

City of

Modesto

California



Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2011

**CITY OF
Modesto, California**

**COMPREHENSIVE ANNUAL FINANCIAL REPORT
Fiscal Year Ended June 30, 2011**

**Prepared by
Finance Department**

CITY OF MODESTO
 June 30, 2011
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INTRODUCTORY SECTION



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February 28, 2012

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

We are pleased to present to you the Comprehensive Annual Financial Report (CAFR) for the City of Modesto. The City of Modesto City Charter and Municipal Code require that a complete (CAFR) which is comprised of a financial statement and report on the finances of the City be submitted to the City Council at the end of each fiscal year. This report is being submitted to fulfill that requirement for the fiscal year ended June 30, 2011.

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

The Modesto City Charter also requires an annual audit be performed by an independent certified public accountant selected by the Modesto City Council. The accounting firm of Brown and Armstrong was selected in 2009 to perform the City's annual financial audits. The auditors have issued an unqualified ("clean") opinion on the financial statements for the fiscal year ended June 30, 2011, which is presented on page 3. In addition to meeting the City Charter audit requirements, the audit was also designed to meet the requirements of the federal Single Audit Act of 1996 and related OMB Circular A-133.

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

City of Modesto Profile

Modesto is a dynamic city located in the heart of California's San Joaquin Valley and is the County Seat of Stanislaus County. It is also the retail, service and financial center of Stanislaus County. The City currently occupies a land area of approximately 37 square miles and serves a population of 201,165. Periodically, as allowed by state statute, the City extends its corporate limits by annexation when deemed appropriate by the City Council. Modesto is diverse with a strong sense of community pride.

Incorporated as a municipal city in 1884, the City of Modesto adopted its City Charter on March 12, 1951, with a Council-Manager form of government. The Modesto City Council is the City's legislative body and is made up of seven elected officials. The Mayor is elected at-large by the entire City; while the six Councilmembers are elected by district by the residents within the respective district. Members of the

City Council hold office for four year terms and are limited to two terms. Their terms of office expire in alternate odd numbered years, with a maximum of four Council seats up for election at any one time. The responsibilities of the City Council include setting policy, approving budgets, determining tax rates, passing ordinances and resolutions to govern the City, appointing citizens to advisory boards, committees and commission as well as to appoint and supervise the performance of the City Manager, City Attorney, City Clerk and City Auditor. The City Manager delegates responsibilities to a Deputy City Manager and nine Department Directors.

The City provides the services typically associated with a municipality, including: administrative services; police and fire protection; highway, street, and utility infrastructure construction and maintenance; sanitation; planning and zoning; recreational activities and cultural events; parking, airport facilities, water, sewer, storm drainage and bus services.

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

The annual operating budget serves as the foundation for Modesto's financial planning and control. The proposed budget is adopted annually prior to July 1, by City Council resolution. The Council's legally adopted budget level is at the fund level. Throughout the fiscal year, the budget may be modified – the City Council has also adopted fiscal policies that delineate the delegated budget control authority to the following parties: the City Council, the City Manager and the Director of Finance.

Local Economy

Modesto continues to struggle with the effects of the Great Recession and being the epicenter of the foreclosure crisis. Primary revenue sources of the City have been directly impacted by economic influences. Total revenues, including sales and property taxes, have decreased over \$20 million since the budget was adopted for Fiscal Year 2008. This has caused a corresponding contraction in services provided to the community and a reduction in the City's General Fund budget.

The primary employers in Modesto include the areas of government, retail and manufacturing with a heavy emphasis on agriculture – Stanislaus County consistently ranks among the top 10 California counties in terms of annual agricultural production values with leading commodities being milk, almonds and poultry.

The unemployment rate within the Modesto Metropolitan Statistical Area has increased significantly over the past several years. As of June, 30, 2011, the unemployment rate was recorded at 17.2%.

Building permit activity boomed over the past decade; however, the City has experienced virtually little building activity during the last 12 months. This lack of activity can be compared to peak levels over the last decade. Permit activity peaked in 2001, when 7,155 permits with construction valued at \$477 million were issued. In 2005, the total construction had declined to a value of \$360 million. Since that time construction values have fallen and in 2011, there were 3,359 permits issued with an estimated valuation of \$69.1 million.

In recent years, the public safety budget has risen and at June 30, 2011 represents 73% of total General Fund expenditures. Expenses for other government functions have decreased in response to the sharp reduction in major revenue sources of property and sales tax which are a result of the decline in the economy. Increased need, driven by the growth in the population, as well as increases in salaries and benefits have been the leading causes for the rise in public safety expenses over the past several years.

Long-Term Financial Planning

Despite uncertainties surrounding local government, the City continues to prepare multi-year budgets and attempts to project revenues and expenditures five (5) years into the future. In June 2010, the City Council amended its fiscal policies to require the City to maintain at least \$7 million of General Fund expenditures in reserve, which it successfully has done. At the end of Fiscal Year 2011, total General Fund balance was \$14.9 million representing 15.5% of total General Fund expenditures. This fund balance allows the City to respond to unplanned circumstances and maintain adequate working capital to meet its cash flow needs. The long-term maintenance of a stable fund balance is a direct reflection of the Mayor and Council's leadership and prudent fiscal management. The Mayor and Council have employed expenditure reduction strategies in direct response to declining revenues instead of utilizing fund balance reserves to augment declining revenues. Staff commends them for their long-term vision to ensure the fiscal well-being of the City.

SIGNIFICANT EVENTS and ACCOMPLISHMENTS

State Impacts

In November 2010, voters approved Proposition 22. Proposition 22 restricted the State's ability to divert local government revenues to the State, thus securing local revenue streams for local needs. Despite this action, in July 2011, the State passed legislation to dissolve redevelopment agencies across the State and divert their tax increment monies away from local governments to the State and local school districts. This action was challenged in court and a ruling in December 2011 affirmed the State's legal authority to do so. The City is working through various actions to dissolve its redevelopment agency and assess impacts on its local economy, the construction industry and the economic recovery of the area.

Local Initiatives and Accomplishments

Despite the fiscal challenges facing the City, staff has been able to achieve several milestones:

- Successful completion of the Comprehensive Fee Task Force's review of City development fees. This task force was comprised of community leaders, interested citizens and City staff. Over the course of approximately 18 months, the task force reviewed and made recommendations to Council regarding its development fee structure. In addition, it successfully developed an economic incentive program to attract new businesses to the City.
- During 2011, the City partnered with our downtown community and businesses in an effort to improve the downtown core. These improvements included repaving several streets, repairing or replacing bad sections of sidewalks, general clean-up, installing trash receptacles and benches and planting trees. In addition, an increased police presence, improved store fronts, and new events have helped make the downtown a safer and more pleasurable place to work, shop and socialize. Such partnerships will continue to be an important part of the city's ongoing efforts to make Modesto a safe, attractive and vibrant city where people choose to raise a family, grow business and enjoy life.
- In March 2011, the Modesto Police Department was awarded a three-year re-accreditation, with flagship designation, from the Commission on Law Enforcement Accreditation. Accreditation ensures the Modesto Police Department subscribes to a body of standards developed by public-safety practitioners, covering a wide range of up-to-date initiatives. The standards help to strengthen crime prevention efforts, formalize management procedures, nondiscriminatory personnel practices and provide for improved service delivery. In addition, improved interagency cooperation and coordination along with an increase in community and staff confidence are all a part of the accreditation process. Only 23 percent of all law enforcement agencies across the USA are accredited and the Modesto Police Department is the second largest municipal law enforcement agency in California to achieve accreditation.
- The City has been ranked as one of the top 10 most technology-advanced cities in the 2011 Digital Cities Survey published by the Center for Digital Government. The survey examines

results achieved by cities, via the use of technology, in operating efficiencies and realizing strategic objectives despite current fiscal constraints.

- The City partnered with the Stanislaus County and the Salida Fire Protection District to form the Modesto Regional Fire Authority. The purpose of this authority to achieve efficiencies in operations and to take a regionalized approach to fire protection and prevention.
- The City also partnered with the Cities of Turlock and Ceres to form the Stanislaus Regional Water Authority. While this authority is in its infant stage, its mission is to provide a reliable, high-quality treated surface water source from the Turlock Irrigation District supplies to the Cities of Ceres, Modesto and Turlock.
- In 2011, the City kicked off the new Mayor's Top 50 Teens program by partnering with local high schools to identify 50 students who have overcome personal obstacles and demonstrated leadership characteristics. These teens participate with the Mayor in local events and receive recognition for their personal and academic achievements.
- In 2011, staff conducted several community forums with outreach to citizens to solicit their input into the City's Strategic Plan and the accompanying six strategic commitments to the community.

These commitments are:

Commitment #1 – Build and promote partnerships that engage neighborhoods and create a sense of community.

Commitment #2 – Provide a safe and inviting community in which to live, work and visit.

Commitment #3 – Provide an innovative and accountable city government that embraces a standard of service excellence through adaptive leadership and responsive public service.

Commitment #4 – Foster a vibrant, competitive and diverse economic environment for business.

Commitment #5 – Champion education partnerships.

Commitment #6 – Promote Modesto.

As part of the Strategic Plan, staff has made 9 commitments to the Council and community. These commitments are articulated in an acronym called "EMBRACE IT! Every day, for every customer" and include:

E – Exceptional Service	I – Innovation
M – Measurable Success	T – Teamwork
B – Build Trust	
R – Results Oriented	
A – Accountability	
C – Community Outreach	
E – Excite Pride	

- In May 2010, Council awarded contracts for the upgrade and implementation of a new Finance Enterprise (ERP) system. This system will replace several obsolete existing systems and fully integrate the financial, human resources, and payroll processes. During 2011, staff worked on implementation of the ERP system and anticipates having the new system fully implemented by the end of the 2012 fiscal year.

Awards and Acknowledgments

For the 27th 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, 2010. 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 award is valid for a period of one year. We believe that the current Comprehensive Annual Financial Report continues to meet the requirements of the program, and it will be submitted to the GFOA to determine its eligibility.

The Comprehensive Annual Financial Report (CAFR) 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 prepared and contributed to its successful completion. In particular, we commend DeAnna Espinoza, Belinda Duerksen, and the staff of the Accounting Division responsible for the preparation of this report. Without their hard work, this report would not be possible.

As we prepare this transmittal letter, we approach the final weeks of Jim Ridenour's second four-year term as Mayor of the City of Modesto. This brings joy and hopefulness to the City's staff. We share joy for the things Mayor Ridenour has been able to achieve during his term as Mayor and for what the future will bring to him as he approaches retirement. We also share hopefulness for the new ideas and directions our next Mayor will bring to us. Mayor Ridenour, we thank you for the hard work, leadership and direction you have given the City and its citizens during the last eight years. We also wish you the best in the future.

Finally, we would like to express our appreciation to the City Council. Their leadership and direction throughout the year has allowed the City to look beyond the current economic storm and strive to become something better.

Respectfully submitted,



Greg Nyhoff
City Manager



Gloriette Genereux
Director of Finance

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, 2010

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.



Linda C. Davison

President

Jeffrey R. Emer

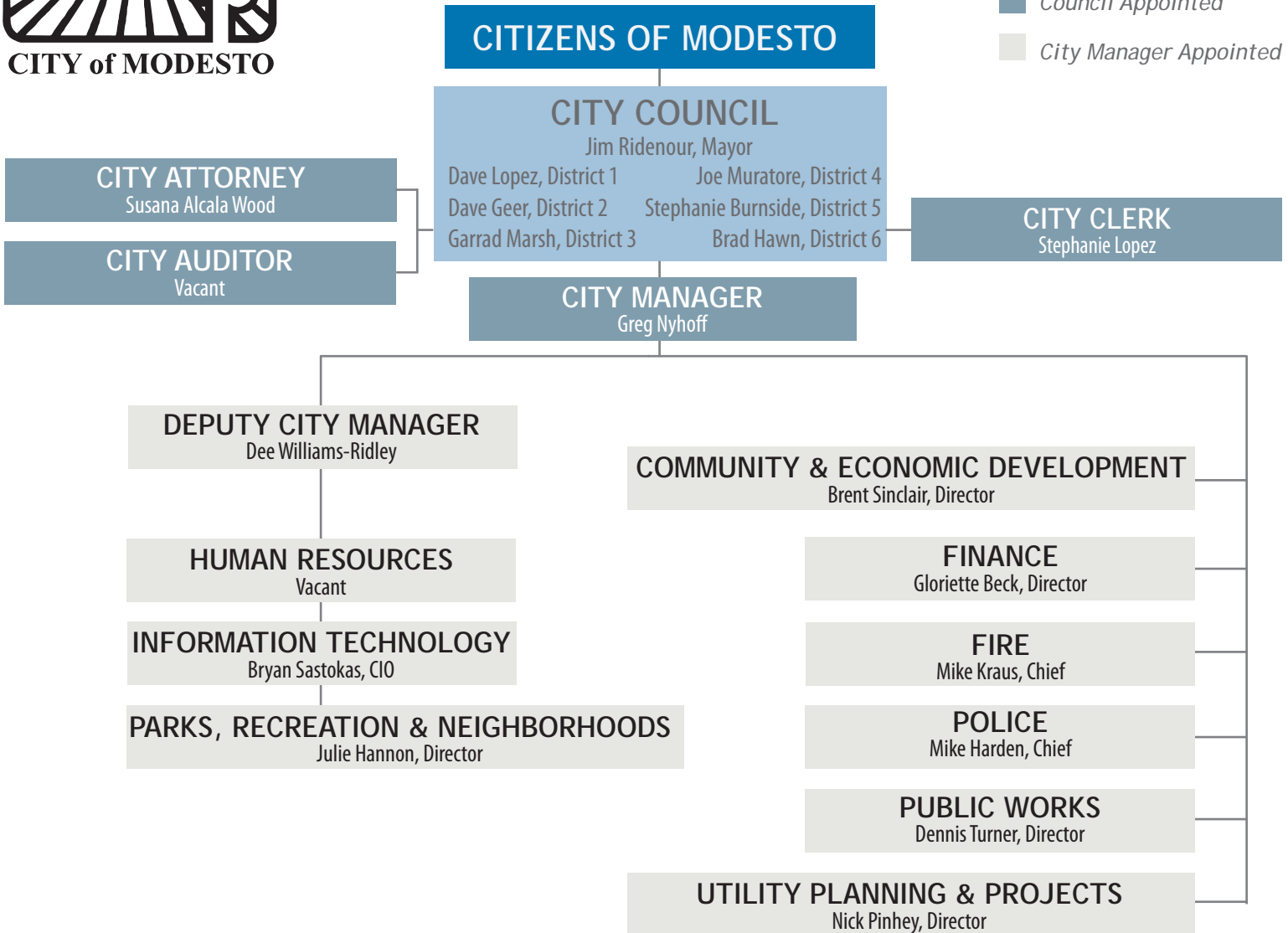
Executive Director

CITY OF MODESTO ORGANIZATIONAL CHART



Legend

- Elected
- Council Appointed
- City Manager Appointed

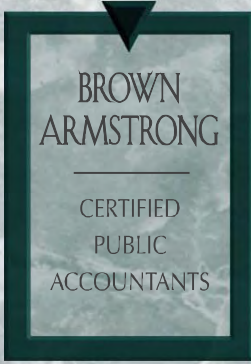


CITIZENS ADVISORY BOARDS, COMMISSIONS AND COMMITTEES

- | | |
|---|---|
| <ul style="list-style-type: none"> Airport Advisory Committee Board of Building Appeals Board of Zoning Adjustments Charter Review Committee Citizens Advisory Committee on Recycling Citizen Housing & Community Development Committee Citizens Redevelopment Advisory Committee Citizens Salary Setting Commission Comprehensive Fee Task Force Culture Commission Disabled Access Appeals Board Districting Commission | <ul style="list-style-type: none"> Downtown Improvement District Advisory Board Entertainment Commission Equal Opportunity/Disability Commission Golf Courses Advisory Committee Housing Rehabilitation Loan Committee Human Relations Commission Landmark Preservation Commission Local Cable Programming Committee Planning Commission Solid Waste Advisory Committee Tuolumne River Regional Park Citizens Advisory Committee Youth Commission |
|---|---|

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FINANCIAL SECTION



BROWN ARMSTRONG
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Honorable City Council
City of Modesto, California

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Modesto, California, as of and for the year ended June 30, 2011, which collectively comprise the City of Modesto's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Modesto's management. Our responsibility is to express opinions on these basic financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Modesto, California, as of June 30, 2011, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 28, 2012, on our consideration of the City of Modesto's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and the schedule of funding progress of the City of Modesto's pension plan and other postemployment benefit plan, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or

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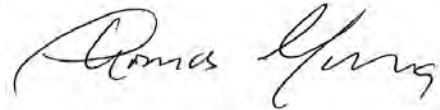


REGISTERED with the Public Company
Accounting Oversight Board and
MEMBER of the American Institute of
Certified Public Accountants

historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the basic financial statements that collectively comprise the City of Modesto's basic financial statements as a whole. The introductory section, combining and individual nonmajor fund financial statements and schedules, and statistical section, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

A handwritten signature in cursive script, appearing to read "Ronald Young", is written over a light grey rectangular background.

Bakersfield, California
February 28, 2012

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, 2011. 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 2011 fiscal year by \$1,030,341,625 (*total net assets*). Of this amount, \$144,574,017 (*unrestricted net assets*) may be used to meet ongoing obligations to citizens and creditors, \$66,570,581 is restricted for a specific purpose (*restricted net assets*), and \$819,197,027 is invested in capital assets, net of related debt.
- The City's total net assets increased by \$206,134,151 compared to the prior year. All of this increase is attributable to Business-Type Activities.
- As of June 30, 2011, the City's governmental funds reported combined fund balances of \$113,940,285, an increase of \$68,689 in comparison with the prior year. Approximately 8% of the combined fund balances, \$10,215,682 is available to meet the City's current and future needs (*General Fund unassigned fund balance*).
- At the end of the fiscal year, the General Fund balance was \$14,987,384, or 16% of total General Fund expenditures. Of this, \$4.3 million is restricted fund balances. The unassigned fund balance of \$10,215,682 represents 11% of total General Fund outflows. The City Council has adopted a goal of maintaining an 8% unreserved fund balance amount.
- The City's total long-term liabilities showed a net increase of \$157,955,070 in comparison with the prior year. The increase is due to recording long-term debt and water rights issued by Modesto Irrigation District on behalf of the City for the bonds issued in 1998 and 2007.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

Both of these government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, community development, highways and streets, public works, parks and recreation, and public safety. The business-type activities of the City include the water, sewer, parking, storm drain, airport, bus, golf and community center operations.

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

The government-wide financial statements can be found on pages 17-19 of this report.

Management's Discussion and Analysis (continued)

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 17 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 and Housing and Community Development. 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 20-23 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, Compost, 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, Sewer and Bus 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 24-27 of this report.

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

The fiduciary fund financial statements can be found on page 28 of this report.

Notes to Basic Financial Statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes can be found on **pages 29-60** 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 63-67 of this report.

Management's Discussion and Analysis *(continued)*

The *combining and individual fund statements and schedules* referred to earlier provide information for non-major 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 74-107** 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 \$1,030,341,625 at the close of the most recent fiscal year.

	Net Assets					
	Governmental activities		Business-type activities		Total	
	2011	2010	2011	2010	2011	2010
Current and other assets	\$235,148,980	\$220,010,362	\$191,902,849	\$183,857,214	\$427,051,829	\$403,867,576
Capital assets	390,318,536	398,476,708	737,215,800	372,756,536	1,127,534,336	771,233,244
Total assets	<u>625,467,516</u>	<u>618,487,070</u>	<u>929,118,649</u>	<u>556,613,750</u>	<u>1,554,586,165</u>	<u>1,175,100,820</u>
Current and other liabilities	42,916,492	26,219,060	15,491,781	16,793,089	58,408,273	\$43,012,149
Long-term liabilities	171,429,440	166,747,547	294,406,827	141,133,650	465,836,267	307,881,197
Total liabilities	<u>214,345,932</u>	<u>192,966,607</u>	<u>309,898,608</u>	<u>157,926,739</u>	<u>524,244,540</u>	<u>350,893,346</u>
Net assets:						
Invested in capital assets, net of related debt	338,010,133	329,592,168	481,186,894	251,025,494	819,197,027	\$580,617,662
Restricted net assets	66,570,581	81,528,516			66,570,581	\$81,528,516
Unrestricted net assets	6,540,870	14,399,779	138,033,147	147,661,517	144,574,017	162,061,296
Total net assets	<u>\$411,121,584</u>	<u>\$425,520,463</u>	<u>\$619,220,041</u>	<u>\$398,687,011</u>	<u>\$1,030,341,625</u>	<u>\$824,207,474</u>

The largest portion of the City's net assets, \$819,197,027 (79.5 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 \$144,574,017 (14 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 \$66,570,581 (6.5 percent) represents resources that are subject to external restrictions on how they may be used.

At the end of the 2011 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 \$206,134,151 during the current fiscal year.

