capital projects funds				(13,392,952)	(13,392,952)
<b>Total fund balances</b>	<b>20,979,369</b>	<b>6,627,145</b>	<b>26,788,397</b>	<b>51,168,771</b>	<b>105,563,682</b>
<b>Total liabilities and fund balances</b>	<b>\$ 26,860,071</b>	<b>\$ 7,674,772</b>	<b>\$ 28,892,777</b>	<b>\$ 63,933,063</b>	<b>\$ 127,360,683</b>

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, 2004**

Total fund balances - total governmental funds \$ 105,563,682

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	\$ 34,481,792	
Depreciable	66,822,237	
Accumulated depreciation on general capital assets	(30,604,273)	

Infrastructure:

Depreciable	430,270,516	
Accumulated depreciation on infrastructure	<u>(175,918,514)</u>	325,051,758

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

deferred in the governmental funds, or	\$ 1,060,265	
investments in joint ventures	<u>17,445,367</u>	18,505,632

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.

(14,491,077)

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	\$ (92,983,129)	
Accrued interest	<u>(1,280,645)</u>	<u>(94,263,774)</u>

Net assets of governmental activities \$ 340,366,221

**CITY OF MODESTO**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - GOVERNMENTAL FUNDS**  
**Year ended June 30, 2004**

	<u>General</u>	<u>Special Gas Tax Street Improvement</u>	<u>Capital Facility Fees</u>	<u>Other Governmental</u>	<u>Total Governmental</u>
<b>REVENUES:</b>					
Taxes	\$ 39,511,646	\$ 1,299,391		\$ 3,374,515	\$ 44,185,552
Licenses and permits	199,097	21,053		29,979	250,129
Intergovernmental	39,246,030	8,879,066	\$ 218,396	22,239,881	70,583,373
Charges for services	13,845,944	1,675,004	8,827,285	8,855,274	33,203,507
Special assessments levied	76,119			310,249	386,368
Interest and rent	905,295	6,086	507,851	1,492,160	2,911,392
Net increase (decrease) in fair value of investments	(524,439)	(32,411)	(500,637)	(400,578)	(1,458,065)
Fines and forfeits	524,050			770,143	1,294,193
Miscellaneous	1,245,979	72,354		1,161,538	2,479,871
Total revenues	<u>95,029,721</u>	<u>11,920,543</u>	<u>9,052,895</u>	<u>37,833,161</u>	<u>153,836,320</u>
<b>EXPENDITURES:</b>					
Current:					
General government	11,482,386		160,897	235,160	11,878,443
Community development	4,461,865			5,651,763	10,113,628
Highways and streets		10,839,758	133,602	595,450	11,568,810
Public works	1,522,787		1,656	3,351,672	4,876,115
Parks and recreation	11,099,460		79,641	194,951	11,374,052
Public safety	61,126,497			1,621,126	62,747,623
Capital outlay	1,214,088	7,689,870	4,156,084	20,032,676	33,092,718
Debt service:					
Principal retirement	8,625	37,151	387,696	1,130,000	1,563,472
Interest	2,352	4,401	70,304	4,425,609	4,502,666
Other				18,355	18,355
Total expenditures	<u>90,918,060</u>	<u>18,571,180</u>	<u>4,989,880</u>	<u>37,256,762</u>	<u>151,735,882</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>4,111,661</u>	<u>(6,650,637)</u>	<u>4,063,015</u>	<u>576,399</u>	<u>2,100,438</u>
<b>OTHER FINANCING SOURCES (USES):</b>					
Transfers in	1,965,408	8,749,725	395,000	8,222,303	19,332,436
Transfers out	(11,499,889)	(500,882)	(1,973,714)	(6,845,494)	(20,819,979)
Proceeds of loan payable				212,241	212,241
Proceeds of notes payable				4,500,000	4,500,000
TOTAL OTHER FINANCING SOURCES (USES)	<u>(9,534,481)</u>	<u>8,248,843</u>	<u>(1,578,714)</u>	<u>6,089,050</u>	<u>3,224,698</u>
NET CHANGE IN FUND BALANCES	(5,422,820)	1,598,206	2,484,301	6,665,449	5,325,136
FUND BALANCES, July 1	<u>26,402,189</u>	<u>5,028,939</u>	<u>24,304,096</u>	<u>44,503,322</u>	<u>100,238,546</u>
FUND BALANCES, June 30	<u>\$ 20,979,369</u>	<u>\$ 6,627,145</u>	<u>\$ 26,788,397</u>	<u>\$ 51,168,771</u>	<u>\$ 105,563,682</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 \$ 5,325,136

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	\$ 33,092,718	
Depreciation expense	<u>(13,993,109)</u>	19,099,609

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. (1,252,095)

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. 1,958,340

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	\$ (1,042,212)	
Change in investment in joint venture	<u>(452,568)</u>	(1,494,780)

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	\$ 1,563,472	
Proceeds of long-term debt	<u>(4,712,241)</u>	(3,148,769)

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		25,314
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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. (7,600,461)

Change in net assets of governmental activities \$ 12,912,294

**CITY OF MODESTO**  
**STATEMENT OF NET ASSETS - PROPRIETARY FUNDS**  
**June 30, 2004**

	Enterprise				Internal Service
	Water	Sewer	Other Enterprise	Total Enterprise	
<b>ASSETS</b>					
Current assets:					
Cash and cash equivalents	\$ 12,291,479	\$ 9,510,773	\$ 8,812,515	\$ 30,614,767	\$ 37,743,559
Cash and cash equivalents with fiscal agent	260,133	6,177,210	603,823	7,041,166	
Receivables:					
Accounts	963	571,052	141,327	713,342	312,307
Interest	51,147	124,479	40,880	216,506	99,058
Utilities, net	3,264,342	2,303,446	476,882	6,044,670	
Taxes	1,980		1,892	3,872	
Due from governments		127,064	2,718,866	2,845,930	
Prepaid expenses	396,790			396,790	
Inventories					331,115
Advances to other funds					2,000,000
Total current assets	<u>16,266,834</u>	<u>18,814,024</u>	<u>12,796,185</u>	<u>47,877,043</u>	<u>40,486,039</u>
Noncurrent assets:					
Notes receivable, net					31,959
Restricted assets-cash and cash equivalents	501,971	1,068,246		1,570,217	
Unamortized costs of issuance	268,291	541,730		810,021	
Land and construction in progress	3,572,382	23,281,005	16,734,947	43,588,334	821,032
Other capital assets, net of accumulated depreciation	<u>65,303,838</u>	<u>109,954,215</u>	<u>59,455,397</u>	<u>234,713,450</u>	<u>18,051,545</u>
Total assets	<u>85,913,316</u>	<u>153,659,220</u>	<u>88,986,529</u>	<u>328,559,065</u>	<u>59,390,575</u>
<b>LIABILITIES</b>					
Current liabilities:					
Accounts payable	866,422	872,135	935,542	2,674,099	1,458,844
Accrued salaries and benefits	32,241	43,205	24,309	99,755	33,341
Due to other funds					145,000
Interest payable	295,289	385,957	54,171	735,417	
Current portion - compensated absences					2,005,459
Current portion - claims liability					5,848,966
Current portion - long-term debt	885,778	1,265,000	185,000	2,335,778	48,458
Current portion - developer advances	108,910			108,910	
Deferred revenues			4,144,127	4,144,127	
Total current liabilities	<u>2,188,640</u>	<u>2,566,297</u>	<u>5,343,149</u>	<u>10,098,086</u>	<u>9,540,068</u>
Noncurrent liabilities:					
Payable from restricted assets - refundable deposits	501,971	305,056		807,027	
Compensated absences					54,674,263
Claims liability					10,240,340
Long-term debt:					
Revenue bonds payable		39,615,617		39,615,617	
Loan payable	2,347,602			2,347,602	
Notes payable					196,076
Obligations under capital leases					20,545
Certificates of participation	19,311,256		6,050,000	25,361,256	
Developer advances	<u>2,279,817</u>			<u>2,279,817</u>	
Total liabilities	<u>26,629,286</u>	<u>42,486,970</u>	<u>11,393,149</u>	<u>80,509,405</u>	<u>74,671,292</u>
<b>NET ASSETS</b>					
Invested in capital assets, net of related debt	46,331,584	92,354,603	70,544,274	209,230,461	18,607,498
Restricted for capital projects		763,190		763,190	
Unrestricted	<u>12,952,446</u>	<u>18,054,457</u>	<u>7,049,106</u>	<u>38,056,009</u>	<u>(33,888,215)</u>
Total net assets	<u>\$ 59,284,030</u>	<u>\$ 111,172,250</u>	<u>\$ 77,593,380</u>	<u>248,049,660</u>	<u>\$ (15,280,717)</u>

Some amounts reported for *business-type activities* in the Statement of Net Assets are different because certain internal service fund assets and liabilities are included with business-type activities. (789,640)

Net assets of business-type activities \$ 247,260,020

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, 2004**

	Enterprise			Total Enterprise	Internal Service
	Water	Sewer	Other Enterprise		
<b>OPERATING REVENUES:</b>					
Charges for services	\$ 31,353,046	\$ 25,292,995	\$ 11,342,882	\$ 67,988,923	\$ 60,051,292
Sales					3,007,797
Cost of sales					(2,868,132)
Miscellaneous			69,110	69,110	
Total operating revenues	<u>31,353,046</u>	<u>25,292,995</u>	<u>11,411,992</u>	<u>68,058,033</u>	<u>60,190,957</u>
<b>OPERATING EXPENSES:</b>					
Salaries and wages	2,951,373	4,892,895	3,095,756	10,940,024	4,656,630
Contractual services	1,850,528	3,015,287	9,866,000	14,731,815	921,145
Utilities	1,613,984	911,459	470,935	2,996,378	433,858
Maintenance and supplies	3,628,137	4,108,808	2,556,987	10,293,932	3,033,473
Water purchases	10,380,140			10,380,140	
Insurance	111,082	257,406	135,070	503,558	8,869,942
Claims expense					9,382,084
Employee benefits	869,434	1,209,857	699,961	2,779,252	31,876,585
Administration services	2,098,741	1,271,704	1,382,806	4,753,251	1,025,287
Allocated indirect administrative costs	1,028,911	746,012	670,800	2,445,723	258,833
Other	50,933	121,206	125,111	297,250	143,092
Depreciation	2,173,845	5,585,759	3,600,840	11,360,444	2,733,526
Total operating expenses	<u>26,757,108</u>	<u>22,120,393</u>	<u>22,604,266</u>	<u>71,481,767</u>	<u>63,334,455</u>
OPERATING INCOME (LOSS)	<u>4,595,938</u>	<u>3,172,602</u>	<u>(11,192,274)</u>	<u>(3,423,734)</u>	<u>(3,143,498)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>					
Operating grants			6,217,613	6,217,613	
Gain (Loss) on disposition of capital assets	(232,483)	(55,409)	274,629	(13,263)	(773,938)
Tax revenue			211,961	211,961	
Tax expense	(89,921)	(153,324)	(6,740)	(249,985)	
Interest income	287,887	226,592	155,912	670,391	468,537
Net decrease in fair value of investments	(225,947)	(173,165)	(116,807)	(515,919)	(429,147)
Rental income	28,801	100	674,378	703,279	
Interest expense	(1,288,366)	(553,225)	(328,001)	(2,169,592)	(19,732)
Amortization of costs of issuance	(13,839)	(52,226)		(66,065)	
Total nonoperating revenues (expenses)	<u>(1,533,868)</u>	<u>(760,657)</u>	<u>7,082,945</u>	<u>4,788,420</u>	<u>(754,280)</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	3,062,070	2,411,945	(4,109,329)	1,364,686	(3,897,778)
Capital contributions	1,504,088	1,050,169	7,591,635	10,145,892	522,596
Transfers in	264,000	114,000	2,044,053	2,422,053	217,901
Transfers out	(215,973)	(173,878)	(129,270)	(519,121)	(633,290)
Special item	<u>(3,970,781)</u>	<u>(2,327,744)</u>		<u>(6,298,525)</u>	
CHANGE IN NET ASSETS	643,404	1,074,492	5,397,089	7,114,985	(3,790,571)
NET ASSETS, July 1	<u>58,640,626</u>	<u>110,097,758</u>	<u>72,196,291</u>		<u>(11,490,146)</u>
NET ASSETS, June 30	<u>\$ 59,284,030</u>	<u>\$ 111,172,250</u>	<u>\$ 77,593,380</u>		<u>\$ (15,280,717)</u>

Some amounts reported for *business-type activities* in the Statement of Activities are different because a portion of the net income of certain internal service funds is reported with the business-type activities which those funds service.

(789,640)

Change in net assets of business-type activities \$ 6,325,345

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, 2004

	Enterprise				Internal Service
	Water	Sewer	Other Enterprise	Total Enterprise	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>					
Receipts from customers and users	\$ 30,738,235	\$ 24,711,271	\$ 12,212,495	\$ 67,662,001	\$ 483,640
Receipts from interfund services provided	664,094	52,544	23,208	739,846	60,860,941
Payments to suppliers	(20,222,553)	(8,477,552)	(11,638,094)	(40,338,199)	(17,608,890)
Payments to employees	(3,929,141)	(6,258,246)	(3,886,917)	(14,074,304)	(33,649,199)
Payments for interfund services used	(5,106,170)	(4,230,145)	(3,432,148)	(12,768,463)	(1,748,393)
Net cash provided (used) by operating activities	<u>2,144,465</u>	<u>5,797,872</u>	<u>(6,721,456)</u>	<u>1,220,881</u>	<u>8,338,099</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>					
Operating grants received			6,483,783	6,483,783	
Taxes received			211,961	211,961	
Transfers in	264,000	114,000	2,044,053	2,422,053	217,901
Transfers out	(215,973)	(173,878)	(129,270)	(519,121)	(633,290)
Repayments of advances from other funds			(42,538)	(42,538)	
Net cash provided (used) by noncapital financing activities	<u>48,027</u>	<u>(59,878)</u>	<u>8,567,989</u>	<u>8,556,138</u>	<u>(415,389)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>					
Acquisition and construction of capital assets	(5,466,035)	(1,270,599)	(7,400,794)	(14,137,428)	(2,262,798)
Proceeds from sale of capital assets			630,000	630,000	
Principal repayments	(963,286)	(1,205,000)	(175,000)	(2,343,286)	(44,399)
Interest paid	(1,200,256)	(2,345,121)	(329,488)	(3,874,865)	(19,732)
Capital grants received			6,060,267	6,060,267	
Connection fees for capital purposes	1,152,959	604,084		1,757,043	
Net cash used by capital and related financing activities	<u>(6,476,618)</u>	<u>(4,216,636)</u>	<u>(1,215,015)</u>	<u>(11,908,269)</u>	<u>(2,326,929)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>					
Interest received	289,341	508,705	157,333	955,379	474,316
Net (decrease) in the fair value of investments	(225,947)	(173,165)	(116,807)	(515,919)	(429,147)
Net cash provided by investing activities	<u>63,394</u>	<u>335,540</u>	<u>40,526</u>	<u>439,460</u>	<u>45,169</u>
Net increase (decrease) in cash and cash equivalents	(4,220,732)	1,856,898	672,044	(1,691,790)	5,540,950
CASH AND CASH EQUIVALENTS, JULY 1	<u>17,274,315</u>	<u>14,899,331</u>	<u>8,744,294</u>	<u>40,917,940</u>	<u>32,202,609</u>
CASH AND CASH EQUIVALENTS, JUNE 30	<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>
<b>RECONCILIATION TO STATEMENT OF NET ASSETS:</b>					
Cash and cash equivalents	\$ 12,291,479	\$ 9,510,773	\$ 8,812,515	\$ 30,614,767	\$ 37,743,559
Cash and cash equivalents with fiscal agent	260,133	6,177,210	603,823	7,041,166	
Restricted assets-cash and cash equivalents	501,971	1,068,246		1,570,217	
TOTAL CASH AND CASH EQUIVALENTS	<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>

(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, 2004**

	Enterprise				Internal Service
	Water	Sewer	Other Enterprise	Total Enterprise	
<b>RECONCILIATION OF OPERATING INCOME (LOSS)</b>					
<b>TO NET CASH PROVIDED (USED) BY OPERATING</b>					
<b>ACTIVITIES:</b>					
Operating income (loss)	\$ 4,595,938	\$ 3,172,602	\$ (11,192,274)	\$ (3,423,734)	\$ (3,143,498)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation	2,173,845	5,585,759	3,600,840	11,360,444	2,733,526
Rental income	28,801	100	674,378	703,279	
Taxes paid	(89,921)	(153,324)	(8,632)	(251,877)	
Special item	(3,970,781)	(2,327,744)		(6,298,525)	
Change in assets and liabilities:					
(Increase) in accounts receivable	5,336	(502,725)	47,195	(450,194)	1,153,624
(Increase) in utilities receivable	(37,208)	(47,360)	66,723	(17,845)	
Decrease in taxes receivable	(103)			(103)	
(Increase) in notes receivable					53,332
(Increase) decrease in due from governments	52,984			52,984	
(Increase) in prepaid expenses	(396,790)			(396,790)	
Decrease in inventories					59,239
Increase (decrease) in accounts payable and accrued expenses	(108,775)	205,253	144,207	240,685	836,761
Increase (decrease) in accrued salaries and benefits	(108,334)	(155,494)	(91,200)	(355,028)	(122,519)
Increase in compensated absences					2,953,203
Increase in claims liability					3,814,431
Increase in deferred revenues			37,307	37,307	
Increase (decrease) in refundable deposits	(527)	20,805		20,278	
Total adjustments	<u>(2,451,473)</u>	<u>2,625,270</u>	<u>4,470,818</u>	<u>4,644,615</u>	<u>11,481,597</u>
Net cash provided (used) by operating activities	<u>\$ 2,144,465</u>	<u>\$ 5,797,872</u>	<u>\$ (6,721,456)</u>	<u>\$ 1,220,881</u>	<u>\$ 8,338,099</u>
<b>NONCASH INVESTING, CAPITAL AND FINANCING</b>					
<b>ACTIVITIES:</b>					
Capital asset additions accrued at year end	\$ 76,094	\$ 79,980	\$ 100,775	\$ 256,849	
Capital assets transferred in	20,945	90,000	1,140,620	1,251,565	\$ 522,596
Developer infrastructure contributions	330,184	356,085	223,988	910,257	
Capitalized interest expense on revenue bonds accrued at year end		310,390		310,390	

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, 2004**

	Special Assessments Agency	Investment Trust
<u>ASSETS</u>		
Cash and cash equivalents	\$ 219,765	\$ 299,763
Cash and cash equivalents held with fiscal agent	117,441	
	337,206	299,763
<u>LIABILITIES</u>		
Due to special assessment bondholders	337,206	_____
Net Assets held in trust for external pool participant	\$ _____	\$ 299,763

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

**CITY OF MODESTO**  
**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS - FIDUCIARY FUNDS**  
**Year ended June 30, 2004**

	<u>Investment Trust</u>
Additions:	
Principal contributions from external pool participant	\$ 1,510,897
Interest earnings	10,528
Net decrease in fair value of investments	<u>(6,433)</u>
Total additions	<u>1,514,992</u>
Deductions:	
Withdrawals by external pool participant	<u>1,856,312</u>
Change in net assets of external pool participant	(341,320)
Net assets held in trust for external pool participant July 1	<u>641,083</u>
Net assets held in trust for external pool participant June 30	<u>\$ 299,763</u>

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

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**CITY OF MODESTO**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2004**

**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 Special Gas Tax Street Improvement Fund accounts 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.

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.

The Special Assessments Agency Fund accounts for collection of special assessments from property owners and forwarding of these collections to trustees for payment to bondholders.

The Investment Trust Fund accounts for the transactions of the external portion of the City's cash and investment pool. The assets of this fund belong to the Tuolumne River Regional Park joint powers agency.

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

Proceeds of the Wastewater Revenue Bonds Series 1997, which are held by the City and are set aside for construction purposes, are classified as restricted assets – cash and cash equivalents on the proprietary fund statement of net assets because their use is limited by bond covenants. Refundable deposits of the General Fund and the Community Facilities Districts Capital Projects Fund are also 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, 2004 is \$12,560,239.

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 \$882,385, 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. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. The amount of interest capitalized is determined by offsetting interest expense incurred from the date of the borrowing until completion of the project against interest earned on invested proceeds over the same period. \$1,593,386 of net interest expense on tax-exempt debt was capitalized in the enterprise funds during the fiscal year ended June 30, 2004.

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. The current year estimate of the sick leave portion of the compensated absences liability is based on the actuarial calculation as of June 30, 2003, with adjustments by in-house budget staff and consultants. A new actuarial valuation will be performed during the 2005 fiscal year. As of June 30, 2004, the total estimated liability for all compensated absences, including sick leave, is \$56,679,722. The current portion of \$2,005,459 is funded by charges to all operating funds. The estimated long-term portion is \$54,674,263.

## 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 and proceeds of the Wastewater Revenue Bonds, Series 1997, held by the City under the bond indenture for construction purposes 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. The fiscal agents invest these monies in investments authorized by the City.

#### Deposits

All deposits are entirely insured and/or collateralized. At year-end, the reconciled book balance of the City's deposits was \$6,083,435, the bank balance was \$9,439,821, and the difference is due to outstanding checks and deposits in transit. Of the bank balance, \$200,000 was covered by federal depository insurance and \$9,239,821 was covered by collateral held in the pledging bank's trust department in the City's name.

#### Investments

Statutes authorize the City to invest in obligations of U.S. Government agencies and in U.S. Government securities, certificates of deposit, bankers' acceptances, mutual funds, repurchase agreements, commercial paper rated A-1 by Standard & Poor's Corporation or P-1 by Moody's Commercial Paper Record, and Local Agency Investment Fund demand deposits. Investments are stated at fair value. The City's investment in the Local Agency Investment Fund (LAIF) is \$41,137,561. The value of the pool shares in LAIF, which may be withdrawn, is determined on an amortized cost basis, which is different than the fair value of the City's portion in the pool. The total amount invested by all public agencies in LAIF is \$57,536,996,461. The Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members as designated by state statute.

The City's investments are categorized in the following table to give an indication of the level of custodial credit risk associated with each investment at year-end. Category one includes investments that are insured or registered, or securities held by the City or its agent in the City's name. Category two includes uninsured and unregistered investments, with securities held by the counterparty's trust department or agent in the City's name. Category three includes uninsured and unregistered investments, with securities held by the counterparty's trust department or agent but not in the City's name. The City has no Category three investments. The table also includes investments not subject to categorization, and deposits.

	Category			Not Required to be Categorized	Carrying Amount at Fair Value
	One	Two	Three		
Amounts invested in City pool:					
Deposits				\$ 6,083,435	\$ 6,083,435
U. S. Government securities	\$ 17,661,029				17,661,029
U.S. Government agencies	76,299,518				76,299,518
Commercial paper	6,910,000				6,910,000
LAIF				41,137,561	41,137,561
Total investments and cash controlled by City Treasurer	<u>100,870,547</u>			<u>47,220,996</u>	<u>148,091,543</u>
Amounts invested with fiscal agents:					
Money market mutual funds				4,932,638	4,932,638
Repurchase agreements		\$1,977,000			1,977,050
Guanteed investment contracts				9,309,904	9,309,904
Total investments controlled by fiscal agents		<u>1,977,000</u>		<u>14,242,542</u>	<u>16,219,592</u>
Other pooled investments:					
California Asset Management Program				763,189	763,189
Total cash and investments	<u>\$100,870,547</u>	<u>\$1,977,000</u>		<u>\$62,226,727</u>	<u>165,074,324</u>

Presented in the statement of fiduciary net assets:

Special Assessments Agency Fund:				
Cash and cash equivalents				219,765
Cash and cash equivalents with fiscal agent				117,441
Investment Trust Fund				299,763
Presented in the government-wide statement of net assets				<u>\$164,437,355</u>

A summary of the investments held by the City Treasurer is as follows:

Investments	Fair Value	Principal	Interest Rates	Maturity Dates
U.S. Government securities	\$ 17,661,029	\$ 17,840,147	1.50% - 1.875%	10/31/05 - 3/31/06
U.S. Government agencies	76,299,518	77,856,791	.98% - 7.0%	7/1/04 - 6/30/08
Commercial paper	6,910,000	6,910,000	1.03% - 1.05%	7/1/04
LAIF	41,137,561	41,204,140	1.469%	NA
	<u>\$142,008,108</u>	<u>\$143,811,078</u>		

State statutes require that securities underlying repurchase agreements must have a fair value of at least 102 percent of the cost of the repurchase agreement. The City's investment policy allows investment in repurchase agreements provided the collateral is an allowable security under current statutes and the City's policy. Trustees under bond indentures may also invest in repurchase agreements; however, the securities underlying these repurchase agreements must have a fair value of at least 103 percent of the cost of the repurchase agreement. The securities underlying repurchase agreements met the required fair value level and were allowable securities under current statutes, the City's investment policy, and bond indentures.

The following are condensed statements of net assets, and changes in net assets, for the City Treasurer's investment pool as of June 30, 2004:

Statement of Net Assets

Net assets held for pool participants	<u>\$148,091,543</u>
Equity of internal pool participant	\$147,454,574
Equity of external pool participants	636,969
Total equity	<u>\$148,091,543</u>

Statement of Changes in Net Assets

Net assets, July 1, 2003	\$143,610,116
Net change in investments by pool participants	4,481,427
Net assets, June 30, 2004	<u>\$148,091,543</u>

The Finance Director/Treasurer prepares and submits a comprehensive investment report to the City Council on a quarterly basis. The City determines and adjusts to the fair value at the end of each fiscal year. The pool values participants' shares on an amortized cost basis. Specifically, the pool distributes income to participants on a monthly basis based on their relative participation during the month that is calculated based on (1) realized investment gains and losses calculated on an amortized cost basis; (2) interest income based on stated rates (both paid and accrued); (3) amortization of discounts and premiums on a straight-line basis; and (4) investment and administrative expenses. This method differs from the fair value method used to value investments in these financial statements because the amortized cost method is not designed to distribute to participants all unrealized gains and losses in the fair values of the pool's investments.

The external participants in the City's pool are the Tuolumne River Regional Park (see III-E) and the Special Assessment Agency Fund, which are involuntary participants.

The City has not provided nor obtained any legally binding guarantees during the fiscal year ended June 30, 2004 to support the value of shares in the Treasurer's investment pool.