Management's Discussion and Analysis *(continued)*

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

	Changes in Net Assets					
	Governmental activities		Business-type activities		Total	
	2011	2010	2011	2010	2011	2010
Revenues:						
Program revenues:						
Charges for services	\$25,707,056	\$25,775,676	\$112,381,791	\$106,214,203	\$138,088,847	131,989,879
Operating grants and contributions	19,861,492	14,559,357	12,629,219	13,706,512	32,490,711	28,265,869
Capital grants and contributions	7,334,967	10,876,018	4,856,649	2,898,489	12,191,616	13,774,507
General revenues:						
Taxes	52,068,220	52,606,197	309,699	265,587	52,377,919	52,871,784
Intergovernmental revenue not restricted for specific purposes	47,248,136	37,532,698			47,248,136	37,532,698
Unrestricted investment earnings	696,848	1,211,702	1,947,417	3,155,954	2,644,265	4,367,656
Settlements and recoveries			187,096	447,102	187,096	447,102
Miscellaneous	1,630,466	2,502,397			1,630,466	2,502,397
Total revenues	<u>154,547,185</u>	<u>145,064,045</u>	<u>132,311,871</u>	<u>126,687,847</u>	<u>286,859,056</u>	<u>271,751,892</u>
Expenses:						
General government	12,473,794	12,093,091			12,473,794	12,093,091
Community development	28,301,160	18,912,766			28,301,160	18,912,766
Highways and streets	24,114,799	23,668,779			24,114,799	23,668,779
Public works	7,393,809	6,759,562			7,393,809	6,759,562
Parks and recreation	10,310,549	13,268,871			10,310,549	13,268,871
Public safety	83,381,310	80,254,834			83,381,310	80,254,834
Interest on long-term debt	3,609,345	5,766,421			3,609,345	5,766,421
Parking			1,518,955	1,826,401	1,518,955	1,826,401
Water			36,305,860	43,619,704	36,305,860	43,619,704
Sewer			28,497,430	28,055,056	28,497,430	28,055,056
Storm drain			7,619,939	5,201,741	7,619,939	5,201,741
Compost			4,112,837	1,480,068	4,112,837	1,480,068
Airport			2,157,180	1,918,113	2,157,180	1,918,113
Bus			16,064,104	15,671,731	16,064,104	15,671,731
Golf			2,366,052	2,473,968	2,366,052	2,473,968
Community center			2,284,082	2,346,175	2,284,082	2,346,175
Total expenses	<u>169,584,766</u>	<u>160,724,324</u>	<u>100,926,439</u>	<u>102,592,957</u>	<u>270,511,205</u>	<u>263,317,281</u>
Increase in net assets before transfers	(15,037,581)	(15,660,279)	31,385,432	24,094,890	16,347,851	8,434,611
Transfers	1,503,170	402,303	(1,503,170)	(402,303)	0	0
Special item			(727,310)	(1,326,309)	(727,310)	(1,326,309)
Change in net assets	(13,534,411)	(15,257,976)	29,154,952	22,366,278	15,620,541	7,108,302
Net assets - beginning, as restated	425,520,463	441,704,863	398,687,011	388,072,584	824,207,474	829,777,447
Prior year adjustments	(864,468)	(926,424)	191,378,078	(11,751,851)	190,513,610	(12,678,275)
Net assets - ending	<u>\$411,121,584</u>	<u>\$425,520,463</u>	<u>\$619,220,041</u>	<u>\$398,687,011</u>	<u>\$1,030,341,625</u>	<u>\$824,207,474</u>

Governmental activities. Governmental activities decreased the City's net assets by \$14,398,879. Taxes declined about \$538 million compared to 2010 due to the continual declines in reassessment of property values due to the housing crisis. Charges for Services declined due to a reclassification in our Green Waste Diversion and Solid Waste Management fund

Management's Discussion and Analysis (*continued*)

into business-type activities. Finally, investment earnings dropped by \$.515 million due to interest rate declines and cash flows to cover the reduction in major revenue sources.

Expenses in total were higher compared to the prior year by \$8,860,442 million, or 5.5%, due mainly to strategic spending reductions implemented by the City Council in response to lower revenue estimates and as well as a significant increase in the City Net Other Post Employee benefits (OPEB).

Business-type activities. Business-type activities increased the City's net assets by \$220,533,030. As detailed in the schedule on **page 12**, net losses were continued to be experienced in the Parking, Golf and Community Center operations. Depreciation expense, which is the major cause of these net losses, is not included in these funds' budgets or revenue-setting processes.

Charges for services increased by approximately \$6,167,588 million due to a 2.1% CPI increase for water rates and 3% rate increase for sewer rate in this fiscal year. Additionally, there was an increase in the Bus fund due to fare revenues increase.

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, *unassigned 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, 2011, the City's governmental funds reported combined fund balances of \$113,940,285, an increase of \$68,689 from the prior year. Approximately -12% of the combined fund balances (\$13,398,626) constitute *unassigned fund balance*, which \$10,215,682 represents the General Fund unassigned fund balance that is available to meet the City's current and future needs. The remainder of fund balance is *Non-spendable, restricted, committed and assigned* to indicate that it is *not* available for new spending because it has been committed.

The General Fund is the chief operating fund of the City. At June 30, 2011, unassigned fund balance of the General Fund was \$10,215,682 while total fund balance was \$14,987,384. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 11% of total fund expenditures, while total fund balance represents 16% of that same amount. The prior year ratios were 11% and 13.2%, respectively. The use of the fund balance reserves was planned and budgeted during the year.

Revenues of governmental funds totaled \$156,249,438 in fiscal year 2010-11, which represents an increase of 8.3% from fiscal year 2009-10.

Expenditures of governmental funds totaled \$153,585,852 in fiscal year 2010-11, representing a decrease of 1.3% over the prior year.

Management's Discussion and Analysis *(continued)*

The following table presents governmental fund revenues from various sources, with comparisons to the prior year:

Revenues Classified by Source – Governmental Funds

Revenues by Source	FY 2011		FY 2010		Increase (Decrease)	
	Amount	Percent	Amount	Percent	Amount	% Change
Taxes	\$52,068,220	33.3%	\$52,606,197	36.5%	(\$537,977)	-1.0%
Licenses and permits	139,073	0.1%	138,811	0.1%	262	0.2%
Intergovernmental	74,242,596	47.5%	61,551,617	42.6%	12,690,979	20.6%
Charges for services	22,638,801	14.5%	23,509,170	16.3%	(870,369)	-3.7%
Special assessments	1,852,529	1.2%	38,520		1,814,009	4709.3%
Interest and rent	838,178	0.5%	1,322,005	0.9%	(483,827)	-36.6%
Net increase (decrease) in fair value	(89,608)	-0.1%	399,322	0.3%	(488,930)	-122.4%
Fines and forfeits	2,929,182	1.9%	2,253,014	1.6%	676,168	30.0%
Miscellaneous	1,630,467	1.1%	2,502,397	1.7%	(871,930)	-34.8%
Total	\$156,249,438	100.0%	\$144,321,053	100.0%	\$11,928,385	8.3%

- Taxes –Property taxes and Redevelopment Agency Tax Increment (an allocation of property taxes) property taxes increase slightly net with slightly increased delinquent taxes by \$276,485 but Redevelopment Agency Tax increment decreased, due mainly to the drop in commercial properties that are affecting the amount of supplemental tax payments received.
- Intergovernmental – State sales taxes and motor vehicle license fees increased due to higher sustained fuel prices. Additionally, grant revenues increased due to spending on the neighborhood stabilization program as well as Prop 1B funding received from the state.
- Charges for services – Included in this category are the Capital Facilities and Community Facility District Fees charged to mitigate the impact of new development on City infrastructure needs. Capital Facility Fees collected during the year continue to decrease due to the halt in new housing starts.
- Investment revenues decreased due to a reduction of cash balances and continuing lower interest rates.

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

Exp by Function	FY 2011		FY 2010		Increase (Decrease)	
	Amount	Percent	Amount	Percent	Amount	% Change
General government	\$10,879,751	7.1%	\$11,482,240	7.4%	(\$602,489)	-5.2%
Community development	26,077,905	17.0%	18,536,120	11.9%	7,541,785	40.7%
Highways and streets	11,530,856	7.5%	8,102,327	5.2%	3,428,529	42.3%
Public works	6,035,524	3.9%	6,124,685	3.9%	(89,161)	-1.5%
Parks and recreation	8,722,311	5.7%	12,138,077	7.8%	(3,415,766)	-28.1%
Public safety	73,207,608	47.7%	75,081,791	48.3%	(1,874,183)	-2.5%
Capital outlay	11,219,489	7.3%	16,655,242	10.7%	(5,435,753)	-32.6%
Debt Service-principal retirement	2,234,000	1.5%	2,045,000	1.3%	189,000	9.2%
Debt Service-interest charges	3,620,851	2.4%	4,032,612	2.6%	(411,761)	-10.2%
Debt Service-other	57,557	0.0%	1,408,771	0.9%	(1,351,214)	-95.9%
Total	\$153,585,852	100.0%	\$155,606,865	100.0%	(\$2,021,013)	-1.3%

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

- General government –Expenditures decreased about \$602,489 or 5.2% over the prior year, due to the continuous budget reductions put into place due to a reduction in the major revenue sources.

Management's Discussion and Analysis *(continued)*

- Community development – Expenditures increased \$7,541,785, or 40.7% over the prior year, due to the funding received from the Neighborhood Stabilization program and American Recovery and Reinvestment Act of 2009 as well as Prop 1B funding on street maintenance.
- Parks and recreation – Expenditures decreased \$3,415,766, or 28.1% over the prior year, due to budget reductions and Neighborhood prevention moving from Parks to Community Development. Additionally, the Convention Visitor Bureau moved from Parks to City Manager's office.
- Public safety – Expenditures decreased \$1,874,183, or 2.5% over the prior year, due to budget reductions put into place due to a reduction in the major revenue sources.
- Capital outlay – The decreased by \$5,435,753 or 32.6% reflects the current cycle that the city is in with respect to the planning and construction of capital improvements.

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

	FY 2011	FY 2010	Increase/(Decrease)	
			Amount	Percent
Transfers in	\$10,557,218	\$12,346,246	(\$1,789,028)	-14.5%
Transfers out	(13,069,195)	(12,402,937)	(\$666,258)	5.4%
Issuance of loans payable	-	209,575	(\$209,575)	-100.0%
Net financing sources (uses)	(\$2,511,977)	\$152,884	(\$2,664,861)	-109.1%

Transfers - The City uses interfund transfers to: (1) move resources from a fund to other funds that will utilize them in accordance with statutory and budgetary requirements, (2) utilize unrestricted resources 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 pay debt service to the funds that are responsible for payment as those payments become due.

- The net transfers *from* governmental funds for 2011 were \$2,511,977 compared to \$152,884, in the prior year. This net transfer is *to* various City funds including transferring funds from the General Fund, Capital Facility Fee funds and the Redevelopment Agency to the Public Financing Authority to cover the debt service payments and various transfers to cover City grant matches.
- The annual totals for both transfers in and out vary, depending on the nature of the activities that are undertaken each year.

Debt transactions – No new debt was issued for the governmental funds.

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			
	General Fund	Housing and Community Development	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	Total
Revenues	\$102,851,011	\$15,956,833	\$20,602,556	\$12,352,308	\$4,486,730	\$156,249,438
Expenditures	(96,691,668)	(16,202,513)	(21,927,185)	(11,398,968)	(7,365,518)	(153,585,852)
Other financing sources/(uses), net	(4,196,411)	(13,935)	(699,557)	(416,115)	2,814,041	(2,511,977)
Net change in fund balances	1,962,932	(259,615)	(2,024,186)	537,225	(64,747)	151,609
Fund balance-July 1	12,975,360	21,155,647	8,753,486	64,936,801	6,050,302	113,871,596
Prior year adjustment	49,092	(122,977)	(9,035)	-	-	(82,920)
Fund balance June 30	<u>\$14,987,384</u>	<u>\$20,773,055</u>	<u>\$6,720,265</u>	<u>\$65,474,026</u>	<u>\$5,985,555</u>	<u>\$113,940,285</u>

The fund balance of the City's General Fund increased by \$2,012,024 during the fiscal year. This result is consistent with the City Council's budgetary direction to reduce spending and identify additional revenue sources that would allow the General Fund to retain an unrestricted reserve that meets the City Council's adopted 8% level.

Revenues and expenditures increased significantly for the Housing and Community Development due to the neighborhood stabilization program spent and received from the Housing Urban Development agency during this fiscal year.

Proprietary funds. The City's proprietary fund disclosures 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						
	Water	Sewer	Bus	Parking	Storm Drain	Compost	Airport	Golf	Community Center	Total
Operating revenues	\$55,345,415	\$39,142,045	\$2,877,492	\$1,274,482	\$6,152,211	\$4,490,110	\$1,019,177	\$1,647,400	\$433,460	\$112,381,792
Operating expenses	(31,494,693)	(23,505,389)	(15,700,191)	(1,392,797)	(6,706,800)	(3,985,514)	(1,739,997)	(2,103,115)	(2,166,706)	(88,795,202)
Non-operating revenues (expenses), net	(1,330,720)	(1,592,037)	11,573,694	(22,696)	27,740	289,904	121,525	(166,688)	417,527	\$9,318,249
Income (loss) before capital contributions, transfers and special items	22,520,002	14,044,619	(1,249,005)	(141,011)	(526,849)	794,500	(599,295)	(622,403)	(1,315,719)	32,904,839
Contributions, transfers and special items	(608,820)	(1,205,302)	2,544,387	588,256	(438,432)	1,147,550	100,000	498,530	498,530	2,626,169
Net income (loss)	<u>\$21,911,182</u>	<u>\$12,839,317</u>	<u>\$1,295,382</u>	<u>(\$141,011)</u>	<u>\$61,407</u>	<u>\$356,068</u>	<u>\$548,255</u>	<u>(\$522,403)</u>	<u>(\$817,189)</u>	<u>\$35,531,008</u>

The Water, Sewer, Storm Drain, and Compost enterprises posted net incomes during the period. It is important to note that while the Water and Sewer funds show rather healthy operating results, capital improvement expenses and debt service principal payments incurred during the year are not reflected in the expenses totals shown above. Net losses were experienced by the other enterprise funds. Golf operations continue to receive an operating subsidy from the General Fund in 2011. The Community Center operation did not receive its annual operating subsidy from the General Fund, the subsidy does not cover depreciation expenses, resulting in the net loss shown. The Bus Fund, which receives capital

Management's Discussion and Analysis *(continued)*

funding from the federal government also does not budget revenues at levels sufficient to cover the annual cost of depreciation expense.

The Water utility fund has a 2.1% CPI increase in November 2010. The Sewer utility fund had an increase in revenue due to 3% rate increases in July 2010 for this fiscal year.

GENERAL FUND BUDGETARY HIGHLIGHTS

Budget to actual information for the major governmental funds are presented as Required Supplementary Information, beginning on **page 65** 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 increased overall mainly due to an increase in intergovernmental revenues (sales tax and in-lieu sales taxes) and transient occupancy taxes. The estimated revenues increased about \$1.3 million while total appropriations were increased \$1.9 million. These amendments were to adjust the actual beginning balances and carryovers after closing the prior fiscal year, and to reflect adjustments to current estimates based on the periodic monitoring of revenue and expenditures throughout the year.

Revenues came in \$2.0 million more than final estimates. Variances in Sales tax \$695,941, Property taxes \$222,067 and in-lieu sales tax \$591,544 were due to a slight increases in property tax revenues and increase in fuel prices.

Expenditures, overall, were \$3.5 million under budget, primarily due to efforts of departments to realize savings, and certain purchases being 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, 2011, amounted to \$1,127,534,336 (net of accumulated depreciation). The total increase in the City's investment in capital assets for the current period was 46.2 percent. Capital assets net of depreciation, for the governmental and business-type activities are presented below to illustrate changes from the prior year.

	Governmental		Business type		Total		Increase (decrease)	\$ change
	2011	2010	2011	2010	2011	2010	Percent Change	
Land	\$33,462,515	\$32,690,491	\$30,073,929	\$30,068,229	\$63,536,444	\$62,758,720	1.2%	\$777,724
Capitalized Interest			\$9,524,662		\$9,524,662			\$9,524,662
Buildings	15,735,225	16,630,984	35,990,093	38,456,244	51,725,318	55,087,228	-6.1%	(3,361,910)
Improvements	38,644,284	38,115,248	89,249,723	89,562,227	127,894,007	127,677,475	0.2%	216,532
Furnishings and equipment	4,105,510	5,184,473	4,003,082	6,144,174	8,108,592	11,328,647	-28.4%	(3,220,055)
Intangible Assets	1,226,839	1,982,328	80,246	131,546	1,307,085	2,113,874	-38.2%	(806,789)
Equipment pool	10,745,411	11,873,219			10,745,411	11,873,219	-9.5%	(1,127,808)
Water Rights			358,226,691		358,226,691			358,226,691
Streets	240,644,616	250,374,786			240,644,616	250,374,786	-3.9%	(9,730,170)
Signalization	3,020,926	3,865,206			3,020,926	3,865,206	-21.8%	(844,280)
Bridges	22,194,108	22,718,265			22,194,108	22,718,265	-2.3%	(524,157)
Buses & fareboxes			6,258,124	5,521,707	6,258,124	5,521,707	13.3%	736,417
Pipelines			118,839,173	118,963,188	118,839,173	118,963,188	-0.1%	(124,015)
Construction in progress	20,539,102	15,041,708	84,970,077	83,909,221	105,509,179	98,950,929	6.6%	6,558,250
Total	\$390,318,536	\$398,476,708	\$737,215,800	\$372,756,536	\$1,127,534,336	\$771,233,244	46.2%	\$356,301,092

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

- Water Rights –Business type increases were in Water due to recording the Modesto Irrigation District debt as Water Rights based on the water rights recognized by the City for the Treatment and Delivery agreement associated with these bonds.

Management's Discussion and Analysis (continued)

The City's infrastructure assets are recorded at historical cost in the government-wide financial statements. Depreciation expense is recorded using the straight-line method, based on estimated useful life of the asset. Additional information on the City's capital assets can be found in note II.B on pages 38-40 of this report.

Long-term debt

At June 30, 2011, the City had total long-term liabilities outstanding of \$465,836,267, net of unamortized discounts and deferred amounts on refunding, as compared to \$157,955,068 in the prior year. This amount was comprised of \$63,255,000 of lease revenue bonds, \$67,732,779 of certificates of participation, \$198,654,490 of revenue bonds payable, \$11,447,524 of estimated compensated absences, \$57,697,947 of OPEB obligation, \$21,077,038 of claims liability, \$7,425,604 of loans payable, \$1,704,036 of developer advances, \$975,955 of capital leases, \$3,594,658 of notes payable and \$32,271,236 of Derivative instrument SWAP. The long-term debt increase was mainly due to an increase in OPEB liability as well as recording the Modesto Irrigation Debt as part of the City's debt obligations which was a prior year adjustment. Additional information on the City's long-term debt can be found in note II.C on pages 40-48 of this report.

Modesto maintains an Employee Benefits internal service fund (EBF) to pay a portion of retiree health benefits and other employee related expenses. The City implemented GASB Statement No. 45 related to Other Post Employment Benefits during fiscal year 2008. As of June 30, 2011, the net OPEB obligation amounts to approximately \$57.7 million. This contributes significantly to the EBF's \$53.5 million deficit net assets. 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* – Growth in the CPI has been relatively stable during the past seven years and serves as a measure for the growth in the cost for supplies and services used by the city. In the year ending June 30, 2011, the CPI-Western Urban Index increased by 3.5%.
- *Taxable Sales* – With the unemployment rate at 17.2%, sales tax revenues are finally increasing slightly. The City continues to take action to implement non-paid furloughs for FY 11/12 and have eliminated 32 staffing positions as part of the adoption of the Fiscal Year 2011-12 budget to maintain the effects of the reduction of the City's major revenue sources.
- *Utility Service Charges* - Water utility rates were increased by 2.1% for the annual CPI increase in this fiscal year and are currently working on rate increases for the coming years. For the Sewer utility rates, the City Council adopted a resolution approving and implementing 5 annual rate increases for Wastewater beginning with a 3% rate increase on July 1, 2010 and subsequent rate increases of 8%, 9%, 10% and 7% to take effect on July 1 of 2011 through 2014.

All of these factors were considered in preparing the City's budget for fiscal year 2012.

During the current fiscal year, fund balance in the General Fund increased by \$2.0 million, to \$14,987,384 which represents 16% of total General Fund outflows which equals City Council's target value of 8%. The budget adopted for fiscal year 2011-2012 reflects a planned reduction in the reserve level on a temporary basis, from 8% to a flat reserve amount of \$7 million.

In June 2011, the State signed Assembly Bills X1 26 and 27 which suspends all California redevelopment agencies except to implement existing contracts, obligations and prepare for the dissolution of this agency. The City is currently working on developing the dissolution document due in February 2012.