## B. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2004 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 22,033,045	\$ 362,101	\$ (313,867)	\$22,081,279
Construction in progress	6,852,285	9,067,141	(2,697,881)	13,221,545
Total capital assets, not being depreciated	<u>28,885,330</u>	<u>9,429,242</u>	<u>(3,011,748)</u>	<u>35,302,824</u>
Capital assets, being depreciated:				
Buildings	24,556,566	1,511,467		26,068,033
Improvements other than buildings	31,995,293	583,759		32,579,052
Furnishings and equipment	14,988,585	2,388,344	(1,643,055)	15,733,874
Equipment pool	25,140,569	2,200,571	(1,392,446)	25,948,694
Streets	391,697,780	11,757,557		403,455,337
Signalization	11,533,190	1,152,958		12,686,148
Bridges	3,570,049	10,558,981		14,129,030
Total capital assets, being depreciated	<u>503,482,032</u>	<u>30,153,637</u>	<u>(3,035,501)</u>	<u>530,600,168</u>
Less accumulated depreciation for:				
Buildings	(7,612,711)	(663,222)		(8,275,933)
Improvements other than buildings	(17,103,702)	(1,414,828)		(18,518,530)
Furnishings and equipment	(8,016,053)	(1,265,393)	1,354,000	(7,927,446)
Equipment pool	(9,964,871)	(2,294,151)	920,788	(11,338,234)
Streets	(159,284,946)	(10,344,127)		(169,629,073)
Signalization	(5,148,870)	(705,247)		(5,854,117)
Bridges	(395,657)	(39,667)		(435,324)
Total accumulated depreciation	<u>(207,526,810)</u>	<u>(16,726,635)</u>	<u>2,274,788</u>	<u>(221,978,657)</u>
Total capital assets, being depreciated, net	<u>295,955,222</u>	<u>13,427,002</u>	<u>(760,713)</u>	<u>308,621,511</u>
Governmental activities capital assets, net	<u>\$324,840,552</u>	<u>\$22,856,244</u>	<u>\$(3,772,461)</u>	<u>\$343,924,335</u>

	Beginning Balance	Additions	Deletions	Ending Balance
<b>Business-type activities:</b>				
Capital assets, not being depreciated:				
Land	\$25,605,723	\$23,000		\$25,628,723
Construction in progress	14,813,729	5,203,227	\$(2,057,345)	17,959,611
Total capital assets, not being depreciated	<u>40,419,452</u>	<u>5,226,227</u>	<u>(2,057,345)</u>	<u>43,588,334</u>
Capital assets, being depreciated:				
Buildings	81,024,010	1,575,762	(45,873)	82,553,899
Improvements other than buildings	130,170,973	2,301,003		132,471,976
Furnishings and equipment	5,467,414	732,566	(795,149)	5,404,831
Buses and fareboxes	11,907,409	4,573,246	(1,363,913)	15,116,742
Pipelines	116,201,963	6,057,577	(508,475)	121,751,065
Total capital assets, being depreciated	<u>344,771,769</u>	<u>15,240,154</u>	<u>(2,713,410)</u>	<u>357,298,513</u>
Less accumulated depreciation for:				
Buildings	(26,969,650)	(2,589,512)	14,309	(29,544,853)
Improvements other than buildings	(60,753,259)	(5,956,920)		(66,710,179)
Furnishings and equipment	(2,402,979)	(586,549)	470,554	(2,518,974)
Buses and fareboxes	(5,750,047)	(706,258)	1,068,752	(5,387,553)
Pipelines	(16,902,431)	(1,521,205)	132	(18,423,504)
Total accumulated depreciation	<u>(112,778,366)</u>	<u>(11,360,444)</u>	<u>1,553,747</u>	<u>(122,585,063)</u>
Total capital assets, being depreciated, net	<u>231,993,403</u>	<u>3,986,370</u>	<u>(1,266,323)</u>	<u>234,713,450</u>
Business-type activities capital assets, net	<u>\$272,412,855</u>	<u>\$9,105,937</u>	<u>\$(3,217,008)</u>	<u>\$278,301,784</u>

Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
General government	\$ 95,823
Community development	69,385
Highways and streets, including depreciation of general infrastructure assets	11,135,331
Public works	1,312,019
Parks and recreation	214,934
Public safety	1,165,617
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	<u>2,733,526</u>
Total depreciation expense – governmental activities	<u>\$16,726,635</u>
Business-type activities:	
Parking	\$ 389,892
Water	2,173,845
Sewer	5,585,759
Storm Drain	555,104
Airport	405,271
Bus	1,186,093
Golf	316,661
Community center	<u>747,819</u>
Total depreciation expense – business-type activities	<u>\$11,360,444</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.

\$ 118,363

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

\$ 523,363

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.

\$ 2,533,380

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>
2005	\$ 38,286	\$ 3,267	\$ 185,778	\$ 78,876
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
2010-2014			1,158,372	164,896
2015-2019	405,000		385,388	12,327
Total	<u>\$523,363</u>	<u>\$6,294</u>	<u>\$2,533,380</u>	<u>\$510,871</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 \$760,000 to \$1,040,000; interest rates from 5.2% - 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.

\$ 23,215,000

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 \$185,000 to \$235,000; interest rates from 5.2% 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.

\$ 6,235,000

Water Enterprise Fund:

1997 Refunding Certificates of Participation (Water Utility System Project); serial certificates with annual maturities on October 1, in amounts from \$700,000 to \$1,050,000; interest rates from 4.5% 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.

21,890,000

Total principal balances – business-type activities

28,125,000

Less:

Unamortized bond discount – Water Enterprise Fund

(429,901)

Deferred amount on refunding – Water Enterprise Fund

(1,448,843)

Total business-type activities certificates of participation

\$ 26,246,256

Annual debt service requirements to maturity for certificates of participation 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>
2005	\$ 760,000	\$ 1,196,070	\$ 885,000	\$ 1,405,123
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
2010-2014	5,480,000	4,217,177	6,310,000	5,163,017
2015-2019	6,215,000	2,597,230	8,180,000	3,307,070
2020-2024	<u>7,305,000</u>	<u>949,625</u>	<u>8,720,000</u>	<u>975,628</u>
Total	<u>\$23,215,000</u>	<u>\$13,306,820</u>	<u>\$28,125,000</u>	<u>\$16,003,974</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 \$145,000 to \$305,000 on November 1. \$ 2,800,000

1998 Lease Revenue Bonds (Capital Improvements and Refinancing Project); serial certificates with annual maturities on September 1, in amounts from \$310,000 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, \$18,490,000 is payable through a reimbursement agreement with the Redevelopment Agency. 60,655,000

Total lease revenue bonds \$ 63,455,000

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>
2005	\$ 455,000	\$ 3,171,145
2006	495,000	3,148,788
2007	545,000	3,124,228
2008	580,000	3,097,520
2009	635,000	3,068,427
2010-2014	4,580,000	14,758,261
2015-2019	7,360,000	13,195,530
2020-2024	10,680,000	10,981,599
2025-2029	16,165,000	7,747,512
2030-2034	21,960,000	2,926,724
Total	<u><u>\$63,455,000</u></u>	<u><u>\$65,219,734</u></u>

Revenue Bonds – Business-type activities:

Sewer Enterprise Fund:

Wastewater Treatment Facility Revenue Bonds, Series 1997; interest payable on May 1 and November 1; serial certificates with annual maturities on November 1, in amounts from \$10,000 to \$1,335,000, with interest rates from 5.0% to 6.0%; term certificates in the amount of \$10,955,000 at 5.625% maturing November 1, 2017, and in the amount of \$15,435,000 at 5.75% maturing November 1, 2022, with annual payments ranging from \$1,410,000 to \$3,450,000 beginning in 2013.	\$ 32,375,000
Wastewater Treatment Facility Refunding Revenue Bonds, Series 1996; interest payable on May 1 and November 1; serial certificates with annual maturities on November 1, in amounts from \$750,000 to \$815,000, with interest rates from 5.2% to 5.3%; term certificates at 5.5% in the amount of \$1,920,000 maturing November 1, 2007 with annual payments of \$935,000 to \$985,000 beginning in 2006.	3,460,000
Wastewater Revenue Bonds, Series 1993; interest rates from 4.5% to 5.1% payable semi-annually on May 1 and November 1; principal amounts from \$505,000 to \$660,000, final payment on November 1, 2013; bonds maturing on or after November 1, 2004 are subject to call.	<u>5,450,000</u>
Total principal balances – business-type activities	41,285,000
Less:	
Unamortized bond discount	
1997 Bonds	\$(187,098)
1996 Bonds	<u>(11,687)</u>
	(198,785)
Deferred amount on refunding 1996 Bonds	<u>\$(205,598)</u>
	<u>(205,598)</u>
Total business-type activities revenue bonds	<u><u>\$ 40,880,617</u></u>

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 1,265,000	\$ 2,284,633
2006	1,330,000	2,220,145
2007	1,400,000	2,150,097
2008	1,475,000	2,074,539
2009	1,560,000	1,991,656
2010-2014	9,275,000	8,481,872
2015-2019	12,290,000	5,470,001
2020-2024	<u>12,690,000</u>	<u>1,511,676</u>
Total	<u><u>\$41,285,000</u></u>	<u><u>\$26,184,619</u></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.

219,663

Total notes payable

\$4,719,663

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

Year Ending June 30,	Principal	Interest
2005	\$ 23,587	\$ 150,127
2006	161,042	244,264
2007	169,588	238,940
2008	178,226	232,373
2009	187,968	224,759
2010-2014	999,252	983,257
2015-2019	1,166,000	709,318
2020-2024	1,489,000	332,432
2025	345,000	10,367
Total	<u>\$4,719,663</u>	<u>\$3,125,837</u>

Long-term liability activity for the year ended June 30, 2004, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental activities:</b>					
Loans payable	\$ 348,273	\$212,241	\$ 37,151	\$ 523,363	\$ 38,286
Certificates of participation	23,935,000		720,000	23,215,000	760,000
Lease revenue bonds	63,865,000		410,000	63,455,000	455,000
Community facility district bonds					
Notes payable	241,880	4,500,000	22,217	4,719,663	23,587
Obligations under capital leases	1,753,685		418,503	1,335,182	438,349
Compensated absences	53,726,519	12,650,629	9,697,426	56,679,722	2,005,459
Claims liability	12,274,875	9,382,084	5,567,653	16,089,306	5,848,966
Governmental activities long-term liabilities	<u>\$156,145,232</u>	<u>\$26,744,954</u>	<u>\$16,872,950</u>	<u>\$166,017,236</u>	<u>\$9,569,647</u>
<b>Business-type activities:</b>					
Loan payable	\$ 2,713,066		\$ 179,686	\$ 2,533,380	\$ 185,778
Certificates of participation	28,965,000		840,000	28,125,000	885,000
Unamortized discounts	(452,076)		(22,175)	(429,901)	
Deferred amount on refunding	(1,523,579)		(74,736)	(1,448,843)	
Revenue bonds	42,490,000		1,205,000	41,285,000	1,265,000
Unamortized discounts	(212,753)		(13,968)	(198,785)	
Deferred amount on refunding	(271,949)		(66,351)	(205,598)	
Developer advances	2,507,327		118,600	2,388,727	108,910
Business-type activities long-term liabilities	<u>\$74,215,036</u>		<u>\$2,166,056</u>	<u>\$72,048,980</u>	<u>\$2,444,688</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 \$265,079 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

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, 2004:

<u>Year Ending June 30,</u>	
2005	\$ 468,977
2006	468,977
2007	<u>463,803</u>
Total minimum lease payments	1,401,757
Less: amount representing interest	<u>(111,991)</u>
Present value of minimum lease payments	<u><u>\$1,289,766</u></u>

Assets subject to the above capital leases valued at \$2,070,691, net of \$27,058 accumulated depreciation, have been presented under governmental activities. Rental expenses incurred under operating leases are not material.

Leases - Internal Service Funds

A leased printer valued at \$136,588, net of accumulated depreciation of \$94,854, 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, 2004:

<u>Year Ending June 30,</u>	
2005	\$ 28,005
2006	<u>21,003</u>
Total minimum lease payments	49,008
Less: amount representing interest	<u>(3,592)</u>
Present value of minimum lease payments	<u><u>\$45,416</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, 2004, the total outstanding balance due under the agreements is \$2,388,727. The total annual payments fluctuate depending on the ending date of each agreement. At June 30, 2004, the amount of \$108,910, due during fiscal year 2005, has been reported as "current portion-developer advances" on the Proprietary Funds statement of net assets. The remaining \$2,279,817 of outstanding principal has been reported under noncurrent liabilities, as "developer advances."

F. INTERFUND BALANCES

Interfund balances as of June 30, 2004 consist of the following:

<u>Due to General Fund from:</u>	
Other governmental funds	\$1,555,000
Internal service funds	145,000
Total due to General Fund	<u>1,700,000</u>
Due to other governmental funds from other governmental funds	<u>1,700,000</u>
Total due to/due from	<u><u>\$3,400,000</u></u>

Advances from General Fund to:

Capital Facility Fees Fund	\$1,405,514
Other governmental funds	748,387
Total advances from General Fund	<u>2,153,901</u>
Advances from other governmental funds to Capital Facility Fees Fund	<u>238,495</u>
Advances from internal service funds to General Fund	<u>2,000,000</u>
Total advances from/advances to	<u><u>\$4,392,396</u></u>

All balances reported as "due to/due from" are short-term loans to cover temporary fund cash shortages as of June 30, 2004, and were repaid early in fiscal year 2005. 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. \$4,088,666 of advances are not currently scheduled for repayment during 2005.

G. RESERVES AND DESIGNATIONS OF FUND BALANCES

The City's reserves and designations at June 30, 2004 are comprised of the following:

	<u>General</u>	<u>Special Gas Tax Street Improvement</u>	<u>Capital Facility Fees</u>	<u>Other Governmental</u>
<u>Reserved for:</u>				
Encumbrances	\$1,067,20	\$677,269	\$1,990,741	\$15,831,542
Petty cash	14,18			
Loan programs	92,28			11,880,935
Interfund advances	2,153,90			238,495
Set-aside requirement				3,110,916
Debt service				6,283,226
Total reserved	<u>\$3,327,56</u>	<u>\$677,269</u>	<u>\$1,990,741</u>	<u>\$37,345,114</u>
<u>Designated for:</u>				
Pending projects	\$1,556,34		\$24,797,656	\$27,252,306
Subsequent year expenditures	4,434,35			
Total designated	<u>\$5,990,69</u>		<u>\$24,797,656</u>	<u>\$27,252,306</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 petty cash - An amount equal to the City's petty cash account is reserved in the General Fund because it is available only for petty cash purposes.
3. 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.
4. Reserve for interfund advances - The City reserves an amount in each fund equal to the advances to other funds.
5. 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.
6. Reserve for debt service - The total fund balances of the debt service funds are reserved for future debt service requirements.
7. Designation for pending projects - Designations for pending projects are established to fund projects approved but not yet appropriated.
8. Designation for subsequent year expenditures - Designations for subsequent year expenditures represent that portion of fund balance set aside for fiscal year 2004/05.

#### H. DEFICIT FUND EQUITY

The Capital Grants Capital Projects Fund has a deficit fund balance of \$337,390. Future grants and interfund transfers are expected to cure this deficit.

The Golf Enterprise Fund has a net assets deficit of \$1,181,695, due to a change in accounting policy two years ago. 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, requiring an annual subsidy from the General fund. Depreciation expense is not covered by the operating subsidy, thus further contributing to the deficit. The subsidy in subsequent years is designed to allow the fund to break even.

The Insurance Internal Service fund has a net assets deficit of \$3,985,173. Despite increased charges to departments, insurance and claims expenses continued to outpace revenues during 2004. This situation is being monitored and will be addressed in subsequent budgets.