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 the City's financial condition. Questions concerning any of the information provided in this report and requests for additional financial information should be addressed to the City of Modesto, Attention: Finance Department, P.O. Box 642, Modesto, CA 95353

BASIC FINANCIAL STATEMENTS

CITY OF MODESTO
STATEMENT OF NET ASSETS
June 30, 2011

	Governmental Activities	Business-type Activities	Total
<u>ASSETS</u>			
Cash and cash equivalents	\$ 141,625,963	\$ 154,197,023	\$ 295,822,986
Accounts receivable, net	1,616,437	564,152	2,180,589
Interest receivable	336,591	433,526	770,117
Utility billings receivable, net	1,250,074	11,698,100	12,948,174
Taxes receivable	9,384,610	205,018	9,589,628
Due from governments, net	6,814,656	3,969,825	10,784,481
Notes receivable, net	42,502,006	-	42,502,006
Prepaid expenses	777,613	1,488,700	2,266,313
Property held for resale	784,000	630,000	1,414,000
Internal balances	7,028,421	(7,028,421)	-
Inventories	428,267	-	428,267
Unamortized costs of debt issuance	-	1,769,742	1,769,742
Deferred outflow of resource	8,296,052	23,975,184	32,271,236
Investments in joint ventures	14,304,290		14,304,290
Capital assets:			
Land and construction in progress	54,001,617	115,044,006	169,045,623
Other capital assets, net of accumulated depreciation	336,316,919	622,171,794	958,488,713
Total assets	625,467,516	929,118,649	1,554,586,165
<u>LIABILITIES</u>			
Accounts payable	6,002,919	7,678,518	13,681,437
Accrued salaries and benefits	2,451,745	665,302	3,117,047
Approved loans payable	857,981	-	857,981
Interest payable	305,817	470,602	776,419
Due to other governments	-	43,699	43,699
Deferred revenue	30,633,231	4,812,270	35,445,501
Refundable deposits	2,664,799	1,821,390	4,486,189
Long-term liabilities:			
Due within one year	11,793,376	8,774,628	20,568,004
Due in more than one year	159,636,064	285,632,199	445,268,263
Total liabilities	214,345,932	309,898,608	524,244,540
<u>NET ASSETS</u>			
Invested in capital assets, net of related debt	338,010,133	481,186,894	819,197,027
Restricted for:			
Capital projects	39,077,261	-	39,077,261
Housing and community development	20,773,055	-	20,773,055
Redevelopment	6,556,118	-	6,556,118
Other purposes	164,147	-	164,147
Unrestricted	6,540,870	138,033,147	144,574,017
Total net assets	\$ 411,121,584	\$ 619,220,041	\$ 1,030,341,625

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

CITY OF MODESTO
STATEMENT OF ACTIVITIES
Year ended June 30, 2011

	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
FUNCTIONS/PROGRAMS:				
Governmental activities:				
General government	\$ 12,473,794	\$ 6,804,398	\$ -	-
Community development	28,301,160	4,730,263	16,469,377	-
Highways and streets	24,114,799	3,179,788	-	\$ 7,073,963
Public works	7,393,809	2,909,677	-	-
Parks and recreation	10,310,549	3,105,490	1,646,618	261,004
Public safety	83,381,310	4,977,440	1,745,497	-
Interest on long-term debt	3,609,345	-	-	-
Total governmental activities	<u>169,584,766</u>	<u>25,707,056</u>	<u>19,861,492</u>	<u>7,334,967</u>
Business-type activities:				
Parking	1,518,955	1,274,482	-	-
Water	36,305,860	55,345,414	675,353	410,401
Sewer	28,497,430	39,142,045	-	452,019
Storm Drain	7,619,939	6,152,211	-	-
Compost	4,112,837	4,490,110	268,591	-
Airport	2,157,180	1,019,177	33,139	1,210,373
Bus	16,064,104	2,877,492	11,652,136	2,783,856
Golf	2,366,052	1,647,400	-	-
Community Center	2,284,082	433,460	-	-
Total business-type activities	<u>100,926,439</u>	<u>112,381,791</u>	<u>12,629,219</u>	<u>4,856,649</u>
Total	<u>\$ 270,511,205</u>	<u>\$ 138,088,847</u>	<u>\$ 32,490,711</u>	<u>\$ 12,191,616</u>

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

Sales tax

Motor vehicle license fee

Other

Unrestricted investment earnings

Miscellaneous

Settlements

Transfers, net

Special item - PCE legal fees

Total general revenues, transfers and special item

Change in net assets

Net assets, July 1

Prior year adjustments

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
\$ (5,669,396)		\$ (5,669,396)
(7,101,520)		(7,101,520)
(13,861,048)		(13,861,048)
(4,484,132)		(4,484,132)
(5,297,437)		(5,297,437)
(76,658,373)		(76,658,373)
<u>(3,609,345)</u>		<u>(3,609,345)</u>
<u>(116,681,251)</u>		<u>(116,681,251)</u>
	\$ (244,473)	(244,473)
	20,125,308	20,125,308
	11,096,634	11,096,634
	(1,467,728)	(1,467,728)
	645,864	645,864
	105,509	105,509
	1,249,380	1,249,380
	(718,652)	(718,652)
	<u>(1,850,622)</u>	<u>(1,850,622)</u>
	<u>28,941,220</u>	<u>28,941,220</u>
<u>(116,681,251)</u>	<u>28,941,220</u>	<u>(87,740,031)</u>
12,107,226	-	12,107,226
19,119,037	-	19,119,037
-	309,699	309,699
5,750,235	-	5,750,235
1,639,761	-	1,639,761
3,940,364	-	3,940,364
9,339,077	-	9,339,077
172,520	-	172,520
24,110,596	-	24,110,596
13,419,232	-	13,419,232
9,718,308	-	9,718,308
696,848	1,947,417	2,644,265
1,630,466	-	1,630,466
-	187,096	187,096
1,503,170	(1,503,170)	-
<u>-</u>	<u>(727,310)</u>	<u>(727,310)</u>
<u>103,146,840</u>	<u>213,732</u>	<u>103,360,572</u>
(13,534,411)	29,154,952	15,620,541
425,520,463	398,687,011	824,207,474
<u>(864,468)</u>	<u>191,378,078</u>	<u>190,513,610</u>
<u>\$ 411,121,584</u>	<u>\$ 619,220,041</u>	<u>\$ 1,030,341,625</u>

CITY OF MODESTO
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2011

	General	Housing and Community Development	Other Governmental	Total Governmental
<u>ASSETS</u>				
Cash and cash equivalents	\$ 5,811,695	\$ 1	\$ 69,698,264	\$ 75,509,960
Cash and cash equivalents with fiscal agent	-	-	16,601,883	16,601,883
Receivables:				
Accounts	664,005	197,536	127,583	989,124
Interest	29,480	1,558	200,549	231,587
Utilities, net	982,548	-	267,526	1,250,074
Taxes	9,142,474	-	242,136	9,384,610
Due from governments	708,450	1,341,567	4,752,639	6,802,656
Due from other funds	2,891,229	-	-	2,891,229
Notes receivable, net	-	40,061,904	2,440,102	42,502,006
Prepaid expenditures	171,926	1,000	2,077	175,003
Property held for resale	-	-	784,000	784,000
Restricted assets:				
Cash and cash equivalents	1,336,456	-	-	1,336,456
Advances to other funds	2,579,429	-	1,192,004	3,771,433
Total assets	\$ 24,317,692	\$ 41,603,566	\$ 96,308,763	\$ 162,230,021
<u>LIABILITIES AND FUND BALANCES</u>				
Liabilities:				
Accounts payable	\$ 1,736,750	\$ 203,350	\$ 2,049,137	\$ 3,989,237
Accrued salaries and benefits	1,975,728	40,487	259,988	2,276,203
Accrued interest payable	65,867	6,312	3,956	76,135
Approved loans payable	-	282,981	575,000	857,981
Due to other governments	-	-	-	-
Due to other funds	-	674,688	1,407,350	2,082,038
Deferred revenues	545,930	19,621,193	10,947,753	31,114,876
Payable from restricted assets:	-	-	-	-
Refundable deposits	2,224,295	1,500	439,004	2,664,799
Advances from other funds	2,781,738	-	2,446,729	5,228,467
Total liabilities	9,330,308	20,830,511	18,128,917	48,289,736
Fund balances:				
Restricted	4,313,287	40,147,048	78,772,220	123,232,555
Assigned	458,415	247,200	3,400,741	4,106,356
Unassigned	10,215,682	(19,621,193)	(3,993,115)	(13,398,626)
Total fund balances	14,987,384	20,773,055	78,179,846	113,940,285
Total liabilities and fund balances	\$ 24,317,692	\$ 41,603,566	\$ 96,308,763	\$ 162,230,021

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, 2011

Total fund balances - total governmental funds \$ 113,940,285

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	\$ 49,102,508	
Depreciable	111,780,801	
Accumulated depreciation on general capital assets	(55,300,415)	

Infrastructure:

Depreciable	530,425,544	
Accumulated depreciation on infrastructure	<u>(264,565,895)</u>	371,442,543

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

Deferred in the governmental funds, or	\$ 481,645	
Investments in joint ventures	<u>14,304,290</u>	14,785,935

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.

(3,840,155)

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	\$ (84,977,342)	
Accrued interest	<u>(229,682)</u>	<u>(85,207,024)</u>

Net assets of governmental activities \$ 411,121,584

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

CITY OF MODESTO
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
Year ended June 30, 2011

	<u>General</u>	<u>Housing and Community Development</u>	<u>Other Governmental</u>	<u>Total Governmental</u>
REVENUES:				
Taxes	\$ 46,132,414	\$ -	\$ 5,935,806	\$ 52,068,220
Licenses and permits	59,020	-	80,053	139,073
Intergovernmental	40,571,438	15,431,318	18,239,840	74,242,596
Charges for services	13,454,119	432,069	8,752,613	22,638,801
Special assessments levied	-	-	1,852,529	1,852,529
Interest and rent	145,335	88,354	604,489	838,178
Net increase in fair value of investments	(9,129)	806	(81,285)	(89,608)
Fines and forfeits	1,292,829	-	1,636,353	2,929,182
Miscellaneous	1,204,985	4,286	421,196	1,630,467
Total revenues	<u>102,851,011</u>	<u>15,956,833</u>	<u>37,441,594</u>	<u>156,249,438</u>
EXPENDITURES:				
Current:				
General government	10,487,856	-	391,895	10,879,751
Community development	5,232,580	15,697,622	5,147,703	26,077,905
Highways and streets	-	-	11,530,856	11,530,856
Public works	2,422,303	-	3,613,221	6,035,524
Parks and recreation	8,131,820	-	590,491	8,722,311
Public safety	70,417,109	-	2,790,499	73,207,608
Capital outlay	-	126,555	11,092,934	11,219,489
Debt service:				
Principal retirement	-	174,000	2,060,000	2,234,000
Interest	-	204,336	3,416,515	3,620,851
Other	-	-	57,557	57,557
Total expenditures	<u>96,691,668</u>	<u>16,202,513</u>	<u>40,691,671</u>	<u>153,585,852</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>6,159,343</u>	<u>(245,680)</u>	<u>(3,250,077)</u>	<u>2,663,586</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	3,750,719	-	6,806,499	10,557,218
Transfers out	<u>(7,947,130)</u>	<u>(13,935)</u>	<u>(5,108,130)</u>	<u>(13,069,195)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(4,196,411)</u>	<u>(13,935)</u>	<u>1,698,369</u>	<u>(2,511,977)</u>
NET CHANGE IN FUND BALANCES	1,962,932	(259,615)	(1,551,708)	151,609
FUND BALANCES, July 1	12,975,360	\$ 21,155,647	\$ 79,740,589	\$ 113,871,596
PRIOR PERIOD ADJUSTMENT	<u>49,092</u>	<u>(122,977)</u>	<u>(9,035)</u>	<u>(82,920)</u>
FUND BALANCES, June 30	<u>\$ 14,987,384</u>	<u>\$ 20,773,055</u>	<u>\$ 78,179,846</u>	<u>\$ 113,940,285</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, 2011

Net change in fund balances - total governmental funds \$ 151,609

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	\$ 11,219,489	
Depreciation expense	<u>(19,533,943)</u>	(8,314,454)

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	\$ (1,650,533)	
Change in investment in joint venture	<u>(511,037)</u>	(2,161,570)

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	2,234,000	
Capitalized interest	<u>58,463</u>	2,292,463

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		13,020
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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.

(5,515,479)

Change in net assets of governmental activities	\$	<u><u>(13,534,411)</u></u>
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The notes to basic financial statements are an integral part of this statement.

CITY OF MODESTO
STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
June 30, 2011

	Enterprise					Internal Service
	Water	Sewer	Bus	Other Enterprise	Total Enterprise	
ASSETS						
Current assets:						
Cash and cash equivalents	\$ 70,563,561	\$ 35,718,237	\$ 6,618,021	\$ 6,402,758	\$ 119,302,577	\$ 34,604,683
Cash and cash equivalents with fiscal agent	11,559,179	3,944,025	-	603,150	16,106,354	407,831
Receivables:						
Accounts	12,073	34,987	9,804	507,288	564,152	627,313
Interest	291,514	101,656	21,839	18,517	433,526	105,004
Utilities, net	6,672,117	4,101,572	-	924,411	11,698,100	-
Taxes	-	-	-	205,018	205,018	-
Prepaid expenses	1,480,971	2,250	5,312	167	1,488,700	602,610
Due from governments	1,024,398	-	2,823,152	122,275	3,969,825	12,000
Inventories	-	-	-	-	-	428,267
Property held for resale	-	-	-	630,000	630,000	-
Advances to other funds	350,000	-	-	-	350,000	2,431,738
Total current assets	<u>91,953,813</u>	<u>43,902,727</u>	<u>9,478,128</u>	<u>9,413,584</u>	<u>154,748,252</u>	<u>39,219,446</u>
Noncurrent assets:						
Notes receivable, net						
Restricted assets-cash and cash equivalents	16,662,692	2,125,400	-	-	18,788,092	13,165,150
Unamortized costs of issuance	1,061,726	708,016	-	-	1,769,742	-
Deferred outflow of resource	23,975,184	-	-	-	23,975,184	-
Land and construction in progress	35,425,761	60,115,692	7,762,802	11,739,751	115,044,006	4,899,109
Other capital assets, net of accumulated depreciation	443,742,597	123,407,180	13,858,209	41,163,808	622,171,794	13,976,884
Total noncurrent assets	<u>520,867,960</u>	<u>186,356,288</u>	<u>21,621,011</u>	<u>52,903,559</u>	<u>781,748,818</u>	<u>32,041,143</u>
Total assets	<u>612,821,773</u>	<u>230,259,015</u>	<u>31,099,139</u>	<u>62,317,143</u>	<u>936,497,070</u>	<u>71,260,589</u>
LIABILITIES						
Current liabilities:						
Accounts payable	\$ 3,727,785	\$ 1,752,651	\$ 2,042,063	\$ 156,019	\$ 7,678,518	\$ 2,013,682
Accrued salaries and benefits	245,337	246,723	43,764	129,478	665,302	175,542
Interest payable	59,745	367,697	-	43,160	470,602	-
Due to other funds	-	-	-	809,191	809,191	-
Due to other governments	-	-	-	43,699	43,699	-
Current portion - compensated absences	-	-	-	-	-	5,712,816
Current portion - claims liability	-	-	-	-	-	4,686,703
Current portion - capital lease	-	-	-	-	-	171,148
Current portion - long-term debt	5,303,413	1,855,000	-	265,000	7,423,413	20,658
Current portion - developer advances	94,395	-	-	-	94,395	-
Deferred revenues	12,073	351	4,614,584	185,262	4,812,270	-
Total current liabilities	<u>9,442,748</u>	<u>4,222,422</u>	<u>6,700,411</u>	<u>1,631,809</u>	<u>21,997,390</u>	<u>12,780,549</u>
Noncurrent liabilities:						
Payable from restricted assets - refundable deposits	1,073,429	747,961	-	-	1,821,390	-
Compensated absences	-	-	-	-	-	5,734,708
Net OPEB obligation	-	-	-	-	-	57,697,947
Claims liability	-	-	-	-	-	16,390,335
Long-term debt:						
Revenue bonds payable	149,790,000	43,219,489	-	-	193,009,489	-
Derivative instrument SWAP	23,975,184	-	-	-	23,975,184	-
Loan payable	5,293,830	-	-	-	5,293,830	-
Notes payable	-	-	-	-	-	-
Obligations under capital leases	-	-	-	-	-	534,827
Certificates of participation	45,747,779	-	-	4,460,000	50,207,779	-
Developer advances	1,609,641	-	-	-	1,609,641	-
Advances from other funds	-	-	-	1,324,704	1,324,704	-
Total noncurrent liabilities	<u>227,489,863</u>	<u>43,967,450</u>	<u>-</u>	<u>5,784,704</u>	<u>277,242,017</u>	<u>80,357,817</u>
Total liabilities	<u>236,932,611</u>	<u>48,189,872</u>	<u>6,700,411</u>	<u>7,416,513</u>	<u>299,239,407</u>	<u>93,138,366</u>
Invested in capital assets, net of related debt	288,528,204	139,825,822	21,621,011	48,178,559	481,186,894	18,341,166
Unrestricted	87,360,958	42,243,321	2,777,717	6,722,071	156,070,769	(40,218,943)
Total net assets	<u>\$ 375,889,162</u>	<u>\$ 182,069,143</u>	<u>\$ 24,398,728</u>	<u>\$ 54,900,630</u>	<u>637,257,663</u>	<u>\$ (21,877,777)</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.					<u>(18,037,622)</u>	
Net assets of business-type activities					<u>\$ 619,220,041</u>	

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

CITY OF MODESTO
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET ASSETS - PROPRIETARY FUNDS
Year ended June 30, 2011

	Enterprise					Internal Service
	Water	Sewer	Bus	Other Enterprise	Total Enterprise	
OPERATING REVENUES:						
Charges for services	\$ 54,845,885	\$ 39,056,043	2,877,492	\$ 14,870,492	\$ 111,649,912	\$ 39,231,218
Sales	-	-	-	-	-	4,624,343
Cost of sales	-	-	-	-	-	(3,764,559)
Miscellaneous	499,530	86,002	-	146,348	731,880	-
Total operating revenues	<u>55,345,415</u>	<u>39,142,045</u>	<u>2,877,492</u>	<u>15,016,840</u>	<u>112,381,792</u>	<u>40,091,002</u>
OPERATING EXPENSES:						
Salaries and wages	5,333,997	5,427,430	1,009,199	3,435,354	15,205,980	4,036,529
Contractual services	6,268,648	2,467,822	10,077,193	3,494,191	22,307,854	3,539,875
Utilities	2,330,453	1,510,164	94,128	576,850	4,511,595	162,656
Maintenance and supplies	4,269,188	2,437,892	1,612,031	3,416,781	11,735,892	3,699,941
Water purchases	4,406,075	-	-	-	4,406,075	-
Insurance	259,246	471,600	42,836	263,218	1,036,900	14,606,175
Claims expense	-	-	-	-	-	6,133,528
Employee benefits	2,390,534	2,438,438	420,811	1,383,961	6,633,744	17,884,590
Administration services	1,991,975	1,872,039	820,610	2,075,446	6,760,070	2,143,911
Allocated indirect administrative costs	854,342	1,252,056	257,671	271,766	2,635,835	289,221
Depreciation	3,390,235	5,627,948	1,365,712	3,177,362	13,561,257	4,185,222
Total operating expenses	<u>31,494,693</u>	<u>23,505,389</u>	<u>15,700,191</u>	<u>18,094,929</u>	<u>88,795,202</u>	<u>56,681,648</u>
OPERATING INCOME (LOSS)	<u>23,850,722</u>	<u>15,636,656</u>	<u>(12,822,699)</u>	<u>(3,078,089)</u>	<u>23,586,590</u>	<u>(16,590,646)</u>
NONOPERATING REVENUES (EXPENSES)						
Operating grants	675,353	-	11,652,136	301,730	12,629,219	335,241
Gain (Loss) on disposition of capital assets	(96,097)	(27,093)	(131,152)	(285,899)	(540,241)	(176,031)
Tax revenue	-	-	-	309,699	309,699	-
Tax expense	(88,364)	(53,488)	-	(21,150)	(163,002)	-
Interest income	554,111	422,522	60,632	40,702	1,077,967	517,842
Net increase in fair value of investments	(113,533)	93,318	(7,922)	(5,995)	(34,132)	(58,527)
Rental income	37,800	287,000	-	578,782	903,582	-
Settlements and recoveries	-	187,096	-	-	187,096	-
Interest expense	(1,755,566)	(2,441,640)	-	(247,757)	(4,444,963)	(2,420)
Trustee fees	(4,350)	(3,085)	-	(2,800)	(10,235)	-
Amortization of costs of issuance	(540,074)	(56,667)	-	-	(596,741)	-
Total nonoperating revenues (expenses)	<u>(1,330,720)</u>	<u>(1,592,037)</u>	<u>11,573,694</u>	<u>667,312</u>	<u>9,318,249</u>	<u>616,105</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	<u>22,520,002</u>	<u>14,044,619</u>	<u>(1,249,005)</u>	<u>(2,410,777)</u>	<u>32,904,839</u>	<u>(15,974,541)</u>
Capital contributions	410,401	452,019	2,783,856	1,210,373	4,856,649	67,862
Transfers in	19,318	-	1,500	1,639,069	1,659,887	4,412,872
Transfers out	(800,570)	(1,167,980)	(240,969)	(953,538)	(3,163,057)	(397,727)
Special item	(237,969)	(489,341)	-	-	(727,310)	-
CHANGE IN NET ASSETS	<u>21,911,182</u>	<u>12,839,317</u>	<u>1,295,382</u>	<u>(514,873)</u>	<u>35,531,008</u>	<u>(11,891,534)</u>
NET ASSETS, July 1	157,241,159	174,564,253	24,119,567	54,423,598		(10,054,617)
PRIOR YEAR ADJUSTMENTS	<u>196,736,821</u>	<u>(5,334,427)</u>	<u>(1,016,221)</u>	<u>991,905</u>		<u>68,374</u>
NET ASSETS, June 30	\$ <u>375,889,162</u>	\$ <u>182,069,143</u>	\$ <u>24,398,728</u>	\$ <u>54,900,630</u>		\$ <u>(21,877,777)</u>
Adjustment to reflect the consolidation of internal service fund					<u>(6,376,056)</u>	
Change in net assets of business-type activities					\$ <u>29,154,952</u>	

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

CITY OF MODESTO
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
Year ended June 30, 2011