The Employee Benefits Management Internal Service Fund has a net assets deficit of \$43,944,996. 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 ten years ago, and has never been fully funded. In addition, the City contracts for an actuarial valuation of the sick leave liability on an annual basis. Due to several changes in employee agreements related to sick leave conversion at retirement to cover future health premium costs, the actuarial value of the sick leave liability increased by almost \$17 million during 2003. The City is planning to reduce the deficit over time by increasing the benefit rates charged to the operating funds, and by continuing to deposit in this Fund portions of one-time revenues related to employee benefits. While the fund still experienced a net loss, the loss was about a quarter of that in the previous year.

I. INTERFUND TRANSFERS

The following is a schedule of interfund transfers.

Transfers to:	Transfers from:								
	General	Special Gas	Capital	Other	Other			Internal	Total
	Fund	Tax Street	Facility	Govern-	Water	Sewer	Enterprise	Service	
	Improvement	Fees	mental						
General Fund			\$330,500	\$757,098	\$215,973	\$105,977	\$124,270	\$431,590	\$ 1,965,408
Special Gas Tax									
Street Improvement	\$4,694,050			3,850,675			5,000	200,000	8,749,725
Capital Facility									
Fees				395,000					395,000
Other Governmental	5,418,033	\$363,672	793,706	1,646,892					8,222,303
Water	264,000								264,000
Sewer	114,000								114,000
Other Enterprise	859,806	137,210	849,508	195,829				1,700	2,044,053
Internal Service	150,000					67,901			217,901
	\$11,499,88								
Total	9	\$500,882	\$1,973,714	\$6,845,494	\$215,973	\$173,878	\$129,270	\$633,290	\$21,972,390

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 \$12,247,438, 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 \$31,959 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 \$366,503 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.

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. The maximum allowed per covered employee under the self-insured vision plan is \$1,000 over a two year period. 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 \$2,000,000. 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 \$2,000,000, 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, 2004 is \$16,089,306 consisting of \$11,488,000 workers' compensation, \$4,086,000 general liability, \$336,320 dental, \$112,141 disability, and \$66,845 vision. Workers' compensation and general liability claims liabilities are estimated on an actuarial basis. The actuarial reports present various “confidence levels” and corresponding liability estimates, to quantify the uncertainty of the estimates. During the current fiscal year, the City decided to change it’s accounting estimates for these liabilities from the 75% confidence level to the “expected value” level, which is the actuary’s best single estimate of the full cost of outstanding claims. The current portion of the total claims liability is estimated to be \$5,848,966 and the balance of \$10,240,340 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, 2004. Changes in the Insurance Fund claims liability during the fiscal years ended June 30, 2003 and June 30, 2004 were:

	Claims Liability July 1	Current-Year Claims and Changes in Estimates	Current-Year Claim Payments	Claims Liability June 30
2002-03	\$11,162,477	\$6,680,187	\$(5,567,789)	\$12,274,875
2003-04	\$12,274,875	9,382,084	(5,567,653)	\$16,089,306

**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, 2004, the balance of these districts' outstanding debt was as follows:

Issue	Outstanding Amount
Improvement District #28 - Sewer Improvements	\$60,000
Improvement District #29 - Street and Water System Improvements	265,000
Public Facilities District #6 - Street and Water System Improvements	<u>55,000</u>
	<u>\$380,000</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, 2004 there were nine 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 \$55,694,000.

**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 \$26,680,884 of June 30, 2004 for contracts awarded but not completed and other outstanding purchase orders. This amount consists of \$1,067,205 in the General Fund, \$677,269 in the Special Gas Tax Street Improvement Fund, \$1,990,741 in the Capital Facility Fees Fund, \$15,831,542 in other governmental funds, \$5,476,664 in the enterprise funds, and \$1,637,463 in the internal service funds. Commitments of the governmental funds are recorded as fund balance reserve for encumbrances on the balance sheet. As of June 30, 2004, there are major contracts and other purchase orders outstanding for Fire Station #11, the 9<sup>th</sup> Street bridge

replacement, purchase and installation of new generators for water, update of the wastewater master plan, building of the new bus maintenance facility, and purchase of police patrol vehicles.

Due to a court ruling, the City has amended its business license tax ordinance to allow businesses to "apportion" their gross receipts if they meet certain criteria. Basically, apportionment allows taxpayers to reduce the gross receipts reported by the aggregate percentage of sales or services occurring outside the city limits. During the fiscal year ended June 30, 2004, approximately 60 businesses filed for over \$40,000 in refunds under this new clause. It is anticipated that there will be no further refunds in the future.

#### 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 \$166,952 for the fiscal year ended June 30, 2004. As of June 30, 2004 the City's investment in this joint venture was \$1,515,557, 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, 2004 was \$604,116, consisting of a \$210,214 cash contribution and in-kind services valued at \$393,902. The City's investment in this joint venture was estimated to be \$778,825 as of June 30, 2004, 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 \$86,024 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, 2004, the City's contribution to the Agency was \$666,448. The City's equity interest in the Agency is \$15,150,985, 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, 2004, 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 \$6,724,490. 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 amount paid to MID during the fiscal year ended June 30, 2004 was \$10,776,930, which is reported as "water purchases" expense on the proprietary funds statement of revenues, expenses and changes in net assets in the amount of \$10,380,140, and as prepaid expense of \$396,790. The total outstanding on the MID bonds is \$82,145,000.

## 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 actuarial liability for current retirees' future premiums is \$10,414,009 as of June 30, 2004. The current portion of \$1,358,212 is fully funded. The long-term portion of \$9,055,797 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 0% of annual covered payroll for non-safety employees and 15.975% for safety employees. The contribution requirements of plan members and the City are established and may be amended by CalPERS.

Annual Pension Cost

For 2004, the City's annual pension cost of \$4,348,620 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, 2003 was 32 years for the miscellaneous plan, and 26 years for the safety plan.

**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>
6/30/02	-	-	\$ -
6/30/03	\$3,713,757	100%	-
6/30/04	\$4,348,620	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]
<b>6/30/01:</b>						
Misc.	\$206,211,311	\$159,669,273	\$46,542,038	129.1%	\$33,588,996	138.6%
Safety	219,367,131	205,333,462	14,033,669	106.8%	23,191,287	60.5%
<b>Total</b>	<u>\$425,578,442</u>	<u>\$365,002,735</u>	<u>\$60,575,707</u>	116.6%	<u>\$56,780,283</u>	106.7%
<b>6/30/02:</b>						
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)%
<b>Total</b>	<u>\$394,782,714</u>	<u>\$390,323,501</u>	<u>\$ 4,459,213</u>	101.1%	<u>\$60,531,791</u>	7.4%
<b>6/30/03:</b>						
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)%
<b>Total</b>	<u>\$403,050,874</u>	<u>\$436,255,417</u>	<u>\$(33,204,543)</u>	92.4%	<u>\$64,756,872</u>	(51.3)%

## **REQUIRED SUPPLEMENTARY INFORMATION**

**CITY OF MODESTO**  
**SCHEDULE OF REVENUES - BUDGET (GAAP BASIS)**  
**AND ACTUAL - GENERAL FUND**  
**Year ended June 30, 2004**

	Budget		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b><u>TAXES:</u></b>				
Utility users tax	\$ 12,989,000	\$ 12,989,000	\$ 14,718,858	\$ 1,729,858
Property tax	10,053,000	10,053,000	11,294,599	1,241,599
Transient occupancy tax	2,108,000	2,108,000	2,110,909	2,909
Franchise tax	2,699,325	2,716,925	2,156,144	(560,781)
Business license tax	9,844,000	9,844,000	9,231,136	(612,864)
<b>Total taxes</b>	<b>37,693,325</b>	<b>37,710,925</b>	<b>39,511,646</b>	<b>1,800,721</b>
<b><u>LICENSES AND PERMITS</u></b>	<b>95,129</b>	<b>95,129</b>	<b>199,097</b>	<b>103,968</b>
<b><u>INTERGOVERNMENTAL:</u></b>				
Sales tax	27,848,000	27,848,000	27,150,743	(697,257)
Motor vehicle license fees	12,394,000	12,394,000	9,052,449	(3,341,551)
State	2,046,000	2,121,000	2,072,242	(48,758)
County	194,514	194,514	229,570	35,056
Federal	289,450	289,450	277,211	(12,239)
Other intergovernmental	526,814	526,814	463,815	(62,999)
<b>Total intergovernmental</b>	<b>43,298,778</b>	<b>43,373,778</b>	<b>39,246,030</b>	<b>(4,127,748)</b>
<b><u>CHARGES FOR SERVICES:</u></b>				
General government	2,866,811	2,866,811	2,566,054	(300,757)
Community development	3,330,979	3,864,208	3,006,603	(857,605)
Highways and streets	90,000	90,000	90,000	
Public works	748,062	759,062	824,230	65,168
Parks and recreation	1,934,545	1,941,845	1,763,611	(178,234)
Public safety	2,093,102	2,164,497	2,487,982	323,485
Other current charges for services	359,000	359,000	266,010	(92,990)
Indirect cost recovery	2,884,000	2,884,000	2,841,454	(42,546)
<b>Total charges for services</b>	<b>14,306,499</b>	<b>14,929,423</b>	<b>13,845,944</b>	<b>(1,083,479)</b>
<b><u>SPECIAL ASSESSMENT</u></b>	<b>32,000</b>	<b>32,000</b>	<b>76,119</b>	<b>44,119</b>
<b><u>INTEREST AND RENT</u></b>	<b>513,516</b>	<b>517,516</b>	<b>905,295</b>	<b>387,779</b>
<b><u>NET INCREASE (DECREASE) IN FAIR VALUE OF INVESTMENTS</u></b>	<b>2,000</b>	<b>2,000</b>	<b>(524,439)</b>	<b>(526,439)</b>
<b><u>FINES AND FORFEITURES</u></b>	<b>521,775</b>	<b>526,775</b>	<b>524,050</b>	<b>(2,725)</b>
<b><u>MISCELLANEOUS:</u></b>				
Mandated cost recovery	5,000	25,057	20,079	(4,978)
Other	740,947	1,079,359	1,225,900	146,541
<b>Total miscellaneous</b>	<b>745,947</b>	<b>1,104,416</b>	<b>1,245,979</b>	<b>141,563</b>
<b>Total revenues</b>	<b>\$ 97,208,969</b>	<b>\$ 98,291,962</b>	<b>\$ 95,029,721</b>	<b>\$ (3,262,241)</b>

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, 2004**

	Budget		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
General government:				
City council	\$ 189,965	\$ 192,086	\$ 190,147	\$ 1,939
Personnel/training	1,235,058	1,819,366	1,715,280	104,086
City manager	1,448,615	1,769,106	1,577,080	192,026
Community broadcasting	96,900	96,900	61,348	35,552
City attorney	1,881,501	1,881,966	1,661,217	220,749
City clerk/auditor	1,577,914	1,606,611	925,119	681,492
Finance	5,509,009	6,177,870	5,498,545	679,325
Total general government	<u>11,938,962</u>	<u>13,543,905</u>	<u>11,628,736</u>	<u>1,915,169</u>
Community development	<u>4,623,807</u>	<u>5,081,130</u>	<u>4,469,381</u>	<u>611,749</u>
Public works:				
Engineering and Transportation Dept:				
Construction administration/permits	616,950	708,988	466,302	242,686
Engineering administration	714,071	892,196	725,238	166,958
Operations and Maintenance Dept:				
Administration	465,520	480,605	390,221	90,384
Total public works	<u>1,796,541</u>	<u>2,081,789</u>	<u>1,581,761</u>	<u>500,028</u>
Parks and recreation:				
Operations and Maintenance Dept:				
Service and maintenance	5,222,380	5,305,417	4,831,205	474,212
Graffiti abatement	187,554	276,982	268,867	8,115
Community Services & Neighborhood Connection:				
Administration	638,008	820,471	620,509	199,962
Planning and development	401,841	443,477	394,711	48,766
Culture	1,310,345	1,452,898	1,382,112	70,786
Recreation division	2,787,979	2,836,160	2,655,564	180,596
Facilities	1,095,092	966,145	946,492	19,653
Total parks and recreation	<u>11,643,199</u>	<u>12,101,550</u>	<u>11,099,460</u>	<u>1,002,090</u>
Public safety:				
Fire protection	21,837,526	22,106,855	21,153,639	953,216
Police protection	41,125,882	41,299,966	40,974,106	325,860
Total public safety	<u>62,963,408</u>	<u>63,406,821</u>	<u>62,127,745</u>	<u>1,279,076</u>
Total expenditures by department	<u>92,965,917</u>	<u>96,215,195</u>	<u>90,907,083</u>	<u>5,308,112</u>
Debt service:				
Principal retirement	8,625	8,625	8,625	
Interest	2,353	2,353	2,352	1
Total debt service	<u>10,978</u>	<u>10,978</u>	<u>10,977</u>	<u>1</u>
Total general fund	<u>\$ 92,976,895</u>	<u>\$ 96,226,173</u>	<u>\$ 90,918,060</u>	<u>\$ 5,308,113</u>

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

**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, 2004**

	Budget		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Intergovernmental:				
State grants	\$ 7,672,243	\$ 7,672,243	\$ 3,977,590	\$ (3,694,653)
Federal grants	10,770,072	10,770,072	1,139,060	(9,631,012)
Other grants	673,129	673,129	3,762,416	3,089,287
Total intergovernmental revenues	<u>19,115,444</u>	<u>19,115,444</u>	<u>8,879,066</u>	<u>(10,236,378)</u>
Taxes	585,000	1,091,000	1,299,391	208,391
Licenses and permits			21,053	21,053
Charges for services	1,631,811	1,731,748	1,675,004	(56,744)
Interest and rent			6,086	6,086
Net decrease in fair value of investments			(32,411)	(32,411)
Miscellaneous	10,174	77,749	72,354	(5,395)
Total revenues	<u>21,342,429</u>	<u>22,015,941</u>	<u>11,920,543</u>	<u>(10,095,398)</u>
<b>EXPENDITURES:</b>				
Current:				
Highway and streets	31,811,274	35,072,645	18,529,628	16,543,017
Debt service:				
Principal retirement	37,152	37,152	37,151	1
Interest	4,401	4,401	4,401	
Total expenditures	<u>31,852,827</u>	<u>35,114,198</u>	<u>18,571,180</u>	<u>16,543,018</u>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	<u>(10,510,398)</u>	<u>(13,098,257)</u>	<u>(6,650,637)</u>	<u>6,447,620</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	10,063,045	11,390,070	8,749,725	(2,640,345)
Transfers out	<u>(4,057,593)</u>	<u>(4,057,593)</u>	<u>(500,882)</u>	<u>3,556,711</u>
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>6,005,452</u>	<u>7,332,477</u>	<u>8,248,843</u>	<u>916,366</u>
<b>NET CHANGE IN FUNDS BALANCE</b>	(4,504,946)	(5,765,780)	1,598,206	7,363,986
<b>FUND BALANCES, JULY 1</b>	<u>(1,330,397)</u>	<u>(2,605,019)</u>	<u>5,028,939</u>	<u>7,633,958</u>
<b>FUND BALANCES, JUNE 30</b>	<u>\$ (5,835,343)</u>	<u>\$ (8,370,799)</u>	<u>\$ 6,627,145</u>	<u>\$ 14,997,944</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, 2004**

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.