	Enterprise					Internal Service
	Water	Sewer	Bus	Other Enterprise	Total Enterprise	
CASH FLOWS FROM OPERATING ACTIVITIES:						
Receipts from customers and users	\$ 54,027,549	\$ 39,172,056	\$ 2,876,639	\$ 14,897,755	\$ 110,973,999	\$ 3,385,492
Receipts from interfund services provided	339,138	41,608	-	1,839	382,585	36,437,670
Payments to suppliers	(18,219,137)	(5,755,260)	(10,479,659)	1,506,016	(32,948,040)	(20,535,142)
Payment of insurance claims	-	-	-	-	-	(6,737,989)
Payments to employees	(7,689,389)	(7,821,874)	(1,419,563)	(4,779,961)	(21,710,787)	(10,034,506)
Payments for interfund services used	(5,647,008)	(5,709,000)	(1,195,552)	(11,341,958)	(23,893,518)	(3,075,743)
Net cash provided (used) by operating activities	<u>22,811,153</u>	<u>19,927,530</u>	<u>(10,218,135)</u>	<u>283,691</u>	<u>32,804,239</u>	<u>(560,218)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:						
Operating grants received	675,353	-	11,101,541	268,591	12,045,485	335,241
Taxes received	-	-	-	104,699	104,699	-
Settlements and recoveries	-	187,096	-	-	187,096	-
Interest paid	-	-	-	-	-	(3,584)
Transfers in	19,318	-	1,500	1,639,069	1,659,887	4,412,872
Transfers out	(800,570)	(1,167,980)	(240,969)	(953,538)	(3,163,057)	(397,727)
Advances from (to) other funds	(350,000)	-	-	-	(350,000)	(2,431,738)
Due from other funds	-	-	-	-	-	-
Net cash provided (used) by noncapital financing activities	<u>(455,899)</u>	<u>(980,884)</u>	<u>10,862,072</u>	<u>1,058,821</u>	<u>10,484,110</u>	<u>1,915,064</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:						
Acquisition and construction of capital assets	(221,576,693)	(1,829,344)	(2,039,969)	(964,564)	(226,410,570)	(5,123,565)
Proceeds of sale of capital assets	-	-	-	(285,899)	(285,899.00)	(176,031)
Proceeds of debt issues	-	-	-	-	-	-
Payment to bond escrow agent	-	-	-	-	-	-
Costs of issuance paid	227,726	46,220	-	-	273,946	-
Principal repayments	(13,660,219)	(1,676,312)	-	(250,000)	(15,586,531)	(220,912)
Interest paid	(2,464,618)	(2,513,016)	-	(248,435)	(5,226,069)	(2,420)
Trustee fees	(4,350)	(3,085)	-	(2,800)	(10,235)	-
Capital grants received	-	-	2,783,856	132,572	2,916,428	-
Net cash used by capital and related financing activities	<u>(237,478,154)</u>	<u>(5,975,537)</u>	<u>743,887</u>	<u>(1,619,126)</u>	<u>(244,328,930)</u>	<u>(5,522,928)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:						
Interest received	460,554	374,732	47,474	30,742	913,502	492,493
Net increase in the fair value of investments	(113,533)	93,318	(7,922)	(5,995)	(34,132)	(58,527)
Net cash provided by investing activities	<u>347,021</u>	<u>468,050</u>	<u>39,552</u>	<u>24,747</u>	<u>879,370</u>	<u>433,966</u>
Net increase (decrease) in cash and cash equivalents	(214,775,879)	13,439,159	1,427,376	(251,867)	(200,161,211)	(3,734,116)
CASH AND CASH EQUIVALENTS, JULY 1	116,824,490	33,682,930	6,206,866	6,265,870	162,980,156	51,843,406
PRIOR PERIOD ADJUSTMENT	<u>196,736,821</u>	<u>(5,334,427)</u>	<u>(1,016,221)</u>	<u>991,905</u>	<u>191,378,078</u>	<u>68,374</u>
CASH AND CASH EQUIVALENTS, JUNE 30	<u>\$ 98,785,432</u>	<u>\$ 41,787,662</u>	<u>\$ 6,618,021</u>	<u>\$ 7,005,908</u>	<u>\$ 154,197,023</u>	<u>\$ 48,177,664</u>
RECONCILIATION TO STATEMENT OF NET ASSETS:						
Cash and cash equivalents	\$ 70,563,561	\$ 35,718,237	\$ 6,618,021	\$ 6,402,758	\$ 119,302,577	\$ 34,604,683
Cash and cash equivalents with fiscal agent	11,559,179	3,944,025	-	603,150	16,106,354	407,831
Restricted assets-cash and cash equivalents	<u>16,662,692</u>	<u>2,125,400</u>	<u>-</u>	<u>-</u>	<u>18,788,092</u>	<u>13,165,150</u>
TOTAL CASH AND CASH EQUIVALENTS	<u>\$ 98,785,432</u>	<u>\$ 41,787,662</u>	<u>\$ 6,618,021</u>	<u>\$ 7,005,908</u>	<u>\$ 154,197,023</u>	<u>\$ 48,177,664</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, 2011

	Enterprise				Total Enterprise	Internal Service
	Water	Sewer	Bus	Other Enterprise		
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:						
Operating income (loss)	\$ 23,850,722	\$ 15,636,656	\$ (12,822,699)	\$ (3,078,089)	\$ 23,586,590	\$ (16,590,646)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:						
Depreciation	3,390,235	5,627,948	1,365,712	3,177,362	13,561,257	4,185,222
Rental income	37,800	287,000	-	578,782	903,582	-
Taxes paid	(88,364)	(53,488)	-	(226,150)	(368,002)	-
Special item	(237,969)	(489,341)	-	-	(727,310)	-
Change in assets and liabilities:						
(Increase) in accounts receivable	(10,119)	2,962	(853)	(101,821)	(109,831)	(398,302)
(Increase) in utilities receivable	(22,374)	(273,995)	-	(366,521)	(662,890)	-
(Increase) in taxes receivable	-	-	-	-	-	-
Decrease in due from governments	(1,024,398)	-	-	-	(1,024,398)	130,462
(Increase) decrease in prepaid expenses	(1,480,971)	(2,250)	(5,312)	(167)	(1,488,700)	(413,610)
(Increase) in inventories	-	-	-	-	-	54,047
(Decrease) in accounts payable and accrued expenses	(1,678,914)	(907,608)	1,234,570	(307,481)	(1,659,433)	776,846
Increase in accrued salaries and benefits	35,142	43,994	10,447	39,354	128,937	10,533
Increase in compensated absences and OPEB	-	-	-	-	-	11,879,097
(Decrease) in claims liability	-	-	-	-	-	(193,867)
Increase in due to other governments	-	-	-	43,699	43,699	-
Increase in due to other funds	-	-	-	547,409	547,409	-
Increase in deferred revenues	12,073	351	-	(22,686)	(10,262)	-
Increase (decrease) in refundable deposits	28,290	55,301	-	-	83,591	-
Total adjustments	<u>(1,039,569)</u>	<u>4,290,874</u>	<u>2,604,564</u>	<u>3,361,780</u>	<u>9,217,649</u>	<u>16,030,428</u>
Net cash provided (used) by operating activities	<u>\$ 22,811,153</u>	<u>\$ 19,927,530</u>	<u>\$ (10,218,135)</u>	<u>\$ 283,691</u>	<u>\$ 32,804,239</u>	<u>\$ (560,218)</u>

NONCASH INVESTING, CAPITAL AND FINANCING
ACTIVITIES:

Capital assets transferred in	\$ 410,401	\$ 452,019	\$ -	\$ -	\$ -	\$ 67,862
Developer infrastructure contributions						
Amortization of bonds discount and deferred amount on refunding						

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

CITY OF MODESTO
STATEMENT OF FIDUCIARY NET ASSETS -AGENCY FUNDS
June 30, 2011

	<u>Agency Funds</u>
<u>ASSETS</u>	
Cash and cash equivalents	\$ 9,103,562
Cash and cash equivalents held with fiscal agent	<u>3,608,271</u>
	<u>\$ 12,711,833</u>
<u>LIABILITIES</u>	
Due to special district bondholders	\$ 8,160,063
Deposits held as agent for others	<u>4,551,770</u>
	<u>\$ 12,711,833</u>

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

**CITY OF MODESTO
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2011**

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 ten 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 non-fiduciary 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 segments 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 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 statements. 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. Agency funds have no measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

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 Housing and Community Development accounts for various grant funds received from Federal Community Development Block grants to be used for a variety of housing related programs primarily targeted at low-income housing. Additionally, this fund accounts for the City's revolving fund which provides housing loans to low-income individuals and accounts for emergency shelter grant revenue received from Housing Urban Development agency.

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.

The Bus Fund accounts for operations, maintenance, and capital expenditures of the City's mass transportation service. This system operates pursuant to the terms of a Federal grant agreement. Buses are operated by a private contractor under the terms of a supervisory agreement with the City. A separate contract provides Dial-a-Ride service for the elderly and handicapped.

Additionally, the City reports the following fund types:

Internal service funds account for fleet management, central services, technology and information services, insurance, employee benefits management, and building services provided to other departments or agencies of the City on a cost-reimbursement basis. Agency funds account for cash and investments held by the City as agent for various assessment districts, governmental entities and non-public organizations. Agency funds cannot be major funds.

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

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

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

Proprietary funds distinguish operating revenues and expenses from non-operating 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 non-operating revenues and expenses.

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

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

D. ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY

1. Cash and Cash Equivalents

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

2. Restricted Assets - Cash and Cash Equivalents

Refundable deposits of the General Fund and the Community Facilities Districts Capital Projects Fund are classified as restricted assets – cash and cash equivalents on the governmental funds balance sheet

because their use is restricted for repayment of those refundable deposits. Refundable deposits in the Water and Sewer funds are also reported as restricted assets on the proprietary funds statement of net assets. In addition, certain proceeds of Water certificates of participation and Sewer revenue bonds are considered restricted assets because their use is limited by applicable debt covenants. These proceeds are reported as part of "restricted assets – cash and cash equivalents" 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 non-operating 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, 2011 is \$9,384,609.

Utility service accounts receivable are reported net of \$1,250,074 allowance for doubtful collections and include unbilled receivables using actual amounts billed in July for June services for governmental funds. Accounts receivable are reported net of \$989,124 allowance for doubtful collections, and are based on miscellaneous receivables from the City's invoice system as well as other receivables accrued at year end.

4. Inventories

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

5. Capital Assets

Capital assets which include property, plant and equipment, intangible assets 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.

In the case of the initial capitalization of infrastructure assets reported by governmental activities, the City chose to include them regardless of their acquisition date or amount. Historical values were estimated.

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 borrowing until completion of the project, against interest earned on invested proceeds over the same period. During the fiscal year ended June 30, 2011, \$1,494,683 net interest expense on tax-exempt debt of the City's Water fund, was capitalized.

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, 5 to 15 years for intangible assets, 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 of June 30, 2011, the total estimated liability for all compensated absences, including sick leave, is \$11,447,524.

7. Fund Equity

In the fund financial statements, governmental funds report fund balance as nonspendable, restricted, committed, assigned or unassigned based primarily on the extent to which the City is bound to honor constraints on how specific amounts can be spent.

- *Nonspendable fund balance* – amounts that account be spent because they are either (a) not spendable in form or (b) legally or contractually required to be maintained intact.
- *Restricted fund balance* – amounts with constraints placed on their use that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.
- *Committed fund balance* – amounts that can only be used for specific purposes determined by formal action of the City's highest level of decision-making authority (City Council) and that remain binding unless removed in the same manner. The underlying action that imposed the limitation needs to occur no later than the close of the reporting period.
- *Assigned fund balance* – amounts that are constrained by the City's intent to be used for specific purposes. The intent can be established at either the highest level of decision making, or by an official designated such as the City Manager for such purpose.
- *Unassigned fund balance* – the residual classification for the City's General Fund that includes amounts not contained in other classifications. In other funds, the unassigned classification is used only if expenditures incurred for specific purposes exceed the amounts restricted, committed or assigned to those purposes.

The City establishes and modifies or rescinds fund balance commitments by passage of an ordinance or policy. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget as a designation or commitment of the fund, such as approved construction contracts. Assigned fund balance is established by the City through adoption or amendment of the budget or future year budget plan as intended for a specific purpose.

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

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

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.

F. NEW ACCOUNTING STANDARDS

For the fiscal year ended June 30, 2011, the City implemented the following Governmental Accounting Standards Board (GASB) standards:

GASB Statement No. 54 - *Fund Balance Reporting and Governmental Fund Type Definitions*. The requirements of this statement are effective for financial statement periods beginning after June 15, 2010. The objective of GASB Statement No. 54 is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied, and it clarifies the existing governmental fund type definitions. It establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. These classifications are described in the Fund Balance section of this footnote. It also provides guidance for classifying stabilization amounts on the face of the balance sheet and requires disclosure of certain information about stabilization arrangements in the notes to the financial statements. The definitions of the General Fund, special revenue fund type, capital projects fund type, debt service fund type, and permanent fund type are also clarified by the provisions in this statement.

Additional standards were released by GASB during the fiscal year.

GASB Statement No. 60 - *Accounting and Financial Reporting for Service Concession Arrangements* addresses accounting and financial reporting issues related to public-private and public-public partnerships. The statement is effective for periods beginning after December 15, 2011. The City has not fully judged the effect of the implementation of GASB-60 as of the date of the basic financial statements.

GASB Statement No. 61 - *The Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14 and No. 34* modifies a number of provisions with regard to reporting of component units within a

financial reporting entity. The statement is effective for periods beginning after June 15, 2012. As of the date of the basic financial statements, the City has not made an assessment of any changes that will occur upon this statement's implementation.

GASB Statement No. 62 - *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements -Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure. The statement is effective for periods beginning after December 15, 2011. However, as the statement codifies what is in current practice, there is no net effect on the City's accounting or financial reporting upon the statement's implementation.

GASB Statement No. 63 - *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position* modifies current financial reporting of those elements. The largest change will be the replacement of the current Statement of Net Assets with a Statement of Net Position and a Statement of Changes in Net Position instead of the current Statement of Changes in Net Assets upon implementation for periods beginning after December 15, 2011. The City will implement this change for the fiscal year ended June 30, 2012.

GASB Statement No. 64 - *Derivative instruments: Application of Hedge Accounting Termination Provisions* - amends current accounting and financial reporting related to terminations of swap agreements due to default or other termination events. In certain instances where swap counterparties or credit support providers are replaced, hedge accounting may continue, rather than cease. The provisions of GASB-64 are effective for financial statements beginning after June 15, 2011. As of the date of the basic financial statements, the City has not made an assessment of any changes that will occur upon this statement's implementation.

II. DETAILED NOTES

A. CASH AND INVESTMENTS

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

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

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

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

The City is a voluntary participant in the California Asset Management Program (CAMP). CAMP is an investment pool offered by the California Asset Management Trust (the Trust). The Trust is a joint powers authority and public agency created by the Declaration of Trust and established under the provisions of the California Joint Exercise of Powers Act (California Government Code Sections 6500 et seq., or the "Act") for the purpose of exercising the common power of its participants to invest certain proceeds of debt issues and surplus funds. The Pool's investments are limited to investments permitted by subdivisions (a) to (n), inclusive, of Section 53601 of the California Government Code. At June 30, 2011 the fair value approximated the City's Cost. At June 30, 2011, these investments have an average maturity of 402 days. The City reports its investments in CAMP at the fair value amounts provided by CAMP, which is the same as the value of the pool share.

Investments Authorized by Debt Agreements

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

Interest Rate Risk

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

Remaining Time to Maturity

Investment Type	Total	Less Than 1 Year	1 – 2 Years	2 – 3 Years	Over 5 Years
U.S. Treasury Notes	\$50,109,772	\$32,536,034	\$17,573,738	-	-
Federal agency securities					
Bonds	28,752,028	6,731,842	6,778,928	15,241,258	
Notes	109,835,327	7,222,448	69,686,397	32,926,482	
Discount Notes	-	-	-	-	-
U.S. Treasury Bills	-	-	-	-	-
CAMP	80,425,335	80,425,335	-	-	-
Cash in banks	2,722,738	2,722,738	-	-	-
Held by trustee:					
Money market funds	15,688,468	15,688,468	-	-	-
Federal agency discount notes					
Federal agency securities notes	3,396,524	3,396,524	-	-	-
CAMP	18,435,327	18,435,327	-	-	-
Total	<u>\$309,365,519</u>	<u>\$167,158,716</u>	<u>\$94,039,063</u>	<u>\$48,167,740</u>	<u>-</u>

Maturity dates for callable notes are based on call dates.

Disclosures Related to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the rating as of June 30, 2011 for each investment type:

Investment Type	Total	Exempt from Disclosure	AAA and A-1+	Not Rated
U.S. Treasury Notes	\$50,109,772	\$50,109,772	-	-
Federal agency securities	138,587,355	-	138,587,355	-
U.S. Treasury Bills				
CAMP	80,425,335		80,425,335	
Held by trustee:				
Money market funds	15,688,468	-	15,688,468	-
Federal agency discount notes				
Federal agency securities notes	3,396,524	-	3,396,524	-
CAMP	18,435,327	-	18,435,327	-
Guaranteed investment contracts				
Total	<u>\$306,642,781</u>	<u>\$50,109,772</u>	<u>\$256,533,009</u>	<u>\$-</u>

On May 27, 1993 the City entered into a 20 year Repurchase Agreement with Lehman Government Securities Inc. to fulfill its "reserve requirement" for the 1993 Community Center Refinancing Refunding Certificates of Participation. The minimum credit rating allowable according the Repurchase Agreement was a rating of "A-" by Standard and Poors. On September 16, 2008, Standard and Poors downgraded Lehman Brothers Holdings Inc. to a "D" credit rating. The downgrade triggered a required "transaction reduction," and on October 1, 2008 the City contacted Lehman Government Securities Inc. and Lehman Brothers Holdings Inc. to request payment of the purchase price of the Repurchase Agreement plus additional amounts required under the Agreement. The City received payment of the Repurchase Agreement in April 2009. The reserve fund is now invested in Federal Agencies.

Concentration of Credit Risk

The City's investment policy contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. Investments in any one issuer, other than U. S. Treasury securities, mutual funds, and external investment pools that represent 5% or more of total entity-wide investments are as follows at June 30, 2011:

<u>Issuer</u>	<u>Investment Type</u>	<u>Reported Amount</u>	<u>Percent of Portfolio</u>
Freddie Mac (FHLMC)	Federal agency securities	\$36,937,549	17.7%
Federal Home Loan Bank	Federal agency securities	33,058,544	15.8%
Fannie Mae (FNMA)	Federal agency securities	71,987,786	34.5%

Investments in any one issuer, other than U. S. Treasury securities, mutual funds, and external investment pools, that represent 5% or more of enterprise funds were for the Sewer Enterprise Fund as follows at June 30, 2011:

<u>Issuer</u>	<u>Investment Type</u>	<u>Reported Amount</u>
Federal Home Loan Bank	Federal agency securities	\$3,396,524

Custodial Credit Risk

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

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

B. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2011 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Prior Yr Adjustment</u>	<u>Ending Balance</u>
Governmental activities:					
Capital assets, not being depreciated:					
Land	32,690,491	780,599	(8,575)	-	33,462,515
Construction in Progress	15,041,708	14,416,925	(8,624,199)	(295,332)	20,539,102
Total capital assets, not being depreciated:	<u>\$ 47,732,199</u>	<u>\$ 15,197,524</u>	<u>\$ (8,632,774)</u>	<u>\$ (295,332)</u>	<u>\$ 54,001,617</u>
Capital assets being depreciated:					
Building	31,969,637	-	(57,801)	-	31,911,836
Improvements other than buildings	66,307,146	7,924,940	(2,753,073)	(69,654) [▼]	71,409,359
Furnishings & equipment	15,382,779	695,251	(337,960)	-	15,740,070
Intangible Assets	2,416,213	36,964	-	-	2,453,177
Equipment pool	28,319,297	1,853,710	(1,630,878)	-	28,542,129
Infrastructure					
Streets	487,333,537	-	-	-	487,333,537
Signals	16,884,800	-	-	-	16,884,800
Bridges	26,207,207	-	-	-	26,207,207
Total capital assets, being depreciated:	<u>\$ 674,820,616</u>	<u>\$ 10,510,865</u>	<u>\$ (4,779,712)</u>	<u>\$ (69,654)</u>	<u>\$ 680,482,115</u>
Less accumulated depreciation for:					
Buildings	(15,338,653)	(890,049)	52,091	-	(16,176,611)
Improvements	(28,191,898)	(6,444,824)	1,099,776	771,873	(32,765,073)
Furnishings & equipment	(10,198,306)	(1,967,124)	376,170	154,700	(11,634,560)
Intangible Assets	(433,885)	(792,453)	-	-	(1,226,338)
Equipment pool	(16,446,078)	(2,873,553)	1,386,209	136,703	(17,796,719)
Infrastructure					
Streets	(236,958,751)	(9,730,170)	-	-	(246,688,921)
Signals	(13,019,594)	(844,280)	-	-	(13,863,874)
Bridges	(3,488,942)	(524,158)	-	-	(4,013,100)
Total accumulated depreciation	<u>\$ (324,076,107)</u>	<u>\$ (24,066,611)</u>	<u>\$ 2,914,246</u>	<u>\$ 1,063,276</u>	<u>\$ (344,165,196)</u>
Total capital assets being depreciated, net	<u>\$ 350,744,509</u>	<u>\$ (13,555,746)</u>	<u>\$ (1,865,466)</u>	<u>\$ 993,622</u>	<u>\$ 336,316,919</u>
Governmental activities capital assets, net	<u>\$ 398,476,708</u>	<u>\$ 1,641,778</u>	<u>\$ (10,498,240) [▼]</u>	<u>\$ 698,290</u>	<u>\$ 390,318,536</u>

	Beginning <u>Balance</u>	<u>Additions</u>	<u>Deletions</u>	Prior Year <u>Adjustments</u>	Ending <u>Balance</u>
Business-type activities:					
Capital Assets not being depreciated:					
Land	30,068,229	5,700	-	-	30,073,929
Construction in Progress	83,909,221	23,006,078	(28,845,540)	6,900,318	84,970,077
Total capital assets, not being depreciated:	<u>\$ 113,977,450</u>	<u>\$ 23,011,778</u>	<u>\$ (28,845,540)</u>	<u>\$ 6,900,318</u>	<u>\$ 115,044,006</u>
Capital Assets being depreciated:					
Capitalized Interest	-	1,494,683	-	13,746,121	15,240,804
Building	83,160,909	37,329	(1,600)	-	83,196,638
Improvements other than buildings	192,428,963	8,590,140	(736,064)	-	200,283,039
Furnishings & equipment	9,926,012	1,532,132	(3,035,199)	-	8,422,945
Intangible Asset	149,098	-	-	-	149,098
Water Rights	-	-	-	358,226,691	358,226,691
Buses and Fareboxes	15,334,513	2,828,732	-	-	18,163,245
Pipelines	147,723,989	1,767,468	(10,469)	-	149,480,988
Total capital assets, being depreciated:	<u>\$ 448,723,484</u>	<u>\$ 16,250,484</u>	<u>\$ (3,783,332)</u>	<u>\$ 371,972,812</u>	<u>\$ 833,163,448</u>
Less accumulated depreciation for:					
Capitalized Interest	-	(56,491)	-	(5,659,651)	(5,716,142)
Buildings	(44,704,665)	(2,501,880)	-	-	(47,206,545)
Improvements	(102,866,736)	(7,349,484)	225,819	(1,042,914)	(111,033,315)
Furnishings & equipment	(3,781,838)	(779,601)	119,077	22,499	(4,419,863)
Intangible Asset	(17,552)	(51,300)	-	-	(68,852)
Buses and Fareboxes	(9,812,806)	(941,486)	-	(1,150,829)	(11,905,121)
Pipelines	(28,760,801)	(1,881,015)	-	-	(30,641,816)
Total accumulated depreciation	<u>\$ (189,944,398)</u>	<u>\$ (13,561,257)</u>	<u>\$ 344,896</u>	<u>\$ (7,830,895)</u>	<u>\$ (210,991,654)</u>
Total capital assets being depreciated, net	<u>\$ 258,779,086</u>	<u>\$ 2,689,227</u>	<u>\$ (3,438,436)</u>	<u>\$ 364,141,917</u>	<u>\$ 622,171,794</u>
Business-type activities capital assets, net	<u>\$ 372,756,536</u>	<u>\$ 25,701,005</u>	<u>\$ (32,283,976)</u>	<u>\$ 371,042,235</u>	<u>\$ 737,215,800</u>

Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
General government	672,254
Community development	1,611,340
Highways and streets, including depreciation of general infrastructure assets	11,814,114
Public works	373,830
Parks and recreation	538,947
Public safety	4,523,462
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	<u>4,185,222</u>
Total depreciation expense – governmental activities	<u><u>\$23,719,169</u></u>

*The difference between the depreciation expenses and the Additions for accumulated depreciation is related to transfers that occurred during the year.