**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.

**CAPITAL GRANTS FUND** – To account for receipts and disbursements of a variety of Governmental Fund capital grants.

**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.

**COMMUNITY FACILITIES DISTRICTS FUND** – To account for payment of bonded debt issued to finance Community Facilities District capital projects.

**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, 2004**

	Special Revenue					
	Operating Grants	Local Transportation	Traffic Safety	Downtown Improvement District	Housing and Community Development	Strategic Planning and Development
<b>ASSETS</b>						
Cash and cash equivalents	\$ 329,167	\$ 2,736,501	\$ 481,943	\$ 26,976	\$ 1,625,395	\$ 1,518,989
Cash and cash equivalents with fiscal agent					5,622,021	
Receivables:						
Accounts	18,870				165,733	
Interest	4,004	11,808		2,194		1,308
Taxes						
Due from governments	761,748	579,109			480,649	
Due from other funds						
Notes receivable, net					11,302,603	
Restricted assets:						
Cash and cash equivalents						
Advances to other funds						
<b>Total assets</b>	<b>\$ 1,113,789</b>	<b>\$ 3,327,418</b>	<b>\$ 481,943</b>	<b>\$ 29,170</b>	<b>\$ 19,196,401</b>	<b>\$ 1,520,297</b>
<b>LIABILITIES AND FUND BALANCES</b>						
Liabilities:						
Accounts payable	\$ 51,226	\$ 397		\$ 2,133	\$ 76,734	\$ 211,525
Accrued salaries and benefits	27,341				5,066	
Approved loans payable					366,503	
Due to other funds						
Deferred revenues	448,008	3,327,021				
Refundable deposits						
Advances from other funds						
<b>Total liabilities</b>	<b>526,575</b>	<b>3,327,418</b>		<b>2,133</b>	<b>448,303</b>	<b>211,525</b>
Fund balances:						
Reserved for:						
Encumbrances	138,051	35,697			2,275	592,415
Loan programs					10,936,100	
Interfund advances						
Set-aside requirement						
Debt service						
Unreserved/designated for:						
Pending projects	449,163		\$ 481,943	27,037	7,809,723	716,357
Unreserved/undesignated		(35,697)				
<b>Total fund balances (deficit)</b>	<b>587,214</b>	<b></b>	<b>481,943</b>	<b>27,037</b>	<b>18,748,098</b>	<b>1,308,772</b>
<b>Total liabilities and fund balances</b>	<b>\$ 1,113,789</b>	<b>\$ 3,327,418</b>	<b>\$ 481,943</b>	<b>\$ 29,170</b>	<b>\$ 19,196,401</b>	<b>\$ 1,520,297</b>

Capital Projects

Special Fund for Capital Outlays	Parks	McHenry Mansion Restoration	Redevelop- ment Agency	Improvem- ment Districts	Capital Grants	Community Facilities Districts
\$ 2,412,474	\$ 1,140,482	\$ 6,095	\$ 4,931,387	\$ 27,596	\$ 445,152	\$ 13,145,693
1,701,812			22,149			
	1,707	169			7,987	8,846
					3,107,133	107,489
			1,700,000			
			944,835			
			200,000			131,318
<u>238,495</u>						
<u>\$ 4,352,781</u>	<u>\$ 1,142,189</u>	<u>\$ 6,264</u>	<u>\$ 7,798,371</u>	<u>\$ 27,596</u>	<u>\$ 3,560,272</u>	<u>\$ 13,393,346</u>
\$ 10	\$ 2,771		\$ 462,511		\$ 2,342,662	\$ 904,941
						2,017
					1,555,000	
			200,000			198,721
	713,387					131,318
						35,000
<u>10</u>	<u>716,158</u>		<u>662,511</u>		<u>3,897,662</u>	<u>1,271,997</u>
91,598	1,045				13,055,562	1,914,899
238,495			944,835			
			3,110,916			
4,022,678	424,986	\$ 6,264	3,080,109	\$ 27,596		10,206,450
					(13,392,952)	
<u>4,352,771</u>	<u>426,031</u>	<u>6,264</u>	<u>7,135,860</u>	<u>27,596</u>	<u>(337,390)</u>	<u>12,121,349</u>
<u>\$ 4,352,781</u>	<u>\$ 1,142,189</u>	<u>\$ 6,264</u>	<u>\$ 7,798,371</u>	<u>\$ 27,596</u>	<u>\$ 3,560,272</u>	<u>\$ 13,393,346</u>

**CITY OF MODESTO**  
**COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS (Continued)**  
**June 30, 2004**

	Debt Service			Total
	Redevelopment Agency	Community Facilities Districts	Public Financing Authority	
<u>ASSETS</u>				
Cash and cash equivalents	\$ 16,880			\$ 28,844,730
Cash and cash equivalents with fiscal agent	2,034,234		\$ 5,302,791	14,683,007
Receivables:				
Accounts	8,825			193,428
Interest	49,341			87,364
Taxes	571,155			678,644
Due from governments				4,928,639
Due from other funds				1,700,000
Notes receivable, net				12,247,438
Restricted assets:				
Cash and cash equivalents				331,318
Advances to other funds				238,495
Total assets	\$ 2,680,435	\$	\$ 5,302,791	\$ 63,933,063
 <u>LIABILITIES AND FUND BALANCES</u>				
Liabilities:				
Accounts payable		\$		\$ 4,054,910
Accrued salaries and benefits				34,424
Approved loans payable				366,503
Due to other funds	\$ 1,700,000			3,255,000
Deferred revenues				3,973,750
Refundable deposits				331,318
Advances from other funds				748,387
Total liabilities	1,700,000			12,764,292
Fund balances:				
Reserved for:				
Encumbrances				15,831,542
Loan programs				11,880,935
Interfund advances				238,495
Set-aside requirement				3,110,916
Debt service	980,435		\$ 5,302,791	6,283,226
Unreserved/designated for:				
Pending projects				27,252,306
Unreserved/undesignated				(13,428,649)
Total fund balances (deficit)	980,435		5,302,791	51,168,771
Total liabilities and fund balances	\$ 2,680,435	\$	\$ 5,302,791	\$ 63,933,063

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**CITY OF MODESTO**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS**  
**Year ended June 30, 2004**

	Special Revenue					
	Operating Grants	Local Transportation	Traffic Safety	Downtown Improvement District	Housing and Community Development	Strategic Planning and Development
REVENUES:						
Taxes				\$ 190,644		
Licenses and permits	\$ 29,979					
Intergovernmental	2,370,819	\$ 4,496,264			\$ 3,210,092	
Charges for services	2,571,972				46,461	\$ 360,997
Special assessments levied	3,394					306,855
Interest and rent	15,221	67,965		579	205,019	24,149
Net increase (decrease) in fair value of investments	(8,019)	(34,294)		(593)		(24,000)
Fines and forfeits	750		\$ 769,393			
Miscellaneous	366,896				4,438	720,228
Total revenues	<u>5,351,012</u>	<u>4,529,935</u>	<u>769,393</u>	<u>190,630</u>	<u>3,466,010</u>	<u>1,388,229</u>
EXPENDITURES:						
Current:						
General government	235,160					
Community development				196,506	2,225,534	1,219,184
Highways and streets		688				
Public works	3,111,701	239,971				
Parks and recreation	92,544	9,295				
Public safety	1,548,280		52,711			
Capital outlay:						
General government	13,197					
Community development					485,001	
Highways and streets		11,949				
Public works						
Parks and recreation		239,972				
Public safety	445,361		44,303			
Principal retirement						
Interest						
Other						
Total expenditures	<u>5,446,243</u>	<u>501,875</u>	<u>97,014</u>	<u>196,506</u>	<u>2,710,535</u>	<u>1,219,184</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(95,231)</u>	<u>4,028,060</u>	<u>672,379</u>	<u>(5,876)</u>	<u>755,475</u>	<u>169,045</u>
OTHER FINANCING SOURCES (USES):						
Transfers in	569,418					50,000
Transfers out		(4,028,061)	(607,098)		(546,770)	(10,000)
Proceeds of loan payable						
Proceeds of notes payable					4,500,000	
TOTAL OTHER FINANCING						
SOURCES (USES)	<u>569,418</u>	<u>(4,028,061)</u>	<u>(607,098)</u>		<u>3,953,230</u>	<u>40,000</u>
NET CHANGE IN FUND BALANCES FUND BALANCES (DEFICITS),	474,187	(1)	65,281	(5,876)	4,708,705	209,045
July 1	113,027	1	416,662	32,913	14,039,393	1,099,727
June 30	<u>\$ 587,214</u>	<u>\$</u>	<u>\$ 481,943</u>	<u>\$ 27,037</u>	<u>\$ 18,748,098</u>	<u>\$ 1,308,772</u>

Capital Projects

Special Fund for Capital Outlays	Parks	State Parks and Recreation	McHenry Mansion Restoration	Redevelop- ment Agency	Improve- ment Districts	Capital Grants	Community Facilities Districts
				\$ 1,027,309			
\$	\$ 50,072 18,010	\$ 16,412				\$ 12,096,222	\$ 5,857,834
	64,626	70,385	\$ 117	129,649		(29,495)	263,162
	(43,037)	(22,669)	(104)	(92,883)		46,281	(225,978)
	31,500			38,476			
	<u>53,089</u>	<u>115,798</u>	<u>13</u>	<u>1,102,551</u>		<u>12,113,008</u>	<u>5,895,018</u>
				1,024,398			986,141
	19,554					575,208	
	4,502 20,135	40,392				48,218	
				32,423			4,700,378
						11,723,821	
	45,353 1,213,553	199,432	8,267			869,666	
	<u>1,303,097</u>	<u>239,824</u>	<u>8,267</u>	<u>1,056,821</u>		<u>13,216,913</u>	<u>5,686,519</u>
	(1,250,008)	(124,026)	8,145	45,730		(1,103,905)	208,499
	1,285,036	657,222 (150,000)		509,000		1,149,669	265,990 (395,000)
				212,241			
	<u>1,285,036</u>	<u>507,222</u>		<u>721,241</u>		<u>1,149,669</u>	<u>(129,010)</u>
	35,028	383,196	8,145	13	766,971	45,764	79,489
	4,317,743	42,835	(8,145)	6,251	6,368,889	\$ 27,596	12,041,860
\$	<u>4,352,771</u>	<u>\$ 426,031</u>	<u>\$ (8,145)</u>	<u>\$ 6,264</u>	<u>\$ 7,135,860</u>	<u>\$ 27,596</u>	<u>\$ 12,121,349</u>

(continued)

**CITY OF MODESTO**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS (Continued)**  
**Year ended June 30, 2004**

	Debt Service			Total
	Redevelopment Agency	Community Facilities Districts	Public Financing Authority	
REVENUES:				
Taxes	\$ 2,156,562			\$ 3,374,515
Licenses and permits				29,979
Intergovernmental				22,239,881
Charges for services				8,855,274
Special assessments levied				310,249
Interest and rent	400,211	\$ 4,936	\$ 275,636	1,492,160
Net increase (decrease) in fair value of investments	9,117	(4,399)		(400,578)
Fines and forfeits				770,143
Miscellaneous				1,161,538
Total revenues	<u>2,565,890</u>	<u>537</u>	<u>275,636</u>	<u>37,833,161</u>
EXPENDITURES:				
Current:				
General government				235,160
Community development				5,651,763
Highways and streets				595,450
Public works				3,351,672
Parks and recreation				194,951
Public safety				1,621,126
Capital outlay:				
General government				13,197
Community development				5,217,802
Highways and streets				11,735,770
Public works				
Parks and recreation				1,362,690
Public safety				1,703,217
Principal retirement	720,000		410,000	1,130,000
Interest	1,234,190		3,191,419	4,425,609
Other	5,400		12,955	18,355
Total expenditures	<u>1,959,590</u>	<u>537</u>	<u>3,614,374</u>	<u>37,256,762</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>606,300</u>	<u>537</u>	<u>(3,338,738)</u>	<u>576,399</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	407,000		3,328,968	8,222,303
Transfers out	(852,575)	(255,990)		(6,845,494)
Proceeds of loan payable				212,241
Proceeds of notes payable				4,500,000
TOTAL OTHER FINANCING				
SOURCES (USES)	<u>(445,575)</u>	<u>(255,990)</u>	<u>3,328,968</u>	<u>6,089,050</u>
NET CHANGE IN FUND BALANCES FUND BALANCES (DEFICITS),	160,725	(255,453)	(9,770)	6,665,449
July 1	819,710	255,453	5,312,561	44,503,322
June 30	<u>\$ 980,435</u>	<u>\$</u>	<u>\$ 5,302,791</u>	<u>\$ 51,168,771</u>