Business-type activities:	
Parking	444,492
Water	3,390,235
Sewer	5,627,948
Storm Drain	611,683
Compost	154,545
Airport	765,296
Bus	1,365,712
Golf	405,200
Community center	796,146
Total depreciation expense – business-type activities	<u>\$13,561,257</u>

C. LONG-TERM DEBT

Loans Payable

Governmental activities:

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 2016 if not repaid sooner. \$405,000

No-interest loan payable to the Stanislaus County Economic Development Bank loan program, to pay costs incurred by the City for the Kiernan Business Park East Project; loan intended to be repaid within five years of project completion, provided funds are available from revenue stream; project completion estimated to be March 1, 2009; authorized loan amount up to \$500,000, with a current balance of \$498,362; outstanding amount will increase as more eligible costs are incurred and more loan proceeds are borrowed. 498,362

Total principal balances – governmental activities \$903,362

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 \$132,360, including interest, through October 1, 2015. \$1,101,831

Loan payable to Modesto Irrigation District for the purposes of certain repairs and maintenance for the Exterior Insulation Finish System ("EIFS") and gutter systems, and certain low sloped roofing replacement, collectively referred to for convenience as "Project", and are necessary for the Modesto Regional Water Treatment Plant facilities. Payments are to be made in five annual installments due no later than July 31, 2014. \$5,420,412

Total principal balances – business-type activities \$6,522,243

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

Year Ending June 30,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2012	-	-	1,228,413	33,256
2013	-	-	1,713,483	25,723
2014	-	-	1,721,082	18,124
2015	-	-	1,728,981	10,226
2016	\$903,362	-	130,284	2,076
Total	\$903,362	\$-	\$6,522,243	\$89,405

Certificates of Participation

Governmental activities:

1993 Refunding Certificates of Participation issued to refund earlier certificates for the Modesto Centre Plaza Community Center capital project; serial certificates with annual maturities on November 1, in amounts from \$935,000 to \$1,040,000; interest rates from 5.5% - 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. The certificates are repayable from any source of available funds of the City.

\$ 16,975,000

Business-type activities:

Golf Enterprise Fund:

1993 Refunding Certificates of Participation issued to refund earlier certificates for the Creekside Golf Course capital project; serial certificates with annual maturities on November 1, in amounts from \$225,000 to \$235,000; interest rate of 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. The certificates are repayable from any source of available funds of the City. However, the City has elected to repay the certificates from revenues of the Golf enterprise fund.

\$ 4,725,000

Water Enterprise Fund:

1997 Refunding Certificates of Participation issued to refund earlier certificates for various Water Enterprise Fund capital projects; serial certificates with annual maturities on October 1, in amounts from \$855,000 to \$1,050,000; interest rates from 4.80% 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. The 1997 Refunding Certificates of Participation were paid in full in April, 2011.

2008 Water Refunding Revenue Certificates of Participation issued to refund the 2006 issue, to provide funding for construction of new downstream water facilities and various water distribution system improvements in connection with Modesto Irrigation District's expansion of the regional water treatment plant; variable rate securities maturing October 1, 2036, with interest initially calculated weekly, fluctuating according to market conditions. The Certificates may be converted to a daily, term, flexible, or fixed rate.

The City entered into a 30 year interest rate swap agreement as discussed below. The combination of the variable rate 2008 COPs and the floating rate swap creates a synthetic fixed-rate debt for the City. The synthetic fixed rate was 3.48% at June 30, 2011.

46,765,000

Total principal balances – business-type activities	51,490,000
Less:	
Unamortized bond discount – 2008 Water Refunding Certificates of Participation	(137,430)
Deferred amount on refunding – 2008 Water Refunding Certificates of Participation	(594,791)
Total business-type activities certificates of participation	<u>\$50,757,779</u>

The City has pledged future Water Enterprise Fund revenues, net of specified operating expenses, to repay the 1997 and 2008 Certificates of Participation, the loans from the State of California Department of Water Resources and Modesto Irrigation District, along with the its commitments to the Modesto Irrigation District via its Treatment and Delivery Agreement discussed in Note III F, through 2036. The Water Fund's total principal and interest remaining to be paid on the certificates and loans is \$96,714,625. The Water Fund's principal and interest paid on certificates and loans for the current year, along with payments to Modesto Irrigation District under the Treatment and Delivery Agreement, totaled \$15,126,807, and net revenues of the Fund were \$28,584,930, which represented coverage of 189%. In fiscal year 2011, the MID debt issued on behalf of the City related to this agreement was reported as Water Rights and lease liability on the City's financial statements.

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

Year Ending June 30,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2012	1,090,000	846,670	550,000	2,601,209
2013	1,150,000	783,950	585,000	2,561,455
2014	1,215,000	717,730	600,000	2,537,728
2015	1,285,000	647,730	650,000	2,504,223
2016	1,340,000	578,250	665,000	2,471,801
2017-2021	6,295,000	1,968,125	3,800,000	11,803,246
2022-2026	4,600,000	352,750	9,475,000	10,302,224
2027-2031			14,110,000	7,082,548
2032-2036			17,185,000	3,107,770
2037			3,870,000	72,078
Total	<u>\$16,975,000</u>	<u>\$5,895,205</u>	<u>\$51,490,000</u>	<u>\$45,044,282</u>

Lease Revenue Bonds – Governmental activities:

2008 Lease Revenue Refunding Bonds in the amount of \$65,170,000 issued to refund the balance of the 1998 Lease Revenue Bonds and the 2007 Lease Revenue Refunding and Capital Improvement Bonds; variable rate securities maturing September 1, 2033, with interest initially calculated weekly, fluctuating according to market conditions. The bonds may be converted to a daily, term, flexible, or fixed rate. The combination of the variable rate bonds and a floating swap rate creates a synthetic fixed-rate debt for the City. The synthetic fixed rate was 3.61% at June 30, 2011. \$63,255,000

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>
2012	1,125,000	3,365,266
2013	1,260,000	3,296,690
2014	1,395,000	3,223,399
2015	1,505,000	3,143,793
2016	1,665,000	3,058,470
2017-2021	9,560,000	13,806,963
2022-2026	13,990,000	10,635,733
2027-2031	19,140,000	6,076,642
2032-2034	13,615,000	939,580
	<hr/>	<hr/>
Total	<u>\$63,255,000</u>	<u>\$47,546,536</u>

Revenue Bonds – Business-type activities:

Sewer Enterprise Fund:

Wastewater Treatment Facility Revenue Bonds, Series 2005 Series A and B; Series A (non-taxable) interest payable on November 1 and May 1; serial certificates with annual maturities on November 1, in amounts from \$1,660,000 to \$3,230,000, with interest rates from 3.0% to 5.25%; Series B (taxable) paid in full during 2008 fiscal year. \$ 29,750,000

Wastewater Revenue Bonds, Series 2006A; interest payable on November 1 and May 1; serial certificates with annual maturities on November 1, in amounts from \$880,000 to \$1,005,000, with interest rates from 4.2% to 4.5%; term certificates in the amount of \$5,710,000 maturing in 2031 and \$7,060,000 maturing in 2036, bearing interest at 4.25%, with annual payments beginning in 2024. 16,535,000

Total principal balances – business-type activities 46,285,000

Plus: Unamortized bond premium - 2005 Bonds 1,533,605

Less:

Unamortized bond discount – 2006 Bonds (271,632)

Deferred amount on refunding – 2005 Bonds (2,472,484)

Total business-type activities revenue bonds \$ 45,074,489

The 2005 and 2006 bonds were issued to fund a variety of Sewer Enterprise Fund wastewater capital improvements.

The City has pledged future Sewer Enterprise Fund revenues, net of specified operating expenses, to repay the 2005 and 2006 bonds through 2036. The Sewer Fund's total principal and interest remaining to be paid on the bonds is \$70,180,347. The Sewer Fund's principal and interest paid for the current year and total customer net revenues were \$4,021,108 and \$21,121,794 respectively.

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2012	1,855,000	2,159,808
2013	1,955,000	2,064,558
2014	2,050,000	1,964,432
2015	2,160,000	1,859,183
2016	2,270,000	1,748,432
2017-2021	13,165,000	6,944,331
2022-2026	9,055,000	3,687,347
2027-2031	5,475,000	2,365,231
2032-2036	6,765,000	1,069,406
2037	1,535,000	32,619
Total	<u>\$46,285,000</u>	<u>\$23,895,347</u>

Notes Payable – Governmental activities:

Note payable to the Federal Housing and Urban 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 4.0% to 6.01%; semi-annual installments on August 1 and February 1 through August 2024.

\$3,574,000

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.

20,658

Total notes payable

\$3,594,658

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2012	202,658	196,417
2013	191,000	186,906
2014	201,000	177,064
2015	211,000	166,483
2016	221,000	155,085
2017-2021	1,286,000	488,162
2022-2025	1,282,000	242,387
Total	<u>\$3,594,658</u>	<u>\$1,612,504</u>

Interest Rate Swap Agreements

Objective of the swaps – The primary objective of the swaps is to mitigate the effect of fluctuations in variable interest rates by paying a fixed rate and receiving a floating rate on the swap. Combining a pay-fixed receive-variable rate swap with variable debt results in what is termed “synthetic” fixed rate debt. It is called synthetic because the economics are similar to fixed rate debt, but another instrument is involved unlike regular fixed rate debt. Each time the City created synthetic fixed rate debt a comparison and determination was made that the fixed rate on regular debt would have been higher than the fixed rate on the swap.

During fiscal year 2007, the City entered into an interest swap agreement in connection with the 2006 Water Revenue Certificates of Participation. This transaction was updated due to the refunding of the 2006 Certificates by the 2008 Water Refunding Revenue Certificates of Participation. The swap agreement allows the City to create a synthetic fixed rate on the COPs, protecting it against increases in short-term interest rates. During fiscal year 2008, the City entered into an interest swap agreement in connection with the 1998 and 2007 Lease Revenue Bonds. The swap agreement allows the City to create a synthetic fixed rate on the Lease Revenue Bonds, protecting it against increases in short-term interest rates. The terms, fair value and credit risk of these swap agreements are disclosed below.

Additionally, in May 2007, the City approved the issuance of revenue bonds by the Modesto Irrigation District Financing Authority related to the financing of Phase 2 of the Domestic Water Treatment and Delivery System of the Modesto Irrigation District. This debt was issued as an interest swap feature with Bear Sterns, which was subsequently acquired by JP Morgan. Under the current agreement with JP Morgan, the City must post collateral when our negative position exceeds the Pledgor’s Threshold of \$20 million. This negative position represents the present value of declining interest rates to date from issuance of bonds. In June 2010, the City Council authorized the City to post collateral up to \$18 million which would support a negative position of \$38 million. At the end of fiscal year 2011, the City had posted \$9 million of collateral posting.

Terms - The terms, including the counterparty credit rating of the outstanding swaps, as of June 30, 2011 are shown in the table below. The swap agreements contain scheduled reductions to the outstanding notional amounts that are expected to follow scheduled principal reductions in the associated debt issues.

<u>Related Debt Issue</u>	<u>Notional Amount</u>	<u>Effective Date</u>	<u>Counterparty</u>	<u>Credit Rating (S&P)</u>	<u>Fixed Rate Paid</u>	<u>Variable Rate Received</u>	<u>Termination Date</u>
2008 Water Refunding Revenue COPs	\$47,335,000	5/30/2008	Bank of America	A+	3.48%	63.7% of 30-day LIBOR, plus .154%	10/1/2036
2008 Lease Revenue Refunding and Capital Improvement	65,170,000	8/28/2008	Bank of America	A+	3.61%	63.7% of 30-day LIBOR, plus .154%	9/1/2033
2007 MID Water Refunding Revenue Bonds 2007F	\$23,370,000	6/26/2007	JP Morgan Chase Bank	AA-	4.38%	67% of 3 Month LIBOR + 0.58%	9/1/2037
2007 MID Water Revenue Bonds Series 2007F	69,820,000	6/26/2007	JP Morgan Chase Bank	AA-	4.44%	67% of 3 Month LIBOR + 0.58%	9/1/2037

Based on the swap agreement the City owes interest calculated at a fixed rate to the counterparty (Bank of America) and (JP Morgan). In return, the counterparty owes the City interest based on the variable rate that approximates the rate required by the associated COPs and lease revenue bonds. Debt principal is not exchanged; it is only the basis on which the swap receipts and payments are calculated.

In June 2008 the GASB issued Statement 53 Accounting and financial Reporting for Derivative Instruments (GASB 53). GASB53 addresses the recognition measurement and disclosure of information regarding derivative instruments entered into by state and local governments. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2009. The City adopted GASB 53 in Fiscal Year 2010.

All derivatives are to be reported on the statement of net assets at fair value and all hedges must be tested for effectiveness to qualify for hedge accounting. The tests are outlined in GASB 53. Depending on the test results, the changes in fair value are either reported on the statement of net assets as a deferral or in the statement of activities as investment revenue or loss.

Fair value – Fair value takes into consideration the prevailing interest rate environment, the specific terms and conditions of each transaction and any upfront payments that may have been received. Fair value was estimated using the zero-coupon discounting method, which calculates the future payments required by the swap, assuming that the current forward rates implied by the LIBOR swap yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement on the swaps. As of June 30, 2011 (December 31, 2010 for MID bonds), the fair value of the swaps was in favor of the counter party as shown in the following table:

Bond Issue	Fair Value
2008 Water Refunding Revenue Certificates of Participation	(\$8,308,574)
2008 Lease Revenue Bonds	(\$5,872,319)
2007 MID Water Refunding Revenue Bonds	(\$16,710,000)

Credit risk - As of June 30, 2011, the City was not exposed to credit risk on the swaps because the swaps had negative fair value. However, if interest rates increase and the fair value becomes positive, the City would be exposed to credit risk. The City will be exposed to interest rate risk only if the counterparty to the swap defaults or if the swap is terminated.

Basis risk - Basis risk is the risk that the interest rate paid by the City to the bondholders on the underlying variable rate bonds temporarily differs from the variable swap rates received from the counterparty. The swaps have basis risk since the City receives a percentage of the LIBOR Index to offset the actual variable bond rates the City pays on the underlying certificates of participation. The City is exposed to basis risk should the floating rate that it receives on the swap be less than the actual variable rate the City pays on the bonds. Depending on the magnitude and duration of any basis risk shortfall, the expected cost of the basis risk may vary.

A portion of this basis risk is tax risk. The City is exposed to tax risk when the relationship between the taxable LIBOR based swaps and tax-exempt variable rate bonds changes as a result of a reduction in federal and state income tax rates. Should the relationship between LIBOR and the underlying tax-exempt variable rate bonds converge the City is exposed to this basis risk.

Termination risk - The City may terminate the swap contracts if the other party fails to perform under the terms of the contracts. The City will be exposed to variable rates if the counterparty defaults or if the swap contract is terminated. A termination of the swap contract may also result in the City's making or receiving a termination payment based on market interest rates at the time of the termination. If at the time of termination the swap has a negative fair value, the City would be liable to the counterparty for a payment equal to the swap's fair value.

Swap payments and associated debt – Using rates as of June 30, 2011, debt service requirements of the 2008 Water Refunding Revenue Certificates of Participation and the 2008 Lease Revenue Refunding Bonds including net swap payments and broker fees, are as shown in the following table assuming current interest rates remain the same for their term. These payments are also included in the tables of debt service requirements accompanying the Certificates of Participation and Lease Revenue Bonds disclosures above. The bond interest payments and net swap payments will vary as interest rates vary.

Year Ending June 30	Variable-Rate Bonds		Interest Rate Swap, Net, and Broker Fees	Total
	Principal	Interest		
2012	1,410,000	1,638,713	4,092,092	7,140,805
2013	1,570,000	1,615,763	4,029,533	7,215,296
2014	1,705,000	1,590,694	3,965,703	7,261,397
2015	1,845,000	1,563,544	3,896,543	7,305,087
2016	2,005,000	1,534,069	3,825,077	7,364,146
2017-2021	11,475,000	7,175,381	17,846,203	36,496,584
2022-2026	22,090,000	5,984,588	14,847,995	42,922,583
2027-2031	33,250,000	3,785,363	9,373,827	46,409,190
2032-2036	30,800,000	1,172,700	2,874,651	34,847,351
2037	3,870,000	18,788	53,289	3,942,077
Total	<u>\$110,020,000</u>	<u>\$26,079,603</u>	<u>\$64,804,913</u>	<u>\$200,904,516</u>

The debt scheduled related to the MID Water Refunding bonds are provided below:

Year Ending June 30,	Principal	Interest
2012	3,790,000	7,004,040
2013	3,980,000	6,809,790
2014	4,175,000	6,603,306
2015	4,395,000	6,383,700
2016	4,615,000	6,152,818
2017-2021	26,810,000	26,979,733
2022-2026	26,005,000	20,360,180
2027-2031	26,740,000	14,848,868
2032-2036	33,535,000	8,195,685
2037-2038	19,535,000	960,705
Total	<u>\$ 153,580,000</u>	<u>\$ 104,298,826</u>

Changes in Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2011, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Loans payable	\$ 903,362			\$ 903,362	
Certificates of participation	18,015,000		\$ 1,040,000	16,975,000	\$ 1,090,000
Derivative instrument SWAP	10,172,612		1,876,560	8,296,052	
Lease revenue bonds	64,275,000		1,020,000	63,255,000	1,125,000
Notes payable	3,802,436		207,778	3,594,658	202,659
Obligations under capital leases	1,221,553		245,598	975,955	233,018
Compensated absences	9,299,208	4,947,303	5,174,889	9,071,622	4,455,996
Net OPEB obligation	37,787,471	9,493,282		47,280,753	
Claims liability	21,270,905	5,939,661	6,133,528	21,077,038	4,686,703
Governmental activities long-term liabilities	<u>\$166,747,547</u>	<u>\$20,380,246</u>	<u>\$15,698,353</u>	<u>\$171,429,440</u>	<u>\$11,793,376</u>
Business-type activities:					
Loan payable	\$ 7,819,633		\$1,297,390	\$ 6,522,243	\$1,228,413
Compensated absences	2,440,093	1,395,393	1,459,584	2,375,902	1,256,820
Net OPEB obligation	7,739,602	2,677,592		10,417,194	
Derivative instrument SWAP	7,518,877	18,115,156	1,658,849	23,975,184	
Certificates of participation	69,125,000		17,635,000	51,490,000	550,000
Unamortized discounts	(439,778)		(302,348)	(137,430)	
Deferred amount on refunding	(1,619,009)		(1,024,218)	(594,791)	
Revenue bonds					
MID Variable Bonds		153,580,000		153,580,000	3,790,000
Sewer Bonds	48,050,000		1,765,000	46,285,000	1,855,000
Unamortized premium	1,661,405		127,800	1,533,605	
Unamortized discount	(282,079)		(10,447)	(271,632)	
Deferred amount on refunding	(2,678,525)		(206,041)	(2,472,484)	
Developer advances	1,798,431		94,395	1,704,036	94,395
Business-type activities long-term liabilities	<u>\$141,133,650</u>	<u>\$175,768,141</u>	<u>\$22,494,964</u>	<u>\$294,406,827</u>	<u>\$8,774,628</u>

Principal balances are reported on the government-wide and enterprise funds statements of net assets net of unamortized issuance discounts and premiums, 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 \$20,658 of internal service funds obligations under notes payable, and \$705,975 in 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.

Prior year defeasance of debt

In 2005, the City issued refunding Wastewater Revenue Bonds to refund 1993, 1996 and 1997 Wastewater Revenue Bonds. The proceeds were used to purchase U.S. government securities, which were deposited in an irrevocable trust to provide for all future debt service requirements of the three refunded issues. Both the 1993 and 1996 Bonds have been fully redeemed. As of June 30, 2011 \$2,590,000 of 1997 revenue bonds are considered defeased and are not included in the Sewer Fund.

D. OBLIGATIONS UNDER CAPITAL LEASES

Internal Service Funds

A software license valued at \$893,110, less \$0 accumulated depreciation, is being leased under a capital lease arrangement. The following is a schedule of the future minimum lease payments on this capital lease as of June 30, 2011:

Year Ending June 30,	
2012	189,000
2013	189,000
2014	190,674
2015	190,674
Total minimum lease payments	<u>759,348</u>
Less: amount representing interest	<u>(53,373)</u>
Present value of minimum lease payments	<u><u>\$705,975</u></u>

Governmental Funds

One Pierce Quantum 1500GPM Fire Apparatus valued at \$422,524 less \$71,799 accumulated depreciation, is being leased under a capital lease arrangement. The following is a schedule of the future minimum lease payments on this capital lease as of June 30, 2011:

<u>Year Ending June 30,</u>	
2012	77,611
2013	77,611
2014	77,611
2015	77,611
Total minimum lease payments	310,444
Less: amount representing interest	<u>(40,464)</u>
Present value of minimum lease payments	<u><u>\$269,980</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, 2011, the total outstanding balance due under the agreements is \$1,704,036. The total annual payments fluctuate depending on the ending date of each agreement. At June 30, 2011, the amount of \$94,395 due during fiscal year 2012 has been reported as "current portion-developer advances" on the Proprietary Funds statement of net assets. The remaining \$1,609,641 of outstanding principal has been reported under noncurrent liabilities, as "developer advances."

F. INTERFUND BALANCES

Interfund balances as of June 30, 2011 consist of the following:

Due to General Fund from:	
Housing and Community Development	\$674,688
Other governmental funds – total due to/due from	1,407,350
Other enterprise funds - total due to/due from	<u>809,191</u>
Total Due to/from General Fund	<u><u>\$2,891,229</u></u>

Total Due to/Due From:	<u>\$2,891,229</u>
Advances from General Fund to:	
Other governmental funds	\$1,254,725
Other enterprise funds	<u>1,324,704</u>
Advances from General Fund	<u>2,579,429</u>
Advance from Internal Service Fund to General Fund	<u>\$2,431,738</u>
Advance from Enterprise Fund to General Fund	<u>350,000</u>
Advance from Governmental Funds to other governmental funds	<u>1,192,004</u>
Total Advances from/Advances to	<u>\$6,553,171</u>

All balances reported as "due to/due from" are short-term loans to cover temporary fund cash shortages as of June 30, 2011, and were repaid early in fiscal year 2012. 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.