**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, 2004**

	Budget		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Licenses and permits	\$ 20,000	\$ 20,000	\$ 29,979	\$ 9,979
Intergovernmental	2,052,370	3,891,997	2,370,819	(1,521,178)
Charges for services	2,461,142	2,578,842	2,571,972	(6,870)
Special assessments			3,394	3,394
Interest and rent - interest		13,363	15,221	1,858
Net increase in fair value of investments			(8,019)	(8,019)
Fines and forfeits	200	200	750	550
Miscellaneous	303,050	375,860	366,896	(8,964)
Total revenues	<u>4,836,762</u>	<u>6,880,262</u>	<u>5,351,012</u>	<u>(1,529,250)</u>
<b>EXPENDITURES;</b>				
General government	256,000	256,000	248,357	7,643
Public works	3,340,007	3,531,342	3,111,701	419,641
Parks and recreation	619,300	636,800	92,544	544,256
Public safety	1,305,128	3,123,310	1,993,641	1,129,669
Total expenditures	<u>5,520,435</u>	<u>7,547,452</u>	<u>5,446,243</u>	<u>2,101,209</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER)</b>				
<b>EXPENDITURES</b>	<u>(683,673)</u>	<u>(667,190)</u>	<u>(95,231)</u>	<u>571,959</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	<u>403,975</u>	<u>569,418</u>	<u>569,418</u>	
<b>NET CHANGE IN FUND BALANCE</b>	(279,698)	(97,772)	474,187	571,959
<b>FUND BALANCES, JULY 1</b>	113,027	113,027	113,027	
<b>FUND BALANCES (DEFICIT), JUNE 30</b>	<u>\$ (166,671)</u>	<u>\$ 15,255</u>	<u>\$ 587,214</u>	<u>\$ 571,959</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, 2004**

	Budget		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Intergovernmental	\$ 3,671,706	\$ 3,920,558	\$ 4,496,264	\$ 575,706
Interest and rent - interest	20,000	20,000	67,965	47,965
Net increase in fair value of investments			(34,294)	(34,294)
<b>Total revenues</b>	<u>3,691,706</u>	<u>3,940,558</u>	<u>4,529,935</u>	<u>589,377</u>
<b>EXPENDITURES:</b>				
Highways and streets	428,976	428,976	12,637	416,339
Parks and recreation	275,669	275,669	239,971	35,698
Public works		249,532	249,267	265
<b>Total expenditures</b>	<u>428,976</u>	<u>678,508</u>	<u>501,875</u>	<u>452,302</u>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	<u>3,262,730</u>	<u>3,262,050</u>	<u>4,028,060</u>	<u>766,010</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in				
Transfers out	(6,615,065)	(6,625,065)	(4,028,061)	2,597,004
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>(6,615,065)</u>	<u>(6,625,065)</u>	<u>(4,028,061)</u>	<u>2,597,004</u>
<b>NET CHANGE IN FUND BALANCE</b>	(3,352,335)	(3,363,015)	(1)	3,363,014
<b>FUND BALANCES, JULY 1</b>	<u>1</u>	<u>1</u>	<u>1</u>	
<b>FUND BALANCE (DEFICITS), JUNE 30</b>	<u>\$ (3,352,334)</u>	<u>\$ (3,363,014)</u>	<u>\$</u>	<u>\$ 3,363,014</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, 2004**

	Budget		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES - fines and forfeits:				
Motor vehicle fines	\$ 425,000	\$ 425,000	\$ 769,393	\$ 344,393
EXPENDITURES;				
Public safety		112,784	97,014	15,770
EXCESS OF REVENUES OVER EXPENDITURES	425,000	312,216	672,379	328,623
OTHER FINANCING USES:				
Transfers out	(607,098)	(607,098)	(607,098)	
NET CHANGE IN FUND BALANCE	(182,098)	(294,882)	65,281	328,623
FUND BALANCES, JULY 1	416,662	416,662	416,662	
FUND BALANCES, JUNE 30	\$ 234,564	\$ 121,780	\$ 481,943	\$ 328,623

**CITY OF MODESTO**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND**  
**BALANCE - BUDGET (GAAP BASIS) AND ACTUAL - DOWNTOWN**  
**IMPROVEMENT DISTRICT SPECIAL REVENUE FUND**  
**Year ended June 30, 2004**

	Budget		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Taxes - business license tax	\$ 171,000	\$ 171,000	\$ 190,644	\$ 19,644
Interest and rent - interest	2,000	2,000	579	(1,421)
Net increase in fair value of investments			(593)	(593)
Total revenues	<u>173,000</u>	<u>173,000</u>	<u>190,630</u>	<u>17,630</u>
<b>EXPENDITURES - community development</b>				
Downtown improvement district administration:				
Professional and contractual services	170,597	170,597	169,308	1,289
Materials and supplies	7,210	7,210	6,614	596
Other	27,550	27,550	20,584	6,966
Total expenditures	<u>205,357</u>	<u>205,357</u>	<u>196,506</u>	<u>8,851</u>
NET CHANGE IN FUND BALANCE	(32,357)	(32,357)	(5,876)	26,481
FUND BALANCES, JULY 1	<u>32,913</u>	<u>32,913</u>	<u>32,913</u>	
FUND BALANCES, JUNE 30	<u>\$ 556</u>	<u>\$ 556</u>	<u>\$ 27,037</u>	<u>\$ 26,481</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, 2004**

	Budget		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Intergovernmental - federal grants	\$ 7,010,737	\$ 9,381,984	\$ 3,210,092	\$ (6,171,892)
Charges for services	571,599	471,599	46,461	(425,138)
Interest and rent - interest			205,019	205,019
Miscellaneous			4,438	4,438
Total revenues	<u>7,582,336</u>	<u>9,853,583</u>	<u>3,466,010</u>	<u>(6,387,573)</u>
<b>EXPENDITURES - community development</b>				
Housing program	4,621,937	5,370,892	2,209,424	3,161,468
Removal of architectural barriers	452,230	791,307	501,111	290,196
Total expenditures	<u>5,074,167</u>	<u>6,162,199</u>	<u>2,710,535</u>	<u>3,451,664</u>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	<u>2,508,169</u>	<u>3,691,384</u>	<u>755,475</u>	<u>(2,935,909)</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers out	(6,191,243)	(6,191,243)	(546,770)	5,644,473
Proceeds of notes payable			4,500,000	4,500,000
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>(6,191,243)</u>	<u>(6,191,243)</u>	<u>3,953,230</u>	<u>10,144,473</u>
<b>NET CHANGE IN FUND BALANCE</b>	(3,683,074)	(2,499,859)	4,708,705	7,208,564
<b>FUND BALANCES, JULY 1</b>	<u>14,039,393</u>	<u>14,039,393</u>	<u>14,039,393</u>	
<b>FUND BALANCES, JUNE 30</b>	<u>\$ 10,356,319</u>	<u>\$ 11,539,534</u>	<u>\$ 18,748,098</u>	<u>\$ 7,208,564</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, 2004**

	Budget		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Charges for services	\$ 3,000	\$ 876,481	\$ 360,997	\$ (515,484)
Special assessments levied	300,000	300,000	306,855	6,855
Interest and rent - interest	30,000	30,000	24,149	(5,851)
Net increase in fair value of investments			(24,000)	(24,000)
Miscellaneous		211,614	720,228	508,614
Total revenues	<u>333,000</u>	<u>1,418,095</u>	<u>1,388,229</u>	<u>(29,866)</u>
<b>EXPENDITURES:</b>				
Community development	1,174,841	2,568,996	1,219,184	1,349,812
Public works		3,143		3,143
Total expenditures	<u>1,174,841</u>	<u>2,572,139</u>	<u>1,219,184</u>	<u>1,352,955</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	(841,841)	(1,154,044)	169,045	1,323,089
<b>OTHER FINANCING SOURCES:</b>				
Transfers in	50,000	50,000	50,000	
Transfers out		(10,000)	(10,000)	
TOTAL OTHER FINANCING SOURCES (USES)	<u>50,000</u>	<u>40,000</u>	<u>40,000</u>	
<b>NET CHANGE IN FUND BALANCE</b>	(791,841)	(1,114,044)	209,045	1,323,089
<b>FUND BALANCES, JULY 1</b>	<u>1,099,727</u>	<u>1,099,727</u>	<u>1,099,727</u>	
<b>FUND BALANCES, JUNE 30</b>	<u>\$ 307,886</u>	<u>\$ (14,317)</u>	<u>\$ 1,308,772</u>	<u>\$ 1,323,089</u>

## 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, 2004**

	Parking	Storm Drain	Airport
<u>ASSETS</u>			
Current assets:			
Cash and cash equivalents	\$ 1,257,690	\$ 1,514,447	\$ 771,832
Cash and cash equivalents with fiscal agent			
Receivables:			
Accounts	83	8,816	15,987
Interest		35,404	426
Utilities, net		476,882	
Taxes			1,892
Due from governments		4,538	258,437
	<u>1,257,773</u>	<u>2,040,087</u>	<u>1,048,574</u>
Total current assets			
Capital assets:			
Land and construction in progress	3,142,479	1,208,014	2,941,940
Other capital assets, net of accumulated depreciation	8,780,863	12,160,510	5,875,193
	<u>13,181,115</u>	<u>15,408,611</u>	<u>9,865,707</u>
Total assets			
<u>LIABILITIES</u>			
Current liabilities:			
Accounts payable	20,105	105,114	101,425
Accrued salaries and benefits	575	8,965	2,613
Interest payable			
Current portion - long-term debt			
Deferred revenues		(9,684)	
Total current liabilities	<u>20,680</u>	<u>104,395</u>	<u>104,038</u>
Noncurrent liabilities:			
Long-term debt:			
Certificates of participation			
Total liabilities	<u>20,680</u>	<u>104,395</u>	<u>104,038</u>
<u>NET ASSETS</u>			
Invested in capital assets, net of related debt	11,923,342	13,368,524	8,817,133
Unrestricted	1,237,093	1,935,692	944,536
	<u>13,160,435</u>	<u>15,304,216</u>	<u>9,761,669</u>
Total net assets			

<u>Bus</u>	<u>Golf</u>	<u>Community Center</u>	<u>Total</u>
\$ 4,185,440	\$ 273,464	\$ 809,642	\$ 8,812,515
	603,823		603,823
31,788	30,563	54,090	141,327
	4,832	218	40,880
			476,882
			1,892
<u>2,424,038</u>	<u>31,853</u>		<u>2,718,866</u>
<u>6,641,266</u>	<u>944,535</u>	<u>863,950</u>	<u>12,796,185</u>
4,963,875	494,938	3,983,701	16,734,947
<u>16,317,559</u>	<u>3,880,569</u>	<u>12,440,703</u>	<u>59,455,397</u>
<u>27,922,700</u>	<u>5,320,042</u>	<u>17,288,354</u>	<u>88,986,529</u>
576,088	29,762	103,048	935,542
6,990		5,166	24,309
	54,171		54,171
	185,000		185,000
<u>3,971,007</u>	<u>182,804</u>		<u>4,144,127</u>
<u>4,554,085</u>	<u>451,737</u>	<u>108,214</u>	<u>5,343,149</u>
	<u>6,050,000</u>		<u>6,050,000</u>
<u>4,554,085</u>	<u>6,501,737</u>	<u>108,214</u>	<u>11,393,149</u>
21,281,434	(1,270,563)	16,424,404	70,544,274
<u>2,087,181</u>	<u>88,868</u>	<u>755,736</u>	<u>7,049,106</u>
<u>\$ 23,368,615</u>	<u>\$ (1,181,695)</u>	<u>\$ 17,180,140</u>	<u>\$ 77,593,380</u>

**CITY OF MODESTO**  
**COMBINING STATEMENT OF REVENUES, EXPENSES, AND**  
**CHANGES IN FUND NET ASSETS - NONMAJOR ENTERPRISE FUNDS**  
**Year ended June 30, 2004**

	<u>Parking</u>	<u>Storm Drain</u>	<u>Airport</u>
<b>OPERATING REVENUES:</b>			
Charges for services	\$ 890,263	\$ 5,227,844	\$ 559,479
Miscellaneous			
Total operating revenues	<u>890,263</u>	<u>5,227,844</u>	<u>559,479</u>
<b>OPERATING EXPENSES:</b>			
Salaries and wages	185,814	1,042,342	307,622
Contractual services	211,834	1,735,710	56,979
Utilities	100,064	39,772	81,045
Maintenance and supplies	133,023	1,036,899	84,389
Insurance	19,594	18,985	31,554
Employee benefits	32,394	263,188	59,591
Administration services	164,510	816,835	25,848
Allocated indirect administrative costs	26,156	244,463	37,506
Other	35	12,152	20,289
Depreciation	389,892	555,104	405,271
Total operating expenses	<u>1,263,316</u>	<u>5,765,450</u>	<u>1,110,094</u>
<b>OPERATING INCOME (LOSS)</b>	<u>(373,053)</u>	<u>(537,606)</u>	<u>(550,615)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Operating grants		75,407	
Gain (Loss) on disposition of capital assets	620,134	(95,475)	
Tax revenue			211,961
Tax expense			(304)
Interest income	11,477	31,542	5,318
Net increase (decrease) in fair value of investments	(10,681)	(28,646)	(9)
Rental income			126,043
Interest expense			
Total nonoperating revenues (expenses)	<u>620,930</u>	<u>(17,172)</u>	<u>343,009</u>
<b>INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS</b>	247,877	(554,778)	(207,606)
Capital contributions		1,364,608	1,445,215
Transfers in		247,129	
Transfers out		<u>(111,270)</u>	
<b>CHANGE IN NET ASSETS</b>	247,877	945,689	1,237,609
<b>NET ASSETS (DEFICIT), July 1</b>	<u>12,912,558</u>	<u>14,358,527</u>	<u>8,524,060</u>
<b>NET ASSETS (DEFICIT), June 30</b>	<u>\$ 13,160,435</u>	<u>\$ 15,304,216</u>	<u>\$ 9,761,669</u>

<u>Bus</u>	<u>Golf</u>	<u>Community Center</u>	<u>Total</u>
\$ 2,008,651	\$ 2,159,965	\$ 496,680	\$ 11,342,882
68,852	258		69,110
<u>2,077,503</u>	<u>2,160,223</u>	<u>496,680</u>	<u>11,411,992</u>
788,979		770,999	3,095,756
6,229,310	1,582,306	49,861	9,866,000
83,625	6,181	160,248	470,935
1,043,848	28,320	230,508	2,556,987
18,767	6,857	39,313	135,070
186,734		158,054	699,961
320,643	32,608	22,362	1,382,806
272,347	90,328		670,800
53,566	9,719	29,350	125,111
1,186,093	316,661	747,819	3,600,840
<u>10,183,912</u>	<u>2,072,980</u>	<u>2,208,514</u>	<u>22,604,266</u>
<u>(8,106,409)</u>	<u>87,243</u>	<u>(1,711,834)</u>	<u>(11,192,274)</u>
6,142,206			6,217,613
(220,167)	(29,863)		274,629
			211,961
		(6,436)	(6,740)
90,045	6,531	10,999	155,912
(65,093)	(2,487)	(9,891)	(116,807)
95,274	29,700	423,361	674,378
	(328,001)		(328,001)
<u>6,042,265</u>	<u>(324,120)</u>	<u>418,033</u>	<u>7,082,945</u>
(2,064,144)	(236,877)	(1,293,801)	(4,109,329)
4,781,812			7,591,635
861,289	70,000	865,635	2,044,053
(18,000)			(129,270)
3,560,957	(166,877)	(428,166)	5,397,089
<u>19,807,658</u>	<u>(1,014,818)</u>	<u>17,608,306</u>	<u>72,196,291</u>
\$ <u>23,368,615</u>	\$ <u>(1,181,695)</u>	\$ <u>17,180,140</u>	\$ <u>77,593,380</u>

**CITY OF MODESTO**  
**COMBINING STATEMENT OF CASH FLOWS - NONMAJOR ENTERPRISE FUNDS**  
**Year ended June 30, 2004**

	<u>Parking</u>	<u>Storm Drain</u>	<u>Airport</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Receipts from customers and users	\$ 896,543	\$ 5,269,442	\$ 695,091
Receipts from interfund services provided		23,208	
Payments to suppliers	(414,907)	(1,991,527)	(117,455)
Payments to employees	(224,296)	(1,333,128)	(375,703)
Payments for interfund services used	(250,593)	(1,915,734)	(166,446)
Net cash provided (used) by operating activities	<u>6,747</u>	<u>52,261</u>	<u>35,487</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>			
Operating grants received		80,320	
Taxes received			211,961
Transfers in		247,129	
Transfers out		(111,270)	
Repayments of advances from other funds			(42,538)
Net cash provided (used) by noncapital financing activities		<u>216,179</u>	<u>169,423</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>			
Acquisition and construction of capital assets	(7,701)	(379,389)	(1,656,767)
Proceeds from sale of capital assets	630,000		
Principal repayments			
Interest paid			
Capital grants received			1,278,455
Net cash used by capital and related financing activities	<u>622,299</u>	<u>(379,389)</u>	<u>(378,312)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Interest received	11,477	33,005	4,892
Net increase (decrease) in the fair value of investments	(10,681)	(28,646)	(9)
Net cash provided by investing activities	<u>796</u>	<u>4,359</u>	<u>4,883</u>
Net increase (decrease) in cash and cash equivalents	629,842	(106,590)	(168,519)
CASH AND CASH EQUIVALENTS, JULY 1	<u>627,848</u>	<u>1,621,037</u>	<u>940,351</u>
CASH AND CASH EQUIVALENTS, JUNE 30	<u>\$ 1,257,690</u>	<u>\$ 1,514,447</u>	<u>\$ 771,832</u>
<b>RECONCILIATION TO STATEMENT OF NET ASSETS:</b>			
Cash and cash equivalents	\$ 1,257,690	\$ 1,514,447	\$ 771,832
Cash and cash equivalents with fiscal agent			
<b>TOTAL CASH AND CASH EQUIVALENTS</b>	<u>\$ 1,257,690</u>	<u>\$ 1,514,447</u>	<u>\$ 771,832</u>

<u>Bus</u>	<u>Golf</u>	<u>Community Center</u>	<u>Total</u>
\$ 2,240,359	\$ 2,198,898	\$ 912,162	\$ 12,212,495
(7,187,935)	(1,591,589)	(334,681)	(11,638,094)
(999,918)		(953,872)	(3,886,917)
(832,629)	(141,543)	(125,203)	(3,432,148)
<u>(6,780,123)</u>	<u>465,766</u>	<u>(501,594)</u>	<u>(6,721,456)</u>
6,403,463			6,483,783
			211,961
861,289	70,000	865,635	2,044,053
(18,000)			(129,270)
<u>7,246,752</u>	<u>70,000</u>	<u>865,635</u>	<u>8,567,989</u>
(5,084,495)	(675)	(271,767)	(7,400,794)
	(175,000)		630,000
	(329,488)		(175,000)
<u>4,781,812</u>	<u>329,488</u>	<u>6,060,267</u>	<u>6,060,267</u>
<u>(302,683)</u>	<u>(505,163)</u>	<u>(271,767)</u>	<u>(1,215,015)</u>
91,009	5,803	11,147	157,333
(65,093)	(2,487)	(9,891)	(116,807)
<u>25,916</u>	<u>3,316</u>	<u>1,256</u>	<u>40,526</u>
189,862	33,919	93,530	672,044
<u>3,995,578</u>	<u>843,368</u>	<u>716,112</u>	<u>8,744,294</u>
\$ <u>4,185,440</u>	\$ <u>877,287</u>	\$ <u>809,642</u>	\$ <u>9,416,338</u>
\$ 4,185,440	\$ 273,464	\$ 809,642	\$ 8,812,515
<u>4,185,440</u>	<u>603,823</u>	<u>809,642</u>	<u>603,823</u>
\$ <u>4,185,440</u>	\$ <u>877,287</u>	\$ <u>809,642</u>	\$ <u>9,416,338</u>

(continued)

**CITY OF MODESTO**  
**COMBINING STATEMENT OF CASH FLOWS - NONMAJOR ENTERPRISE FUNDS (Continued)**  
**Year ended June 30, 2004**

	Parking	Storm Drain	Airport
<b>RECONCILIATION OF OPERATING INCOME (LOSS)</b>			
<b>TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</b>			
Operating income (loss)	\$ (373,053)	\$ (537,606)	\$ (550,615)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	389,892	555,104	405,271
Rental income			126,043
Taxes paid			(2,196)
Change in assets and liabilities:			
(Increase) decrease in accounts receivable	6,280	(1,917)	11,461
(Increase) decrease in utilities receivable		66,723	
Increase (decrease) in accounts payable and accrued expenses	(10,284)	(2,445)	54,013
Increase (decrease) in accrued salaries and benefits	(6,088)	(27,598)	(8,490)
Increase in deferred revenues			
Total adjustments	379,800	589,867	586,102
Net cash provided (used) by operating activities	\$ 6,747	\$ 52,261	\$ 35,487

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

Capital asset additions accrued at year end	\$		\$ 83,808
Capital assets transferred from other funds		1,140,620	
Developer infrastructure contributions		223,988	

<u>Bus</u>	<u>Golf</u>	<u>Community Center</u>	<u>Total</u>
\$ <u>(8,106,409)</u>	\$ <u>87,243</u>	\$ <u>(1,711,834)</u>	\$ <u>(11,192,274)</u>
1,186,093	316,661	747,819	3,600,840
95,274	29,700	423,361	674,378
		(6,436)	(8,632)
67,582	(28,332)	(7,879)	47,195
			66,723
1,542	23,187	78,194	144,207
(24,205)		(24,819)	(91,200)
	37,307		37,307
<u>1,326,286</u>	<u>378,523</u>	<u>1,210,240</u>	<u>4,470,818</u>
\$ <u><u>(6,780,123)</u></u>	\$ <u><u>465,766</u></u>	\$ <u><u>(501,594)</u></u>	\$ <u><u>(6,721,456)</u></u>
		\$ 16,967	\$ 100,775
			1,140,620
			223,988

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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, 2004**

	<u>Fleet Management</u>	<u>Central Services</u>	<u>Information &amp; Technology Services</u>	<u>Insurance</u>
<b><u>ASSETS</u></b>				
Current assets:				
Cash and cash equivalents	\$ 10,250,217	\$ 309,445	\$ 1,701,114	\$ 12,383,126
Receivables:				
Accounts receivable	18,042			294,265
Interest	11,593			87,097
Inventories		331,115		
Advances to other funds	2,000,000			
Total current assets	<u>12,279,852</u>	<u>640,560</u>	<u>1,701,114</u>	<u>12,764,488</u>
Noncurrent assets:				
Notes receivable, net				
Land and construction in progress	821,032			
Other capital assets, net of accumulated depreciation	<u>15,755,822</u>	<u>79,521</u>	<u>1,936,148</u>	<u>46,367</u>
Total assets	<u>28,856,706</u>	<u>720,081</u>	<u>3,637,262</u>	<u>12,810,855</u>
<b><u>LIABILITIES</u></b>				
Current liabilities:				
Accounts payable	156,177	113,142	59,851	703,613
Accrued salaries and benefits	9,754	2,246	11,741	3,109
Due to other funds				
Current portion - compensated absences				
Current portion - claims liability				5,848,966
Current portion - long-term debt	23,587		24,871	
Total current liabilities	<u>189,518</u>	<u>115,388</u>	<u>96,463</u>	<u>6,555,688</u>
Compensated absences				
Claims liability				10,240,340
Long-term debt:				
Notes payable	196,076			
Obligations under capital leases			20,545	
Total liabilities	<u>385,594</u>	<u>115,388</u>	<u>117,008</u>	<u>16,796,028</u>
<b><u>NET ASSETS</u></b>				
Invested in capital assets, net of related debt	16,357,191	79,521	1,890,732	46,367
Unrestricted	<u>12,113,921</u>	<u>525,172</u>	<u>1,629,522</u>	<u>(4,031,540)</u>
Total net assets	<u>\$ 28,471,112</u>	<u>\$ 604,693</u>	<u>\$ 3,520,254</u>	<u>\$ (3,985,173)</u>

<u>Employee Benefits Management</u>	<u>Building Services</u>	<u>Total</u>
\$ 13,099,243	\$ 414	\$ 37,743,559
		312,307
	368	99,058
		331,115
		<u>2,000,000</u>
<u>13,099,243</u>	<u>782</u>	<u>40,486,039</u>
31,959		31,959
		821,032
<u>9,304</u>	<u>224,383</u>	<u>18,051,545</u>
<u>13,140,506</u>	<u>225,165</u>	<u>59,390,575</u>
405,299	20,762	1,458,844
481	6,010	33,341
	145,000	145,000
2,005,459		2,005,459
		5,848,966
		<u>48,458</u>
<u>2,411,239</u>	<u>171,772</u>	<u>9,540,068</u>
54,674,263		54,674,263
		10,240,340
		196,076
		<u>20,545</u>
<u>57,085,502</u>	<u>171,772</u>	<u>74,671,292</u>
9,304	224,383	18,607,498
<u>(43,954,300)</u>	<u>(170,990)</u>	<u>(33,888,215)</u>
\$ <u>(43,944,996)</u>	\$ <u>53,393</u>	\$ <u>(15,280,717)</u>

**CITY OF MODESTO**  
**COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES**  
**IN FUND NET ASSETS - INTERNAL SERVICE FUNDS**  
**Year ended June 30, 2004**

	<u>Fleet Management</u>	<u>Central Services</u>	<u>Information &amp; Technology Services</u>	<u>Insurance</u>
<b>OPERATING REVENUES:</b>				
Charges for services	\$ 8,576,698	\$ 309,274	\$ 3,569,213	\$ 17,773,783
Sales		3,007,797		
Cost of sales		(2,868,132)		
Total operating revenues	<u>8,576,698</u>	<u>448,939</u>	<u>3,569,213</u>	<u>17,773,783</u>
<b>OPERATING EXPENSES:</b>				
Salaries and wages	995,690	225,849	1,275,085	253,871
Contractual services	393,196	54,368	269,263	44,448
Utilities	8,887	1,193	267,379	611
Maintenance and supplies	1,808,751	54,807	897,244	16,839
Insurance	46,629	4,913	23,696	8,778,124
Claims expense				9,382,084
Employee benefits	256,254	61,003	283,742	86,361
Administration services	43,464	18,647	182	901,637
Allocated indirect administrative costs	258,833			
Other	13,318	447	50,173	20,844
Depreciation	<u>2,369,227</u>	<u>12,713</u>	<u>309,666</u>	<u>8,832</u>
Total operating expenses	<u>6,194,249</u>	<u>433,940</u>	<u>3,376,430</u>	<u>19,493,651</u>
<b>OPERATING INCOME (LOSS)</b>	<u>2,382,449</u>	<u>14,999</u>	<u>192,783</u>	<u>(1,719,868)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Loss on disposition of capital assets	(727,114)	(15,634)	(30,540)	
Interest income		4,566	(2,479)	200,269
Net increase (decrease) in fair value of investments		(5,150)		(202,049)
Total nonoperating revenues (expenses)	<u>(741,022)</u>	<u>(16,218)</u>	<u>(38,843)</u>	<u>(1,780)</u>
<b>INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS</b>	1,641,427	(1,219)	153,940	(1,721,648)
Capital contributions	513,564			
Transfers in	67,901		150,000	
Transfers out				(200,000)
<b>CHANGE IN NET ASSETS</b>	2,222,892	(1,219)	303,940	(1,921,648)
<b>NET ASSETS (DEFICITS), July 1</b>	<u>26,248,220</u>	<u>605,912</u>	<u>3,216,314</u>	<u>(2,063,525)</u>
<b>NET ASSETS (DEFICITS), June 30</b>	<u>\$ 28,471,112</u>	<u>\$ 604,693</u>	<u>\$ 3,520,254</u>	<u>\$ (3,985,173)</u>

<u>Employee Benefits Management</u>	<u>Building Services</u>	<u>Total</u>
\$ 28,143,586	\$ 1,678,738	\$ 60,051,292
		3,007,797
		(2,868,132)
<u>28,143,586</u>	<u>1,678,738</u>	<u>60,190,957</u>
989,837	916,298	4,656,630
2,166	157,704	921,145
	155,788	433,858
26,810	229,022	3,033,473
757	15,823	8,869,942
		9,382,084
31,052,658	136,567	31,876,585
13,581	47,776	1,025,287
		258,833
57,945	365	143,092
2,344	30,744	2,733,526
<u>32,146,098</u>	<u>1,690,087</u>	<u>63,334,455</u>
<u>(4,002,512)</u>	<u>(11,349)</u>	<u>(3,143,498)</u>
	(650)	(773,938)
267,809	(1,628)	468,537
(223,789)	1,841	(429,147)
<u>44,020</u>	<u>(437)</u>	<u>(754,280)</u>
(3,958,492)	(11,786)	(3,897,778)
	9,032	522,596
		217,901
<u>(433,290)</u>	<u>                    </u>	<u>(633,290)</u>
(4,391,782)	(2,754)	(3,790,571)
<u>(39,553,214)</u>	<u>56,147</u>	<u>(11,490,146)</u>
<u>\$ (43,944,996)</u>	<u>\$ 53,393</u>	<u>\$ (15,280,717)</u>

## **FIDUCIARY FUNDS**

The City maintains the Special Assessments Agency Funds to account for collection of special assessments from property owners and forwarding these collections to trustees for payment to bondholders.