G. Fund Balance

Detailed classifications of the City's Fund Balances, as of June 30, 2011, are provided below:

	General Fund	Housing and Community Development	Other Governmental	Total Governmental Funds
Restricted				
Advances to Other Funds	2,579,429	-	-	2,579,429
Capital Facility Fees	-	-	30,835,387	30,835,387
Cash with Fiscal Agent	-	-	16,601,883	16,601,883
Community Facilities District Fees	-	-	15,408,358	15,408,358
Grants and Donations	-	-	5,967,742	5,967,742
Investment FV Adj	225,476	85,144	2,852,078	3,162,698
Notes Receivable	-	40,061,904	2,211,000	42,272,904
Prepaid Items	171,926	-	2,077	174,003
Property Held for Resale	-	-	784,000	784,000
Redevelopment Fees	-	-	2,686,470	2,686,470
Refundable deposits	1,336,456	-	-	1,336,456
Traffic Fines	-	-	1,423,225	1,423,225
Total restricted fund balance	<u>4,313,287</u>	<u>40,147,048</u>	<u>78,772,220</u>	<u>123,232,555</u>
Assigned				
Encumbrances	458,415	205,553	3,400,741	4,064,709
Housing development	-	41,647	-	41,647
Total assigned fund balance	<u>458,415</u>	<u>247,200</u>	<u>3,400,741</u>	<u>4,106,356</u>
Unassigned - General Fund	10,215,682	-	-	10,215,682
Unassigned - Special revenue funds	-	(19,621,193)	(43,985)	(19,665,178)
Unassigned - Debt service funds	-	-	(927,763)	(927,763)
Unassigned - Capital project funds	-	-	(3,021,367)	(3,021,367)
Total unassigned fund balance	<u>10,215,682</u>	<u>(19,621,193)</u>	<u>(3,993,115)</u>	<u>(13,398,626)</u>
Total fund balance	<u>14,987,384</u>	<u>20,773,055</u>	<u>78,179,846</u>	<u>113,940,285</u>

H. DEFICIT FUND EQUITY

The Downtown Improvement District, Special Fund for Capital Outlays and Capital Grants Capital Projects Fund has a deficit fund balance, respectively of \$2,050, \$36,950 and \$119,722. The future recognition of currently deferred revenue is expected to resolve this deficit and the negative balance for the Downtown Improvement District and Special Fund for Capital Outlays is generated from the fair market value adjustment.

The Golf Enterprise Fund has a net assets deficit of \$2,803,739, due to a change in accounting policy several years ago, as well as revenues not keeping up with expenses. The City originally classified the 1993 Refunding Certificates of Participation as debt of the governmental funds, with construction proceeds transferred to the Golf Enterprise Fund when the certificates were issued. However, since the Golf Fund is paying, and is expected to continue paying, the entire debt service cost, it was decided that the balance of the debt should be recorded in the Golf Fund. The Golf Fund also has struggled due to competition and lagging revenues. Depreciation expense further contributes to the deficit. The City is looking at various options to resolve this funding deficit.

The Employee Benefits Management Internal Service Fund has a net assets deficit of \$53,522,922. It exists partially because the total compensated absences and other post-employment benefit balance previously classified as debt of the governmental funds was included in this fund at its inception several years ago, and has never been fully funded. The City is continuing to charge a higher benefit rate to help reduce this deficit. In addition, one-time revenues having to do with employee benefits are deposited to this fund.

The Insurance Funds have a net assets deficit of \$3,066,808, due mainly to the recognition of settlements that were reached in the prior fiscal year which have been reported as liabilities of the Liability Insurance Fund. Both settlements involved matters that represented city-wide policies and practices and therefore are allocable to all of the funds that make annual contributions to the liability insurance program. The Liability Insurance program will recover the full amount of the settlement from charges to the funds that participate in the liability insurance program over a period of 5 years.

I. INTERFUND TRANSFERS

The following is a schedule of interfund transfers.

Transfers (in) to:	Transfers from (out):								
	General Fund	Housing & Comm Dev	Other Govern-mental	Water	Sewer	Bus	Other Enterprise Funds	Internal Service	Total
General Fund	-	-	\$3,370,770	\$76,000	\$68,640	\$8,400	-	\$226,909	\$3,750,719
Other Governmental	4,753,603	13,935	1,904,634	-	-	2,827	-	131,500	6,806,499
Water	-	-	-	-	-	-	-	19,318	19,318
Bus	1,500	-	-	-	-	-	-	-	1,500
Other Enterprise	598,530	-	55,612	31,389	-	-	953,538	-	1,639,069
Internal Service	2,593,497	-	(222,888)	693,181	1,099,340	229,742	-	20,000	4,412,872
Grand Total	\$7,947,130	\$13,935	\$5,108,128	\$800,570	\$1,167,980	\$240,969	\$953,538	\$397,727	\$16,629,977

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 Housing and Community Development and Other Governmental Funds of \$42,502,006 net of \$806,617 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.

K. APPROVED LOANS PAYABLE

The approved loans payable in the Housing and Community Development Special Revenue Fund and other governmental funds of \$857,981 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.

The approved loans payable in the Redevelopment Agency Capital Projects Fund of \$575,000 consists of amounts being held for affordable housing. The liability is expected to be liquidated within a couple years.

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 initiated litigation with the manufacturers. In the current year the City received payments related to insurance settlements that were deposited to the Sewer fund in the amount of \$412,069.

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/occurrence as follows: workers' compensation \$500,000; liability \$1,000,000. 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 \$5,000,000. 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 \$5,000,000 in three excess layers, of \$10,000,000 each; for additional coverage of \$35,000,000 per claim. Settled claims have not exceeded this commercial coverage in any of the past five 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, 2011 is \$21,077,038 consisting of \$18,239,000 workers' compensation, \$2,647,000 general liability, \$150,608 dental, and \$40,430 vision. Workers' compensation and general liability claims liabilities are estimated on an actuarial basis, and are reported at their net present value using an expected future investment yield assumption of 4.0%. The undiscounted worker's compensation and liability claims totaled \$22,985,000 and \$2,622,000 respectively. The actuarial liability for workers compensation and general liability were based on June 30, 2010 actuarial reports.

The current portion of the total claims liability is estimated to be \$4,686,703 and the balance of \$16,390,335 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, 2010 for General Liability and Workers Compensation. Changes in the Insurance Fund claims liability during the fiscal years ended

June 30, 2010 and June 30, 2011 were:

	Claims Liability July 1	Current-Year Claims and Changes in Estimates	Current-Year Claim Payments	Claims Liability June 30
2008-09	22,949,872	2,057,837	(3,582,156)	21,425,553
2009-10	21,425,553	6,386,687	(6,541,335)	21,270,905
2010-11	21,270,905	5,939,661	(6,133,528)	21,077,038

B. COMMUNITY FACILITIES DEBT WITHOUT CITY COMMITMENT

Special assessment and community facilities 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, 2011, the balance of these districts' outstanding debt was as follows:

Issue	Outstanding Amount
Village One #2 Community Facilities District	\$30,665,000
Fairview Village Community Facilities District	4,865,000

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, 2011 there were four series of conduit revenue bonds outstanding. The aggregate principal amount payable for these multiple-family housing bond issues, issued between 1994 and 2002, was \$19,600,000.

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. The City is a defendant in various matters of litigation.

In the 1950's and 1960's, the City operated a landfill facility outside the city limits. This facility was closed in 1968, to the standards in effect at that time. State and federal laws and regulations require that the City perform certain maintenance and monitoring functions. Testing performed during fiscal year 2007 indicated that methane emissions in the area had exceeded State standards, however, quarterly groundwater monitoring at the site has determined that the landfill has experienced a "release" that measurably affects groundwater. The City has to develop a plan to monitor the release and determine the nature and extent of impacts. An engineering feasibility study must be completed to determine if the City should remove/treat the release, or just continue to monitor the release. To conclude, depending on the results of the engineering feasibility study, the City will need to implement the recommended action, which could involve construction and operation of a groundwater treatment system. If additional post closure care requirements are determined (due to changes in technology or applicable laws or regulations, for example), these costs may result in increased charges to future landfill users. As of June 30, 2011, the future post closure care cost of monitoring the landfill was calculated to be immaterial for presentation purposes which include the agreement cost for the study.

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 \$26,782,196 as of June 30, 2011 for contracts awarded but not completed and other outstanding purchase requisitions and orders. This amount consists of \$458,415 in the General Fund, \$205,553 in the Housing and Community Development, \$8,750,108 in other governmental funds, \$15,754,107 in the enterprise funds, and \$1,614,014 in the internal service funds. Commitments of the governmental funds are recorded in one of the classifications of fund balance based on the various funding restrictions on the balance sheet. As of June 30, 2011, there are major contracts and other purchase orders outstanding for water and sewer system improvements, vehicle purchases, new financial system, construction of a new bus maintenance facility, comprehensive update to the City's general plan, major street improvements, and the purchase of buses.

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 \$119,449 for the fiscal year ended June 30, 2011. As of June 30, 2011 the City's investment in this joint venture was \$1,960,858, 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, Hughson, Waterford 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 cash contribution to the SDEA for the fiscal year ended June 30, 2011 was \$562,238. The City's investment in this joint venture was estimated to be \$696,587 as of June 30, 2011, based on the most recent available information. This amount is reported in governmental activities in the statement of net assets. Financial statements of the SDEA are prepared by the City of Modesto Finance Department.

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. Starting in July 1, 2010 the County Auditor Controller became the

fiscal administrator. For the fiscal year ended June 30, 2011, the City's payments to the Agency were \$613,982 for operations and capital reserve. The City's equity interest in the Agency is \$11,646,845, equal to its capital 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, 2011, 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 2008 Water Revenue Certificates of Participation, 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 \$10,741,416. The treatment plant completed all tests and began commercial operations on May 15, 1995, at which time the City began paying for raw water and operations. The total cash paid to MID during the fiscal year ended June 30, 2011 was \$16,368,792 which is reported as water rights and an adjustment to the City's liability. The City reported a prior year adjustment to account for this change that was not accounted for in prior years.

The City and MID have agreed upon an expansion of the initial Domestic Water Project facilities beyond the existing design capacity of 36 million gallons per day ("mgd") to a design capacity of 72 mgd. In June 2007, the MID issued \$93,190,000 Domestic Water Project revenue bonds pursuant to the terms of the existing treatment and delivery agreement. As of June 30, 2011, the total outstanding on the MID bonds is: \$60,390,000 for the 1998 bonds, and \$93,190,000 for the 2007 bonds for a total of \$153,580,000. Refer to the long term debt section (Note C) with more information about the debt schedule.

G. POST-RETIREMENT HEALTH CARE DEFINED BENEFIT PLAN

Plan Description

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 the health insurance allowance for retirees with no accumulated sick leave. As of June 30, 2011 there were 501 participants receiving these health care benefits.

The OPEB Plan provisions and benefits in effect at June 30, 2011, are summarized as follows:

	<u>Police (including Management)</u>	<u>General Employees</u>	<u>Management</u>	<u>Fire</u>	<u>Fire Management</u>
Benefit Types Provided	Medical, dental and vision	Medical, dental and vision	Medical, dental and vision	Medical only	Medical, dental and vision
Duration of Benefits	One month per eight hours of converted sick leave	One month per eight hours of converted sick leave	One month per eight hours of converted sick leave	Lifetime	One month per eight hours of converted sick leave
City Health Allowance per month	\$596.00 for single \$1,050.00 with dependents	\$621.00 for single \$1,100.00 with dependents	\$621.00 for single \$1,100.00 with dependents	\$108.00	\$108 for single

Except for the Fire group, the City health allowance amounts may increase each year based on the health allowance for active employees. For the Fire group, the City health allowance amounts increase each year in accordance with Government Code Section 22825.

Funding Policy and Actuarial Assumptions

The City's funding policy for the Plan is to fund benefits on a pay-as-you-go basis. The annual required contribution was determined as part of the June 30, 2010 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) 4% investment rate of return, (b) 3.25% projected annual salary increase, and (c) 9% health inflation increases. The actuarial methods and assumptions used include techniques that are designed to reduce the short-term volatility in actuarial accrued liabilities. Actuarial calculations reflect a long-term perspective and actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as results are compared to past expectations and new estimates are made about the future. The City's OPEB 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, 2011 was 30 years.

The City has set aside \$13,165,150 of Employee Benefits Management Internal Service Fund cash and investments to be used to fund the above benefits. Generally accepted accounting principles permit assets to be treated as OPEB assets and deducted from the Actuarial Accrued Liability when such assets are placed in an irrevocable trust or equivalent arrangement. Since the City's Internal Service Fund does not meet this requirement, the assets have been excluded from the actuarial study and calculation. This funding policy means that the City contributions are considered to be on a pay-as-you-go basis. As a result, the City has calculated and recorded the Net OPEB Obligation, representing the difference between the ARC and the pay-as-you-go contributions, as presented below.

In prior years, the City estimated and recorded an accrued liability representing unfunded retiree pension costs in its Employee Benefits Management Internal Service Fund. In accordance with GASB 45, municipalities are permitted to retain an estimated liability for prior years unfunded OPEB costs (liability at transition), so long as it is calculated in a manner consistent with GASB Statement 27, which employed methodologies consistent with those now required under GASB 45.

The Plan annual required contributions and actual contributions for the year ended June 30, 2011 is set forth below:

Fiscal Year	Annual Required Contribution (ARC)	Actual Contribution	Percentage of ARC Contributed	Net OPEB Obligation
6/30/2008	\$5,752,966	\$2,125,269	36.9%	\$37,180,914
6/30/2009	\$5,627,617	\$2,862,583	50.8%	\$41,209,238
6/30/2010	\$5,627,617	\$2,573,072	45.7%	\$45,527,073
6/30/2011	\$12,170,874	N/A	N/A	\$57,697,947

The Schedule of Funding Progress presents multi-year trend information about whether the actuarial accrued liabilities are increasing or decreasing over time.

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]
12/1/2006	\$0	\$58,780,482	(\$58,780,482)	0.00%	\$75,994,853	-77.35%
12/1/2008	\$0	\$53,361,991	(\$53,361,991)	0.00%	\$82,049,847	-65.00%
12/1/2010	\$0	\$104,399,231	(\$104,399,231)	0.00%	\$81,027,934	-128.84%

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 9.221% of annual covered payroll for non-safety employees and 24.278% for safety employees. The contribution requirements of plan members and the City are established and may be amended by CalPERS.

Annual Pension Cost

For 2011, the City's annual pension cost of \$11,768,838 for CalPERS was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 2010 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) 7.75% 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 3.0%. 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 liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2011 was 30 years for both the miscellaneous and safety plans. The schedule of funding progress presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

THREE-YEAR TREND INFORMATION FOR PERS – MISCELLANEOUS PLAN

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/09	4,534,013	100%	-
6/30/10	3,975,302	100%	-
6/30/11	3,925,383	100%	-

THREE-YEAR TREND INFORMATION FOR PERS – SAFETY PLAN

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/09	8,227,551	100%	-
6/30/10	7,963,518	100%	-
6/30/11	7,843,455	100%	-

SCHEDULE OF FUNDING PROGRESS FOR PERS

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (A)</u>	<u>Entry Age Actuarial Accrued Liability (B)</u>	<u>Overfunded (Underfunded) Actuarial Accrued Liability (A – B)</u>	<u>Funded Ratio (A/B)</u>	<u>Covered Payroll (C)</u>	<u>Unfunded Actuarial Liability as Percentage of Covered Payroll [(A – B)/C]</u>
6/30/07:						
Misc.	\$253,412,785	\$266,796,934	\$(13,384,149)	95.0%	\$45,986,674	29.1%
Safety	281,892,523	317,040,705	(35,148,182)	88.9%	34,438,667	102.1%
6/30/08:						
Misc.	\$273,210,580	\$288,300,448	\$(15,089,868)	94.8%	47,469,554	31.8%
Safety	303,140,879	343,910,847	(40,769,968)	88.1%	34,990,413	116.5%
6/30/09:						
Misc.	\$285,106,834	\$313,072,676	\$(27,965,842)	91.1%	45,995,050	60.8%
Safety	317,429,425	373,587,194	(56,157,769)	85.0%	33,646,382	166.9%
6/30/10:						
Misc.	\$295,173,127	\$324,144,575	\$(28,971,448)	91.1%	\$45,266,607	64.0%
Safety	331,652,327	389,471,746	(57,819,419)	85.2%	34,150,658	169.3%

I. PRIOR YEAR ADJUSTMENTS

Governmental Activities

A prior year adjustment was reported in the General Fund in the amount of \$49,093 to correct an accrual adjustment reported in error in fiscal year 2010. The Housing and Community Development reported a prior year adjustment in the amount of \$122,977, to correct a loans payable that had not been disbursed in fiscal year 2010. The prior year adjustments reported in other governmental funds was to correct a few funds that had reporting changes from governmental to enterprise funds, total changes of (\$9,033).

The governmental activity prior year adjustment was to correct capital assets that had not been reported correctly and depreciation corrections that total \$564,189.

Business-type Activities

The Water fund had a significant prior year adjustment to report the MID debt that was issued by Modesto Irrigation District on behalf of the City in the amount of \$153.6 million. In prior years, the debt paid to the MID had been reported as an Operating Expense and has been corrected to report as Water Rights and Long-term Liability. A prior year grant accrual was done to accrue revenue expended in the prior year in the amount of \$465,666. Additionally a prior year adjustment was to correct prior depreciation improperly not recorded and to bring the current net book value to the correct figure per the straight line method of depreciation.

In the Sewer and Bus Fund a prior year adjustment was to correct prior depreciation similar to the Water fund which was due to improperly not recorded and to bring the current net book value to the correct figure per the straight line method of depreciation in the amount of \$6.3 million.

Additionally, for other Enterprise funds, several funds were reclassified as Enterprise funds which included the Green Waste Conversion and Solid Waste Special Revenue fund in the amount of \$786,705. These revenues support the operations of the Compost fund.

J. SUBSEQUENT EVENTS

On June 29, 2011, the Governor of the State of California signed Assembly Bills X1 26 and 27 as part of the State's budget package. Assembly Bill X1 26 requires each California redevelopment agency to suspend nearly all activities except to implement existing contracts, meet already incurred obligations, preserve its assets, and prepare for the impending dissolution of the agency. Assembly Bill X1 27 provides a means for the redevelopment agencies to continue to exist and operate by means for Voluntary Alternative Redevelopment Program. Under this program, each city would adopt an ordinance agreeing to make certain payments to the County Auditor Controller in fiscal year 2011-12 and annual payments each fiscal year thereafter. Assembly Bill X1 26 indicates that the City "may use any available funds not otherwise obligated for other users" to make this payment. The City of Modesto intends to use available monies of its redevelopment agency for purpose and the City and Redevelopment agency have approved a reimbursement agreement to accomplish that objective. The amounts to be paid after fiscal year 2012-12 have yet to be determined by state legislature.

As mentioned in Note C, Long-term debt, the City has been required to post a margin collateral for the Modesto Irrigation District 2007 bonds. The market to market value of this swap agreement continues to post a negative position to the City in the amount of \$36 million. The City is required to post collateral when our negative position exceeds the Pledgor's Threshold of \$20 million. As of December 2011, this amount was \$16 million. This value represents the present value of declining interest rates to date from the issuance of the bonds.

In December 2011, the City Council approved a joint power agencies agreement for the regionalization of fire protection services to include the Modesto Fire Department, Salida Fire Protection District and Stanislaus County Fire Warden's Office for the provision of fire and life safety services.

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE 1 - 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)	Unfunded Actuarial Liability as Percentage of Covered Payroll [(A - B)/C]
6/30/05:						
Misc.	\$218,307,677	\$231,079,054	\$(12,771,377)	94.5%	\$42,221,273	30.2%
Safety	239,178,942	273,741,974	(34,563,032)	87.4%	30,117,501	114.8%
6/30/06:						
Misc.	\$234,337,099	\$248,371,895	\$(14,034,796)	94.3%	\$43,582,742	32.2%
Safety	258,762,829	293,433,828	(34,670,999)	88.2%	32,412,111	107.0%
6/30/07:						
Misc.	\$253,412,785	\$266,796,934	\$(13,384,149)	95.0%	\$45,986,674	29.1%
Safety	281,892,523	317,040,705	(35,148,182)	88.9%	34,438,667	102.1%
6/30/08:						
Misc.	\$273,210,580	\$288,300,448	\$(15,089,868)	94.8%	47,469,554	31.8%
Safety	303,140,879	343,910,847	(40,769,968)	88.1%	34,990,413	116.5%
6/30/09:						
Misc.	\$285,106,834	\$313,072,676	\$(27,965,842)	91.1%	45,995,050	60.8%
Safety	317,429,425	373,587,194	(56,157,769)	85.0%	33,646,382	166.9%
6/30/10:						
Misc.	\$295,173,127	\$324,144,575	\$(28,971,448)	91.1%	\$45,266,607	64.0%
Safety	331,652,327	389,471,746	(57,819,419)	85.2%	34,150,658	169.3%

** Most recent actuarial dated information is for June 30, 2010.

SUMMARY ACTUARIAL INFORMATION FOR PENSION PLAN

Valuation Date	June 30, 2010
Actuarial Cost Method	Entry Age Normal Cost Method
Amortization Method	Level percent of Payroll
Average Remaining Period	30 Years as of the Valuation Date
Asset Valuation Method	15 Year Smoothed Market

ACTUARIAL ASSUMPTIONS

Investment Rate of Return	7.75% (net of administrative expenses)
Overall Payroll Growth	3.25% to 14.45% depending on Age, Service, and type of employment
Inflation Rate	3.00%
Payroll Growth	3.25%
Individual Salary Growth	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 3.00% and an annual production growth of 0.25%.