**CITY OF MODESTO**  
**STATEMENT OF CHANGES IN ASSETS AND LIABILITIES SPECIAL ASSESSMENTS AGENCY FUND**  
**Year ended June 30, 2004**

	Balance <u>June 30, 2003</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2004</u>
<u>ASSETS</u>				
Cash and cash equivalents	\$ <u>485,034</u>	\$ <u>348,816</u>	\$ <u>496,644</u>	\$ <u>337,206</u>
 <u>LIABILITIES</u>				
Dues to special assessment bondholders	\$ <u>485,034</u>	\$ <u>348,816</u>	\$ <u>496,644</u>	\$ <u>337,206</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	Grants and Contributions 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	

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	\$2,079.0	\$209,694

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**

Year Ended June 30	General Government	Community Development	Highways and Streets	Public Works	Parks and Recreation	Public Safety	Capital Outlay	Debt Service	Total
1995	\$8,869,195		\$7,894,106	\$3,066,056	\$9,172,517	\$37,028,679		\$3,967,695	\$69,998,248
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

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 Assess- ments	Interest and Rent	Fines and Forfeits	Miscel- laneous	Total
1995	\$42,731,968	\$216,368	\$16,026,019	\$2,091,784	\$127,623	\$2,018,667	\$780,576	\$460,046	\$64,453,051
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

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

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

<u>Year Ended June 30,</u>	<u>Total Tax Levy (1)</u>	<u>Current Tax Collections</u>	<u>Percent of Levy Collected</u>	<u>Delinquent Tax Collections</u>	<u>Total Tax Collections</u>	<u>Total Collections As Percent of Current Levy (2)</u>	<u>Delinquent Taxes</u>	<u>Outstanding Delinquent Taxes as Percent of Current Levy</u>
1995	\$6,839,476	\$6,781,170	99.15%		\$6,781,170	99.15		
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		

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	
1995	\$6,636,430,713	\$6,636,430,713	\$303,108,156	\$303,108,156	\$6,939,538,869	\$6,939,538,869	100%
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

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>
1995	1.00	.0729	1.0729
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

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>
1995	\$220,959	\$220,585	99%	\$2,330,764
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
	(1)	(2)		(3)

- (1) Principal levied on prior year tax roll in 2003/04
- (2) Total received on current year tax roll
- (3) Total of Assessment Receivable

**CITY OF MODESTO**  
**COMPUTATION OF LEGAL DEBT MARGIN**  
**June 30, 2004**

Net assessed value (1)		\$ 10,949,571,883
Plus homeowners' exemption (1)		<u>244,527,219</u>
Gross assessed value (1)		\$ 11,194,099,102
Debt limit - 15% of gross assessed value (2)		\$ 1,679,114,865
Amount of debt applicable to debt limit:		
Total general bonded debt, including special assessment debt	\$	0
Less: Assets in debt service funds available for payment of principal	\$	0
Other deductions: Special assessment debt	<u>0</u>	
Total deductions		0
Total amount of debt applicable to debt limit		<u>0</u>
Legal debt margin		<u><u>\$ 1,679,114,865</u></u>

Notes: (1) Source of Data: Stanislaus County Auditor; Last Equalized Roll (AC2703, including aircraft)  
(2) Section 43605 California Government Code.

**CITY OF MODESTO**  
**COMPUTATION OF DIRECT AND OVERLAPPING DEBT**  
**June 30, 2004**

<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		10.0	
Empire Union School District		35.0	
Modesto Elementary School District	9,345,000	72.5	6,775,125
Modesto High School District	17,843,000	68.5	12,222,455
Sylvan School District	10,640,000	85.0	9,044,000
Salida Union Elementary District	1,950,000	27.0	526,500
Stanislaus Union School District	<u>4,480,000</u>	33.0	<u>1,478,400</u>
Total overlapping debt	<u>44,258,000</u>		<u>30,046,480</u>
Total direct and overlapping debt	\$ <u><u>44,258,000</u></u>		\$ <u><u>30,046,480</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, 2004**

Wastewater Treatment Facility Refunding Revenue Bonds Series 1996 and Revenue Bonds Series 1997

Connection charge information:

The Sewer Enterprise imposes connection fees on a one-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  
 \$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>Customer Base of the Enterprise, Year Ended 6/30/04</u>			
<u>Category</u>	<u>Number of Accounts</u>	<u>% of Total Accounts</u>	<u>% of Customer Revenues</u>
Residential	59,105	95.65	47.3
Commercial	2,637	4.27	17.1
Industrial	48	0.08	35.6

<u>Ten Largest Users of Sewer Facilities, Year Ended 6/30/04</u>	
<u>User</u>	<u>% of Sewer Operating Revenue</u>
1) Del Monte	8.02
2) Signature Fruit	7.39
3) Stanislaus Foods	6.49
4) E & J Gallo Winery	2.11
5) Frito Lay	1.99
6) Foster Farms	1.53
7) City of Ceres	1.49
8) Modesto Tallow	1.48
9) Nestle Food Company	0.68
10) FMC Corp	0.31

There was a 4% sewer rate increase on October 1, 2003.

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	
General Fund Revenues, Expenditures and Changes in Fund Balance	Page 24	
Principal Amount of Bonds and Other Parity Debt	Page 45	(Note III-C)
Historical Debt Service Coverage	Page 119	
Property Tax Levies and Collections	Page 109	
Assessed Value of Taxable Property, Last 5 Fiscal Years	Page 110	
Property Value and Construction Activity, Last 5 Fiscal Years	Page 120	

(continued)

**CITY OF MODESTO**  
**CONTINUING DISCLOSURE REQUIREMENTS INFORMATION (continued)**  
**Year Ended June 30, 2004**

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 Fund Requirement as of 6/30/04	\$0 (covered by surety bond, issued by Federal Guaranty Insurance Company)
Balance in Parity Reserve Fund as of 6/30/04	\$0
Balance in Rate Stabilization Fund as of 6/30/04	\$2,846,800

Ten Largest Customers of Water Utility System, Year Ended 6/30/04

<u>Customer</u>	<u>Business Type</u>	<u>% of Total Water Sales Revenue</u>
1) Stanislaus Foods	Cannery	1.41
2) Signature Fruit	Cannery	1.30
3) Foster Farms	Dairy Processor	0.91
4) E & J Gallo Winery	Winery	0.61
5) Del Monte Foods	Cannery	0.58
6) Nestle Food Company	Food Processor	0.39
7) Yosemite Community College	Community College	0.29
8) Memorial Hospital	Hospital	0.26
9) Modesto Tallow	Tallow Works	0.23
10) Doctors Hospital	Hospital	0.22

Water Sales Revenue, Year Ended 6/30/04

Residential - flat rates	\$16,849,016
Commercial, industrial and municipal - metered rates	10,523,926
Total Water Sales	<u>\$27,372,942</u>

Average Monthly Water Service Charges as of 6/30/04 - Residential Accounts

Zone 1	\$20.60
Zone 2	28.58
Zone 3	18.20

Current Water Rates and Charges as of 6/30/04 - Commercial Accounts

<u>Meter Size</u>	<u>Zone 1</u>	<u>Zone 2</u>	<u>Zone 3</u>
3/4"	\$13.63	\$8.12	\$11.12
1"	18.14	10.17	13.94
1 1/2"	22.54	15.53	21.09
2"	27.20	21.09	28.54
3"	36.27	33.73	45.61
4"	47.16	51.58	69.22
6"	70.90	83.08	111.29
8"	90.55	119.27	159.36
10"	109.16	180.55	241.79
12"	127.83	219.36	293.88

Meter rates shown are for the first 1,680 cubic feet per month. Additional volume charges also apply, as follows:  
 Zone 1 - \$.82 for each 100 cubic feet over 1,680. Zone 2 - \$1.005 for the first 100 cubic feet, and \$.971 for each additional 100 cubic feet. Zone 3 - \$.601 for the first 100 cubic feet, and \$.552 for each additional 100 cubic feet.

(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 6/30/04 is \$82,145,000 (continued)

**CITY OF MODESTO**  
**CONTINUING DISCLOSURE REQUIREMENTS INFORMATION (continued)**  
**Year Ended June 30, 2004**

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 2004

Gross Operating Revenues:	
Charges for services	\$31,353,046
DBCP settlement	210,834
Connection charges	1,159,296
Interest and rental income	316,688
Total Gross Operating Revenues	<u>33,039,864</u>
Operating Expenses:	
Total operating expenses	26,757,108
Less: Depreciation	(2,173,845)
T&DA debt service component paid to MID	(6,486,416)
Plus: property taxes	89,921
Total Operating Expenses	<u>18,186,768</u>
Net Operating Revenues	<u><u>\$14,853,096</u></u>
Total Debt Service:	
1997 Refunding Certificates of Participation	1,780,288
Treatment & Delivery Agreement	6,486,416
CDWR Loan	264,656
Total Debt Service	<u><u>\$8,531,360</u></u>
Debt Service Coverage (Net Operating Revenues/Total Debt Service)	1.74

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 43	(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)
1995	\$17,396,410	\$8,349,453	\$9,046,957	\$1,793,798	5.04
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

- Notes: (1) Gross revenue consists of charges for services, interest and rental income, and connection fees of the Sewer Fund.
- (2) Total Sewer Fund operating expenses exclusive of depreciation. Beginning with fiscal year 1996 this figure also includes allocated indirect costs and property taxes.
- (3) Includes total principal and interest of Wastewater Treatment Facility Revenue Bonds, Series 1993 and 1997, and Refunding Revenue Bonds, Series 1987 and 1996. The 1987 Refunding Bonds were refunded and called on November 1, 1996.
- (4) Calculation of debt service coverage beginning with fiscal year 1996 is based on the calculation method recommended for continuing disclosure under the Series 1996 Refunding Revenue Bonds and the Series 1997 Revenue Bonds. Previous years have not been changed to agree with new calculation method.

**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	
1995	24	\$10,875,094	262	\$23,249,474	\$7,146,448,918	\$434,451,094	\$1,342,070,000
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	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, 2004**

<u>Taxpayer</u>	<u>Type of Business</u>	<u>Assessed Value</u>	<u>Percent of Total</u>
National Medical Hospitals	Medical	\$ 127,587,843	1.21%
Macerich Vintage Faire Associates	Shopping Center	85,578,261	0.81%
Foster Farms Dairy	Food Processing	80,259,221	0.76%
Phenix Management Corp.	Food Processing	57,516,190	0.54%
Liljenquist Modesto	Real Estate	42,064,914	0.40%
Pan Pacific Retail	Retail	27,113,370	0.26%
Oates Marvin L TR ET AL	Real Estate	25,467,988	0.24%
Costco Wholesale Co.	Wholesale	21,840,138	0.21%
Pelandale Development	Real Estate	21,034,936	0.20%
Gallo Glass Co.	Manufacturing	20,585,586	0.19%
All others			95%
			<u>100%</u> %

Source of Data: Stanislaus County Assessor

**CITY OF MODESTO**  
**DEMOGRAPHIC AND MISCELLANEOUS STATISTICAL DATA**  
**June 30, 2004**

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
01/01/04	206,200

Housing units:

1980 (2)	42,570
1990 (3)	60,878
2000 (4)	67,683
2002 (4)	60,878
2004 (1)	72,017

Median housing unit value (6)	\$245,000.00
Median monthly rent (4)	\$719.00
Median age (4)	35.4
Median family income (5)	\$52,000.00

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, 2004**

Permanent employees authorized	1,280.975
Fire Protection: Underwriter's Classification - Class 2	
Fire Stations	10
Positions authorized	175
Number of fire hydrants	6,767
Police Protection:	
Police Station	1
Area command offices	3
Positions authorized (includes 10 unfunded positions)	381
Number of vehicles	226
Recreational Areas (acres):	
Developed Parks	
59 fully or partially developed	446.41
1 Regional Park (TRRP developed)	74.00
Undeveloped Parks	
7 Neighborhood	37.74
2 Community	62.00
2 Regional	456.30
Total: 12 Undeveloped Parks	556.04
Special Facilities	
1 Baseball stadium	20.00
3 Golf courses	363.29
Total: 4 Special Facilities	383.29
Total Recreational Areas	1,459.74
Building Permits:	
Permits issued in 2003-2004	5,797
Estimated cost of construction	\$280,409,588
Streets:	
Streets (miles)	653
Street lights	12,839
Traffic signals	191
Parking Facilities:	
Number of parking lots (incl. garages)	13
Number of off-street parking spaces	2,409

(Continued)

**CITY OF MODESTO**  
**DEMOGRAPHIC AND MISCELLANEOUS STATISTICAL DATA (continued)**  
**June 30, 2004**

Elderly and handicapped van service:	
Number of vehicles	11
Seating capacity vans	12
Average weekday number of passengers	385
Average miles per month	40,917

Airport:	
For year ended June 30, 2004	
Number of passengers enplaned	19,521
Number of passengers deplaned	19,046
Total aircraft movements	80,748
Annual fuel consumption in gallons	762,667
Total number of tenant aircraft	187
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	27
Number of air carriers scheduled per day	4
Number of runways	2

Bus Service:	
Number of buses	36
Number of routes	17
Miles of routes	232
Seating capacity per bus	36
Average weekday number of passengers	10,192
Average miles per month	126,220
Frequency of service	30 min. & 60 min.

Sewer Service:	
Plant capacity in million gallons per day	62.5
Miles of storm sewers	116.1
Miles of sanitary laterals	467.58
Miles of sanitary trunks and industrial	80.68

Water Service:	
Average daily consumption in gallons	72,922,193
Number of wells	98
Miles of water mains	900

Sources of data: Various City departments