SCHEDULE 2 - SCHEDULE OF FUNDING PROGRESS FOR OPEB

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]
12/1/2006	\$0	\$58,780,482	(\$58,780,482)	0.00%	\$75,994,853	-77.35%
12/1/2008	\$0	\$53,361,991	(\$53,361,991)	0.00%	\$82,049,847	-65.00%
12/1/2010	\$0	\$104,399,231	(\$104,399,231)	0.00%	\$81,027,934	-128.84%

** The valuation date available is through 2010.

SCHEDULE 3- EMPLOYER CONTRIBUTIONS (OPEB)

Fiscal Year	Annual Required Contribution (ARC)	Actual Contribution	Percentage of ARC Contributed
6/30/2008	\$5,752,966	\$2,125,269	36.9%
6/30/2009	\$5,627,617	\$2,862,583	50.8%
6/30/2010	\$5,627,617	\$2,573,072	45.7%
6/30/2011	\$12,170,874	N/A	N/A

Annual OPEB Cost (AOC) for Fiscal Year Ending June 30, 2011.

	Amount	Percentage of Compensation
Annual Required Contribution	\$12,170,874	15.02%
Interest on Net OPEB Obligation	1,821,083	2.25
ARC Adjustments	<u>-1,749,474</u>	<u>2.16</u>
Total Annual OPEB Cost	\$12,242,483	15.11%

SUMMARY ACTUARIAL INFORMATION FOR OPEB

Valuation Date	June 30, 2010
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percent of Payroll
Amortization Period	10 Year for initial unfunded liability; 30 year for open period for remaining liability

ACTUARIAL ASSUMPTIONS

Investment Rate of Return	4.00%
Health Trend Rate	4.00%
Inflation Rate	9.00%
Payroll Salary Increases	3.25%

CITY OF MODESTO
SCHEDULE OF REVENUES - BUDGET (GAAP BASIS)
AND ACTUAL - GENERAL FUND
Year ended June 30, 2011

	Budget		Actual	Variance with Final Budget
	Original	Final		
TAXES:				
Utility users tax	\$ 19,000,000	\$ 19,000,000	\$ 19,119,037	\$ 119,037
Property tax	11,885,159	11,885,159	12,107,226	222,067
Transient occupancy tax	1,850,000	1,850,000	1,639,761	(210,239)
Franchise tax	4,036,306	4,036,306	3,927,313	(108,993)
Business license tax	8,979,630	8,979,630	9,339,077	359,447
Total taxes	45,751,095	45,751,095	46,132,414	381,319
LICENSES AND PERMITS	87,240	87,240	59,020	(28,220)
INTERGOVERNMENTAL:				
Sales tax	17,015,586	17,015,586	17,711,527	695,941
In-lieu sales tax	5,807,525	5,807,525	6,399,069	591,544
Motor vehicle license fees	13,117,032	13,117,032	13,419,232	302,200
State	650,000	650,000	649,717	(283)
County	114,503	114,503	127,958	13,455
Federal	172,958	172,958	137,212	(35,746)
Other intergovernmental	1,541,028	1,541,028	2,126,724	585,696
Total intergovernmental	38,418,632	38,418,632	40,571,438	2,152,806
CHARGES FOR SERVICES:				
General government	2,600,369	2,737,233	2,842,287	105,054
Community development	3,660,233	3,822,024	2,627,340	(1,194,684)
Public works	7,310	7,310	7,747	437
Parks and recreation	2,226,401	2,575,110	2,535,819	(39,291)
Public safety	1,632,238	1,744,533	1,989,681	245,148
Indirect cost recovery	3,487,423	3,423,626	3,451,245	27,619
Total charges for services	13,613,974	14,309,836	13,454,119	(855,717)
SPECIAL ASSESSMENT				
INTEREST AND RENT	179,801	248,525	145,335	(103,190)
NET INCREASE (DECREASE) IN FAIR VALUE OF INVESTMENTS	1	1	(9,129)	(9,130)
FINES AND FORFEITURES	905,000	975,439	1,292,829	317,390
MISCELLANEOUS:				
Mandated cost recovery	-	-	76,996	76,996
Other	533,504	1,071,597	1,127,989	56,392
Total miscellaneous	533,504	1,071,597	1,204,985	133,388
Total revenues	\$ 99,489,247	\$ 100,862,365	\$ 102,851,011	\$ 1,988,646

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, 2011

	Budget		Actual	Variance with Final Budget
	Original	Final		
General government:				
City council	\$ 430,153	\$ 430,516	\$ 320,967	\$ 109,549
Personnel/training	1,299,898	1,300,488	1,098,355	202,133
City manager	1,458,750	1,469,294	1,409,237	60,057
City attorney	2,194,815	2,185,544	1,844,160	341,384
City clerk/auditor	713,572	793,690	631,677	162,013
Finance	4,461,784	4,770,118	4,295,424	474,694
Other	773,832	894,716	888,036	6,680
Total general government	<u>11,332,804</u>	<u>11,844,366</u>	<u>10,487,856</u>	<u>1,356,510</u>
Community development	<u>5,078,184</u>	<u>5,431,619</u>	<u>5,232,580</u>	<u>199,039</u>
Public works:				
Engineering and Transportation Dept:				
Engineering administration				
Operations and Maintenance Dept:				
Service and maintenance	2,001,401	2,280,118	2,143,045	137,073
Graffiti abatement	304,161	304,161	279,258	24,903
Total public works	<u>2,305,562</u>	<u>2,584,279</u>	<u>2,422,303</u>	<u>161,976</u>
Parks and recreation:				
Operations and Maintenance Dept:				
Service and maintenance	4,566,586	4,675,741	4,410,996	264,745
Community Services & Neighborhood Connection:				
Administration	759,023	794,347	776,062	18,285
Planning and development	163,466	193,466	196,170	(2,704)
Culture	938,923	938,923	858,581	80,342
Recreation division	1,520,291	1,818,449	1,654,215	164,234
Facilities	243,012	226,604	235,794	(9,190)
Total parks and recreation	<u>8,191,301</u>	<u>8,647,530</u>	<u>8,131,820</u>	<u>515,710</u>
Public safety:				
Fire protection	24,215,296	24,554,465	24,461,412	93,053
Police protection	46,271,714	47,116,729	45,955,696	1,161,033
Total public safety	<u>70,487,010</u>	<u>71,671,194</u>	<u>70,417,109</u>	<u>1,254,085</u>
Total expenditures by department	<u>97,394,861</u>	<u>100,178,988</u>	<u>96,691,668</u>	<u>3,487,321</u>
Total expenditures	<u>\$ 97,394,861</u>	<u>\$ 100,178,988</u>	<u>\$ 96,691,668</u>	<u>\$ 3,487,321</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, 2011

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 Director of Finance - 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.

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**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.

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.

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

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.

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.

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

CAPITAL FACILITY FEES – To account for the accumulation and expenditure of Capital Facilities Fees, which are charged to new development in the City to offset the impact of growth on community infrastructure.

Nonmajor Debt Service Funds

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

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

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

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CITY OF MODESTO
COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
June 30, 2011

	Special Revenue				
	Operating Grants	Local Transportation	Traffic Safety	Downtown Improvement District	Strategic Planning and Development
ASSETS					
Cash and cash equivalents	\$ 1,616,719	\$ 475,426	\$ 1,507,653	\$	\$ 347,699
Cash and cash equivalents with fiscal agent	-	-	-	-	-
Receivables:					
Accounts	81,463	-	-	-	-
Interest	7,723	1,408	-	-	933
Utilities, net	38,128	-	-	-	-
Taxes	470	-	-	-	-
Due from governments	1,013,930	-	-	-	-
Notes receivable, net	229,102	-	-	-	-
Prepaid expenditures	2,077	-	-	-	-
Property held for resale	-	-	-	-	-
Restricted assets:	-	-	-	-	-
Cash and cash equivalents	-	-	-	-	-
Advances to other funds	-	-	-	-	-
Total assets	\$ 2,989,612	\$ 476,834	\$ 1,507,653	\$ -	\$ 348,632
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 190,375	\$ 3,792	\$ 74,184	-	-
Accrued salaries and benefits	134,172	-	10,245	-	-
Interest Payable	-	-	-	-	-
Due to other funds	-	-	-	2,050	-
Approved loans payable	-	-	-	-	-
Deferred revenues	287,644	\$ 472,020	-	-	-
Refundable deposits	-	-	-	-	-
Advances from other funds	-	-	-	-	-
Total liabilities	612,191	475,812	84,429	2,050	-
Fund balances:					
Restricted	2,377,421	42,595	1,423,224	362	30,515
Assigned	-	-	-	-	318,117
Unassigned	-	(41,573)	-	(2,412)	-
Total fund balances	2,377,421	1,022	1,423,224	(2,050)	348,632
Total liabilities and fund balances	\$ 2,989,612	\$ 476,834	\$ 1,507,653	\$ -	\$ 348,632

Capital Projects

Special Gas Tax Street Improvement	Special Fund for Capital Outlays	Parks	McHenry Mansion Restoration	Capital Grants	Community Facilities Districts	Redevelop- ment Agency	Capital Facility Fees
\$ 12,496,039	\$ -	\$ 812,946	\$ 328	\$ 2,225	\$ 16,529,137	\$ 3,150,764	\$ 31,974,292
-	-	481,674	-	-	9,313,208	-	-
27,542	1,847	-	-	-	-	10,438	97
36,276	(6)	2,351	14	-	49,092	4,513	90,754
229,398	-	-	-	-	-	-	-
-	-	-	-	-	39,123	-	-
49,275	-	50,000	-	2,170,101	-	-	1,469,333
-	-	-	-	-	-	2,211,000	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	784,000	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	1,192,004	-
<u>\$ 12,838,530</u>	<u>1,841</u>	<u>\$ 1,346,971</u>	<u>\$ 342</u>	<u>\$ 2,172,326</u>	<u>\$ 25,930,560</u>	<u>\$ 7,352,719</u>	<u>\$ 33,534,476</u>
339,207	-	\$ 74,728	-	\$ 556,872	\$ 80,416	\$ 796	\$ 73,981
107,885	-	-	-	-	7,686	-	-
-	-	-	-	-	3,956	-	-
-	38,428	-	-	1,366,872	-	-	-
-	-	-	-	-	-	575,000	-
9,819,422	363	-	-	368,304	-	-	-
-	-	-	-	-	438,004	1,000	-
-	-	-	-	-	-	219,805	1,058,998
<u>10,266,514</u>	<u>38,791</u>	<u>74,728</u>	<u>-</u>	<u>2,292,048</u>	<u>530,062</u>	<u>796,601</u>	<u>1,132,979</u>
219,793	-	1,272,243	209	2,864,828	25,400,498	5,825,717	32,401,497
2,352,223	-	-	-	-	-	730,401	-
-	(36,950)	-	133	(2,984,550)	-	-	-
<u>2,572,016</u>	<u>(36,950)</u>	<u>1,272,243</u>	<u>342</u>	<u>(119,722)</u>	<u>25,400,498</u>	<u>6,556,118</u>	<u>32,401,497</u>
<u>\$ 12,838,530</u>	<u>\$ 1,841</u>	<u>\$ 1,346,971</u>	<u>\$ 342</u>	<u>\$ 2,172,326</u>	<u>\$ 25,930,560</u>	<u>\$ 7,352,719</u>	<u>\$ 33,534,476</u>

CITY OF MODESTO
COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS (Continued)
June 30, 2011

	Debt Service		
	Redevelopment Agency	Public Financing Authority	Total
<u>ASSETS</u>			
Cash and cash equivalents	\$ 587,455	197,581	\$ 69,698,264
Cash and cash equivalents with fiscal agent	1,977,050	\$ 4,829,951	16,601,883
Receivables:			
Accounts	6,196	-	127,583
Interest	7,491	-	200,549
Utilities, net	-	-	267,526
Taxes	202,543	-	242,136
Due from governments	-	-	4,752,639
Notes receivable, net	-	-	2,440,102
Prepaid expenses/expenditures	-	-	2,077
Property held for resale	-	-	784,000
Restricted assets:	-	-	-
Cash and cash equivalents	-	-	-
Advances to other funds	-	-	1,192,004
Total assets	\$ 2,780,735	\$ 5,027,532	\$ 96,308,763
<u>LIABILITIES AND FUND BALANCES</u>			
Liabilities:			
Accounts payable	\$ 654,786	\$ -	\$ 2,049,137
Accrued salaries and benefits	-	-	259,988
Interest payable	-	-	3,956
Due to other funds	-	-	1,407,350
Approved loans payable	-	-	575,000
Deferred revenues	-	-	10,947,753
Refundable deposits	-	-	439,004
Advances from other funds	1,167,926	-	2,446,729
Total liabilities	1,822,712	-	18,128,917
Fund balances:			
Restricted	2,083,367	4,829,951	78,772,220
Assigned	-	-	3,400,741
Unassigned	(1,125,344)	197,581	(3,993,115)
Total fund balances	958,023	5,027,532	78,179,846
Total liabilities and fund balances	\$ 2,780,735	\$ 5,027,532	\$ 96,308,763

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CITY OF MODESTO
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
Year ended June 30, 2011

	Special Revenue				
	Operating Grants	Local Transportation	Traffic Safety	Downtown Improvement District	Strategic Planning and Development
REVENUES:					
Taxes	-	-	-	\$ 172,520	-
Licenses and permits	\$ 65,416	-	-	-	-
Intergovernmental	4,351,365	\$ 305,374	-	-	-
Charges for services	4,041,266	-	\$ 355,577	-	-
Special assessments levied	36,291	-	-	-	-
Interest and rent	20,404	5,125	-	7	\$ 2,754
Net increase (decrease) in fair value of investments	(2,914)	(744)	-	(5)	(423)
Fines and forfeits	-	-	1,636,353	-	-
Miscellaneous	22,200	-	-	-	-
Total revenues	<u>8,534,028</u>	<u>309,755</u>	<u>1,991,930</u>	<u>172,522</u>	<u>2,331</u>
EXPENDITURES:					
Current:					
General government	205,686	-	-	-	-
Community development	590,635	-	-	190,016	66,139
Highways and streets	-	-	-	-	-
Public works	3,613,221	-	-	-	-
Parks and recreation	332,459	-	-	-	-
Public safety	2,171,648	-	618,851	-	-
Capital outlay:					
General government	16,878	-	-	-	-
Community development	-	-	-	-	-
Highways and streets	-	248,002	-	-	-
Public works	2,299,821	-	-	-	-
Parks and recreation	-	-	-	-	-
Public safety	80,983	-	-	-	-
Debt service:					
Principal retirement	-	-	-	-	-
Interest	-	-	-	-	-
Other	-	-	-	-	-
Total expenditures	<u>9,311,331</u>	<u>248,002</u>	<u>618,851</u>	<u>190,016</u>	<u>66,139</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(777,303)</u>	<u>61,753</u>	<u>1,373,079</u>	<u>(17,494)</u>	<u>(63,808)</u>
OTHER FINANCING SOURCES (USES):					
Transfers in	204,540	-	60,000	-	-
Transfers out	<u>(783,303)</u>	<u>(63,620)</u>	<u>(500,000)</u>	<u>(1,230)</u>	<u>-</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(578,763)</u>	<u>(63,620)</u>	<u>(440,000)</u>	<u>(1,230)</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	(1,356,066)	(1,867)	933,079	(18,724)	(63,808)
FUND BALANCES, July 1	4,315,077	2,889	490,145	16,674	412,440
PRIOR PERIOD ADJUSTMENT	(581,590)	-	-	-	-
FUND BALANCES, June 30	<u>\$ 2,377,421</u>	<u>\$ 1,022</u>	<u>\$ 1,423,224</u>	<u>\$ (2,050)</u>	<u>\$ 348,632</u>

Special Gas Tax Street Improvement	Capital Projects						
	Special Fund for Capital Outlays	Parks	McHenry Mansion Restoration	Capital Grants	Community Facilities Districts	Redevelop- ment Agency	Capital Facility Fees
13,051	-	-	-	-	-	\$ 1,482,227	-
14,637	-	-	-	-	-	-	-
6,172,191	-	\$ 232,705	-	\$ 4,451,768	\$ -	-	2,726,437
3,165,151	-	2,325	-	-	329,981	-	747,723
-	-	-	-	-	1,816,238	-	-
101,414	\$ 100	3,105	\$ 50	5,928	139,247	13,362	\$ 259,364
-	-	-	-	-	-	-	-
(14,551)	61	77	(8)	-	(17,564)	8,922	(38,687)
-	-	-	-	-	-	-	-
140,097	-	6,430	-	9,365	29	31,523	141,600
<u>9,591,990</u>	<u>161</u>	<u>244,642</u>	<u>42</u>	<u>4,467,061</u>	<u>2,267,931</u>	<u>1,536,034</u>	<u>3,836,437</u>
-	-	-	-	-	-	-	186,209
-	-	-	-	-	2,000,327	469,140	-
11,368,108	-	-	-	162,748	-	-	-
-	-	-	-	-	-	-	-
-	-	258,032	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	266,052	(39,805)	-
124,738	-	-	-	4,638,364	-	-	3,204,174
-	-	-	-	-	-	-	-
-	-	184,066	-	-	-	-	69,661
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>11,492,846</u>	<u>-</u>	<u>442,098</u>	<u>-</u>	<u>4,801,112</u>	<u>2,266,379</u>	<u>429,335</u>	<u>3,460,044</u>
(1,900,856)	161	(197,456)	42	(334,051)	1,552	1,106,699	376,393
1,867,575	-	-	-	686,699	-	-	24,805
(1,483,519)	-	(250)	(7,100)	-	(21,047)	-	(1,099,222)
384,056	-	(250)	(7,100)	686,699	(21,047)	-	(1,074,417)
(1,516,800)	161	(197,706)	(7,058)	352,648	(19,495)	1,106,699	(698,024)
3,516,261	(37,111)	1,469,949	7,400	(472,370)	25,419,993	5,449,419	33,099,521
572,555	-	-	-	-	-	-	-
<u>2,572,016</u>	<u>\$ (36,950)</u>	<u>\$ 1,272,243</u>	<u>\$ 342</u>	<u>\$ (119,722)</u>	<u>\$ 25,400,498</u>	<u>\$ 6,556,118</u>	<u>\$ 32,401,497</u>

CITY OF MODESTO
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
Year ended June 30, 2011

	Debt Service		Total
	Redevelopment Agency	Public Financing Authority	
REVENUES:			
Taxes	\$ 4,268,008	-	\$ 5,935,806
Licenses and permits	-	-	80,053
Intergovernmental	-	-	18,239,840
Charges for services	110,590	-	8,752,613
Special assessments levied	-	-	1,852,529
Interest and rent	44,679	\$ 8,950	604,489
Net increase (decrease) in fair value of investments	(16,615)	1,166	(81,285)
Fines and forfeits	-	-	1,636,353
Miscellaneous	69,952	-	421,196
Total revenues	4,476,614	10,116	37,441,594
EXPENDITURES:			
Current:			
General government	-	-	391,895
Community development	1,831,446	-	5,147,703
Highways and streets	-	-	11,530,856
Public works	-	-	3,613,221
Parks and recreation	-	-	590,491
Public safety	-	-	2,790,499
Capital outlay:			
General government	-	-	16,878
Community development	-	-	226,247
Highways and streets	-	-	8,215,278
Public works	-	-	2,299,821
Parks and recreation	-	-	253,727
Public safety	-	-	80,983
Debt service:			
Principal retirement	1,040,000	1,020,000	2,060,000
Interest	906,310	2,510,205	3,416,515
Other	2,750	54,807	57,557
Total expenditures	3,780,506	3,585,012	40,691,671
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	696,108	(3,574,896)	(3,250,077)
OTHER FINANCING SOURCES (USES):			
Transfers in	-	3,962,880	6,806,499
Transfers out	(1,148,839)	-	(5,108,130)
TOTAL OTHER FINANCING SOURCES (USES)	(1,148,839)	3,962,880	1,698,369
NET CHANGE IN FUND BALANCES	(452,731)	387,984	(1,551,708)
FUND BALANCES, July 1	1,410,754	4,639,548	79,740,589
PRIOR PERIOD ADJUSTMENT	-	-	(9,035)
FUND BALANCES, June 30	\$ 958,023	\$ 5,027,532	\$ 78,179,846

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, 2011

	Budget		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Licenses and permits	\$ 50,000	\$ 50,000	\$ 65,416	\$ 15,416
Intergovernmental	18,797,279	21,040,809	4,351,365	(16,689,444)
Charges for services	5,380,588	5,352,916	4,041,266	(1,311,650)
Special assessments	36,782	36,782	36,291	(491)
Interest and rent - interest	24,965	30,793	20,404	(10,389)
Net increase in fair value of investments	-	-	(2,914)	(2,914)
Fines and forfeits	30,582	30,592	-	(30,592)
Miscellaneous	-	-	22,200	22,200
Total revenues	<u>24,320,196</u>	<u>26,541,892</u>	<u>8,534,028</u>	<u>(18,007,864)</u>
EXPENDITURES:				
General government	2,633,511	2,633,511	222,564	2,410,947
Community development	628,966	353,938	590,635	(236,697)
Public works	3,695,479	3,664,742	5,913,042	(2,248,300)
Parks and recreation	253,961	185,232	332,459	(147,227)
Public safety	10,983,074	11,456,670	2,252,631	9,204,039
Total expenditures	<u>18,194,991</u>	<u>18,294,093</u>	<u>9,311,331</u>	<u>8,982,762</u>
DEFICIENCY OF REVENUES (UNDER) EXPENDITURES	<u>6,125,205</u>	<u>8,247,799</u>	<u>(777,303)</u>	<u>(9,025,102)</u>
OTHER FINANCING SOURCES:				
Transfers in	-	43,400	204,540	161,140
Transfers out	<u>(748,000)</u>	<u>(783,303)</u>	<u>(783,303)</u>	<u>-</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(748,000)</u>	<u>(739,903)</u>	<u>(578,763)</u>	<u>161,140</u>
NET CHANGE IN FUND BALANCE	5,377,205	7,507,896	(1,356,066)	(8,863,962)
FUND BALANCES, JULY 1	8,633,616	8,316,544	4,315,077	(4,001,467)
PRIOR PERIOD ADJUSTMENT	-	-	(581,590)	(581,590)
FUND BALANCES, JUNE 30	<u>\$ 14,010,821</u>	<u>\$ 15,824,440</u>	<u>\$ 2,377,421</u>	<u>\$ (13,447,019)</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, 2011

	Budget		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Intergovernmental	\$ -	\$ -	\$ 305,374	\$ 305,374
Interest and rent - interest	-	-	5,125	5,125
Net increase in fair value of investments	-	-	(744)	(744)
Miscellaneous	-	-	-	-
Total revenues	<u>-</u>	<u>-</u>	<u>309,755</u>	<u>309,755</u>
EXPENDITURES:				
Highways and streets	<u>655,417</u>	<u>655,417</u>	<u>248,002</u>	<u>407,415</u>
Total expenditures	<u>655,417</u>	<u>655,417</u>	<u>248,002</u>	<u>407,415</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>(655,417)</u>	<u>(655,417)</u>	<u>61,753</u>	<u>717,170</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	-	-	-	-
Transfers out	-	-	(63,620)	(63,620)
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>-</u>	<u>(63,620)</u>	<u>(63,620)</u>
NET CHANGE IN FUND BALANCE	(655,417)	(655,417)	(1,867)	653,550
FUND BALANCES, JULY 1	<u>(2,210,476)</u>	<u>(248,593)</u>	<u>2,889</u>	<u>251,482</u>
FUND BALANCE (DEFICITS), JUNE 30	<u>\$ (2,865,893)</u>	<u>\$ (904,010)</u>	<u>\$ 1,022</u>	<u>\$ 905,032</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, 2011

	Budget		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Charges for services	\$ 398,340	\$ 398,340	\$ 355,577	\$ (42,763)
Motor vehicle fines	1,080,000	1,080,000	1,636,353	556,353
Total revenues	<u>1,478,340</u>	<u>1,478,340</u>	<u>1,991,930</u>	<u>513,590</u>
EXPENDITURES:				
Public safety	<u>1,060,242</u>	<u>1,064,626</u>	<u>618,851</u>	<u>445,775</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>418,098</u>	<u>413,714</u>	<u>1,373,079</u>	<u>959,365</u>
OTHER FINANCING USES:				
Transfers in	-	60,000	60,000	-
Transfers out	<u>(500,000)</u>	<u>(500,000)</u>	<u>(500,000)</u>	<u>-</u>
Total other financing uses	<u>(500,000)</u>	<u>(440,000)</u>	<u>(440,000)</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	(81,902)	(26,286)	933,079	959,365
FUND BALANCES, JULY 1	<u>(118,477)</u>	<u>365,748</u>	<u>490,145</u>	<u>124,397</u>
FUND BALANCES, JUNE 30	<u><u>\$ (200,379)</u></u>	<u><u>\$ 339,462</u></u>	<u><u>\$ 1,423,224</u></u>	<u><u>\$ 1,083,762</u></u>

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, 2011

	Budget		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Taxes - business license tax	\$ 190,000	\$ 190,000	\$ 172,520	\$ (17,480)
Interest and rent - interest	800	800	7	(793)
Net decrease in fair value of investments	-	-	(5)	(5)
Total revenues	<u>190,800</u>	<u>190,800</u>	<u>172,522</u>	<u>(18,278)</u>
EXPENDITURES - community development				
Downtown improvement district administration:				
Professional and contractual services	181,770	181,786	5,578	176,208
Materials and supplies	6,530	6,530	182,738	(176,208)
Other	1,700	1,700	2,930	(1,230)
Total expenditures	<u>190,000</u>	<u>190,016</u>	<u>191,246</u>	<u>(1,230)</u>
NET CHANGE IN FUND BALANCE	800	784	(18,724)	(19,508)
FUND BALANCES, JULY 1	<u>45,641</u>	<u>45,641</u>	<u>16,674</u>	<u>(28,967)</u>
FUND BALANCES, JUNE 30	<u>\$ 46,441</u>	<u>\$ 46,425</u>	<u>\$ (2,050)</u>	<u>\$ (48,475)</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, 2011

	Budget		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Charges for services	\$ 902,140	\$ 330,000	\$ -	\$ (330,000)
Special assessments levied	-	-	-	-
Interest and rent - interest	-	-	2,754	2,754
Net decrease in fair value of investments	-	-	(423)	(423)
Miscellaneous	500,000	500,000	-	(500,000)
Total revenues	<u>1,402,140</u>	<u>830,000</u>	<u>2,331</u>	<u>(827,669)</u>
EXPENDITURES:				
Community development	1,473,387	1,455,122	66,139	1,388,983
Public works	-	-	-	-
Total expenditures	<u>1,473,387</u>	<u>1,455,122</u>	<u>66,139</u>	<u>1,388,983</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(71,247)</u>	<u>(625,122)</u>	<u>(63,808)</u>	<u>561,314</u>
NET CHANGE IN FUND BALANCE	(71,247)	(625,122)	(63,808)	561,314
FUND BALANCES, JULY 1	<u>948,262</u>	<u>541,131</u>	<u>412,440</u>	<u>(128,691)</u>
FUND BALANCES, JUNE 30	<u>\$ 877,015</u>	<u>\$ (83,991)</u>	<u>\$ 348,632</u>	<u>\$ 432,623</u>

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

	Budget		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Taxes	\$ -	\$ -	\$ 13,051	\$ 13,051
Licenses and Permits	1	1	14,637	14,636
Intergovernmental	3,106,108	8,582,522	6,172,191	(2,410,331)
Charges for services	9,712,080	10,511,132	3,165,151	(7,345,981)
Special assessments levied	-	-	-	-
Interest and rent - interest	-	36,000	101,414	65,414
Net decrease in fair value of investments	-	-	(14,551)	(14,551)
Miscellaneous	14,002	14,002	140,097	126,095
Total revenues	<u>12,832,191</u>	<u>19,143,657</u>	<u>9,591,990</u>	<u>(9,551,667)</u>
EXPENDITURES:				
Highways and streets	19,841,603	22,138,413	11,492,846	10,645,567
Public works	-	-	-	-
Total expenditures	<u>19,841,603</u>	<u>22,138,413</u>	<u>11,492,846</u>	<u>10,645,567</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(7,009,412)</u>	<u>(2,994,756)</u>	<u>(1,900,856)</u>	<u>1,093,900</u>
OTHER FINANCING USES:				
Transfers in	1,812,175	1,812,175	1,867,575	55,400
Transfers out	(852,200)	(954,158)	(1,483,519)	529,361
Total other financing uses	<u>959,975</u>	<u>858,017</u>	<u>384,056</u>	<u>584,761</u>
NET CHANGE IN FUND BALANCE	(7,009,412)	(2,994,756)	(1,516,800)	1,477,956
FUND BALANCES, JULY 1	<u>948,262</u>	<u>541,131</u>	<u>3,516,261</u>	<u>2,975,130</u>
PRIOR PERIOD ADJUSTMENT	-	-	572,555	-
FUND BALANCES, JUNE 30	<u><u>\$ (6,061,150)</u></u>	<u><u>\$ (2,453,625)</u></u>	<u><u>\$ 2,572,016</u></u>	<u><u>\$ 5,025,641</u></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.

COMPOST FUND – To account for tip fees charged at the City's composting facility for processing various compostable materials and the sale of compost product. Excess revenues over expenses are set aside to protect the enterprise against market fluctuations, and to provide for capital improvements to the facility infrastructure.

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.

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 - NON MAJOR ENTERPRISE FUNDS
June 30, 2011

	Parking	Storm Drain	Compost
<u>ASSETS</u>			
Current assets:			
Cash and cash equivalents	\$ -	\$ 3,840,991	\$ 926,310
Cash and cash equivalents with fiscal agent	-	-	-
Receivables:			
Accounts	12,773	1,500	430,718
Interest	186	10,903	3,300
Utilities, net	-	567,878	356,533
Taxes	-	-	-
Prepaid Expenses	-	-	-
Due from governments	-	2,185	51,401
Property held for resale	630,000	-	-
Total current assets	642,959	4,423,457	1,768,262
Capital assets:			
Land and construction in progress	3,512,826	2,053,910	-
Other capital assets, net of accumulated depreciation	6,680,875	15,072,633	1,185,034
Total assets	10,836,660	21,550,000	2,953,296
<u>LIABILITIES</u>			
Current liabilities:			
Accounts payable	17,303	15,097	2,554
Accrued salaries and benefits	10,938	37,022	51,375
Interest payable	641	-	-
Due to other funds	204,184	-	-
Due to other governments	-	-	-
Current portion - long-term debt	-	-	-
Deferred revenues	-	1,500	-
Total current liabilities	233,066	53,619	53,929
Noncurrent liabilities:			
Obligations under capital leases	-	-	-
Certificates of participation	-	-	-
Advances from other funds	-	1,324,704	-
Total liabilities	233,066	1,378,323	53,929
<u>NET ASSETS</u>			
Invested in capital assets, net of related debt	10,193,701	17,126,543	1,185,034
Unrestricted	409,893	3,045,134	1,714,333
Total net assets	\$ 10,603,594	\$ 20,171,677	\$ 2,899,367

<u>Airport</u>	<u>Golf</u>	<u>Community Center</u>	<u>Total</u>
\$ 1,483,014	\$ -	\$ 152,443	\$ 6,402,758
-	603,150	-	603,150
20,109	7,716	34,472	507,288
3,762	-	366	18,517
-	-	-	924,411
205,018	-	-	205,018
167	-	-	167
68,689	-	-	122,275
-	-	-	630,000
<u>1,780,759</u>	<u>610,866</u>	<u>187,281</u>	<u>9,413,584</u>
2,226,567	279,428	3,667,020	11,739,751
<u>8,379,799</u>	<u>1,870,387</u>	<u>7,975,080</u>	<u>41,163,808</u>
<u>12,387,125</u>	<u>2,760,681</u>	<u>11,829,381</u>	<u>62,317,143</u>
77,064	8,132	35,869	156,019
11,135	-	19,008	129,478
-	42,519	-	43,160
-	605,007	-	809,191
43,699	-	-	43,699
-	265,000	-	265,000
-	183,762	-	185,262
<u>131,898</u>	<u>1,104,420</u>	<u>54,877</u>	<u>1,631,809</u>
-	-	-	-
-	4,460,000	-	4,460,000
-	-	-	1,324,704
<u>131,898</u>	<u>5,564,420</u>	<u>54,877</u>	<u>7,416,513</u>
10,606,366	(2,575,185)	11,642,100	48,178,559
<u>1,648,861</u>	<u>(228,554)</u>	<u>132,404</u>	<u>6,722,071</u>
<u>\$ 12,255,227</u>	<u>\$ (2,803,739)</u>	<u>\$ 11,774,504</u>	<u>\$ 54,900,630</u>

CITY OF MODESTO
COMBINING STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET ASSETS - NON MAJOR ENTERPRISE FUNDS
Year ended June 30, 2011

	<u>Parking</u>	<u>Storm Drain</u>
OPERATING REVENUES:		
Charges for services	\$ 1,261,444	\$ 6,035,211
Miscellaneous	<u>13,038</u>	<u>117,000</u>
Total operating revenues	<u>1,274,482</u>	<u>6,152,211</u>
OPERATING EXPENSES:		
Salaries and wages	329,980	891,224
Contractual services	161,401	1,019,692
Utilities	137,402	50,368
Maintenance and supplies	66,244	2,094,172
Insurance	33,263	106,897
Employee benefits	121,678	416,694
Administration services	68,329	1,413,801
Allocated indirect administrative costs	30,008	102,269
Depreciation	<u>444,492</u>	<u>611,683</u>
Total operating expenses	<u>1,392,797</u>	<u>6,706,800</u>
OPERATING INCOME (LOSS)	<u>(118,315)</u>	<u>(554,589)</u>
NONOPERATING REVENUES (EXPENSES)		
Gain (Loss) on disposition of capital assets	-	-
Operating grants	-	-
Tax revenue	-	-
Tax expense	(20,724)	-
Interest income	(2,190)	32,322
Net increase in fairs	218	(4,582)
Rental income	-	-
Interest expense	-	-
Trustee fees	<u>-</u>	<u>-</u>
Total nonoperating revenues (expenses)	<u>(22,696)</u>	<u>27,740</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	(141,011)	(526,849)
Capital contributions	-	-
Transfers in	-	700,000
Transfers out	<u>-</u>	<u>(111,744)</u>
CHANGE IN NET ASSETS	(141,011)	61,407
NET ASSETS (DEFICIT), July 1	10,744,605	20,099,839
PRIOR PERIOD ADJUSTMENT	<u>-</u>	<u>10,431</u>
NET ASSETS (DEFICIT), June 30	<u>\$ 10,603,594</u>	<u>\$ 20,171,677</u>

	Compost	Airport	Golf	Community Center	Total
\$	4,488,972	\$ 1,006,312	\$ 1,645,093	\$ 433,460	\$ 14,870,492
	<u>1,138</u>	<u>12,865</u>	<u>2,307</u>	<u>-</u>	<u>146,348</u>
	<u>4,490,110</u>	<u>1,019,177</u>	<u>1,647,400</u>	<u>433,460</u>	<u>15,016,840</u>
	1,283,048	298,754	-	632,348	3,435,354
	327,075	190,701	1,585,986	209,336	3,494,191
	27,262	113,364	33,928	214,526	576,850
	1,160,546	52,632	372	42,815	3,416,781
	39,923	17,733	13,734	51,668	263,218
	520,662	118,410	-	206,517	1,383,961
	406,588	125,328	48,050	13,350	2,075,446
	65,865	57,779	15,845	-	271,766
	<u>154,545</u>	<u>765,296</u>	<u>405,200</u>	<u>796,146</u>	<u>3,177,362</u>
	<u>3,985,514</u>	<u>1,739,997</u>	<u>2,103,115</u>	<u>2,166,706</u>	<u>18,094,929</u>
	<u>504,596</u>	<u>(720,820)</u>	<u>(455,715)</u>	<u>(1,733,246)</u>	<u>(3,078,089)</u>
	-	(283,466)	(2,433)	-	(285,899)
	268,591	33,139	-	-	301,730
	-	309,699	-	-	309,699
	-	(426)	-	-	(21,150)
	11,304	7,427	(5,400)	(2,761)	40,702
	(1,513)	(1,139)	711	310	(5,995)
	11,522	56,291	90,991	419,978	578,782
	-	-	(247,757)	-	(247,757)
	<u>-</u>	<u>-</u>	<u>(2,800)</u>	<u>-</u>	<u>(2,800)</u>
	<u>289,904</u>	<u>121,525</u>	<u>(166,688)</u>	<u>417,527</u>	<u>667,312</u>
	794,500	(599,295)	(622,403)	(1,315,719)	(2,410,777)
	-	1,210,373	-	-	1,210,373
	340,539	-	100,000	498,530	1,639,069
	<u>(778,971)</u>	<u>(62,823)</u>	<u>-</u>	<u>-</u>	<u>(953,538)</u>
	356,068	548,255	(522,403)	(817,189)	(514,873)
	1,756,594	11,505,415	(2,274,548)	12,591,693	54,423,598
	<u>786,705</u>	<u>201,557</u>	<u>(6,788)</u>	<u>-</u>	<u>991,905</u>
\$	<u>2,899,367</u>	<u>12,255,227</u>	<u>(2,803,739)</u>	<u>11,774,504</u>	<u>54,900,630</u>

CITY OF MODESTO
COMBINING STATEMENT OF CASH FLOWS - NONMAJOR ENTERPRISE FUNDS
Year ended June 30, 2011

	Parking	Storm Drain	Compost
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers and users	\$ 1,269,551	\$ 6,139,520	\$ 3,797,558
Receipts from interfund services provided	-	1,839	-
Payments to suppliers	(326,792)	733,311	3,675,391
Payments to employees	(452,041)	(1,305,139)	(1,766,753)
Payments for interfund services used	(217,214)	(5,647,008)	(5,709,000)
Net cash provided (used) by operating activities	273,504	(77,477)	(2,804)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Operating grants received	-	-	268,591
Taxes received	-	-	-
Transfers in	-	700,000	340,539
Transfers out	-	(111,744)	(778,971)
Net cash provided (used) by noncapital financing activities	-	588,256	(169,841)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Acquisition and construction of capital assets	(372,044)	(14,664)	(407,395)
Proceeds from sale of capital assets	-	-	-
Principal repayments	-	-	-
Interest paid	641	-	(51)
Trustee fees	-	-	-
Capital grants received	-	4,538	(51,401)
Net cash used by capital and related financing activities	(371,403)	(10,126)	(458,847)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest received	(2,089)	27,623	9,260
Net increase in the fair value of investments	218	(4,582)	(1,513)
Net cash provided by investing activities	(1,871)	23,041	7,747
Net increase (decrease) in cash and cash equivalents	(99,770)	523,694	(623,745)
CASH AND CASH EQUIVALENTS, JULY 1	99,770	3,306,866	763,350
PRIOR PERIOD ADJUSTMENT	-	10,431	786,705
CASH AND CASH EQUIVALENTS, JUNE 30	\$ -	\$ 3,840,991	\$ 926,310
RECONCILIATION TO STATEMENT OF NET ASSETS:			
Cash and cash equivalents	\$ -	\$ 3,840,991	\$ 926,310
Cash and cash equivalents with fiscal agent	-	-	-
TOTAL CASH AND CASH EQUIVALENTS	\$ -	\$ 3,840,991	\$ 926,310

<u>Airport</u>	<u>Golf</u>	<u>Community Center</u>	<u>Total</u>
\$ 1,066,614	\$ 1,744,545	\$ 879,967	\$ 14,897,755
-	-	-	1,839
(774,537)	(1,406,421)	(394,936)	1,506,016
(416,701)	-	(839,327)	(4,779,961)
288,324	80,952	(138,012)	(11,341,958)
<u>163,700</u>	<u>419,076</u>	<u>(492,308)</u>	<u>283,691</u>
-	-	-	268,591
104,699	-	-	104,699
-	100,000	498,530	1,639,069
<u>(62,823)</u>	<u>-</u>	<u>-</u>	<u>(953,538)</u>
<u>41,876</u>	<u>100,000</u>	<u>498,530</u>	<u>1,058,821</u>
(167,206)	5,530	(8,785)	(964,564)
(283,466)	(2,433)	-	(285,899)
-	(250,000)	-	(250,000)
-	(249,025)	-	(248,435)
-	(2,800)	-	(2,800)
<u>179,435</u>	<u>-</u>	<u>-</u>	<u>132,572</u>
<u>(271,237)</u>	<u>(498,728)</u>	<u>(8,785)</u>	<u>(1,619,126)</u>
4,418	(5,399)	(3,071)	30,742
(1,139)	711	310	(5,995)
<u>3,279</u>	<u>(4,688)</u>	<u>(2,761)</u>	<u>24,747</u>
(62,382)	15,660	(5,324)	(251,867)
1,343,839	594,278	157,767	6,265,870
201,557	(6,788)	-	991,905
<u>\$ 1,483,014</u>	<u>\$ 603,150</u>	<u>\$ 152,443</u>	<u>\$ 7,005,908</u>
\$ 1,483,014	\$ -	\$ 152,443	\$ 6,402,758
-	603,150	-	603,150
<u>\$ 1,483,014</u>	<u>\$ 603,150</u>	<u>\$ 152,443</u>	<u>\$ 7,005,908</u>

(continued)

CITY OF MODESTO
COMBINING STATEMENT OF CASH FLOWS - NON MAJOR ENTERPRISE FUNDS (Continued)
Year ended June 30, 2011

	Parking	Storm Drain	Compost
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
Operating income (loss)	\$ (118,315)	\$ (554,589)	\$ 504,596
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	444,492	611,683	154,545
Rental income	-	-	11,522
Taxes paid	(20,724)	-	-
Change in assets and liabilities:			
(Increase) decrease in accounts receivable	(4,931)	(864)	(347,541)
(Increase) in utilities receivable	-	(9,988)	(356,533)
Increase (decrease) in accounts payable and accrued expenses	(157,446)	(126,498)	(6,350)
Increase in accrued salaries and benefits	(383)	2,779	36,957
Increase (decrease) in prepaid expenses	-	-	-
Increase (decrease) in due to other funds	130,811	-	-
Increase (decrease) in due to other governments	-	-	-
Increase (decrease) in deferred revenues	-	-	-
Total adjustments	391,819	477,112	(507,400)
Net cash provided (used) by operating activities	\$ 273,504	\$ (77,477)	\$ (2,804)
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:			
Capital assets transferred from other funds	\$ -	\$ -	\$ -

<u>Airport</u>	<u>Golf</u>	<u>Community Center</u>	<u>Total</u>
\$ <u>(720,820)</u>	\$ <u>(455,715)</u>	\$ <u>(1,733,246)</u>	\$ <u>(3,078,089)</u>
765,296	405,200	796,146	3,177,362
56,291	90,991	419,978	578,782
(205,426)	-	-	(226,150)
198,089	26,897	26,529	(101,821)
-	-	-	(366,521)
28,218	(44,152)	(1,253)	(307,481)
463	-	(462)	39,354
(167)	-	-	(167)
-	416,598	-	547,409
43,699	-	-	43,699
(1,943)	(20,743)	-	(22,686)
<u>884,520</u>	<u>874,791</u>	<u>1,240,938</u>	<u>3,361,780</u>
\$ <u><u>163,700</u></u>	\$ <u><u>419,076</u></u>	\$ <u><u>(492,308)</u></u>	\$ <u><u>283,691</u></u>
\$ 1,210,373	\$ -	\$ -	\$ -

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.

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CITY OF MODESTO
COMBINING STATEMENT OF NET ASSETS - INTERNAL SERVICE FUNDS
June 30, 2011

	Fleet Management	Central Services	Information & Technology Services
<u>ASSETS</u>			
Current assets:			
Cash and cash equivalents	\$ 10,242,664	\$ 1,415,039	\$ 5,451,252
Cash from fiscal agent	-	-	-
Receivables:			
Accounts receivable	574	-	-
Interest	26,830	4,295	9,620
Prepaid expenses	3,016	-	189,000
Due from governments	-	-	12,000
Inventories	-	428,267	-
Advances to other funds	-	-	-
Total current assets	10,273,084	1,847,601	5,661,872
Noncurrent assets:			
Restricted assets:			
Cash and cash equivalents	-	-	-
Land and construction in progress	536,333	-	4,362,776
Other capital assets, net of accumulated depreciation	12,264,778	76,207	1,531,822
Total assets	23,074,195	1,923,808	11,556,470
<u>LIABILITIES</u>			
Current liabilities:			
Accounts payable	1,025,517	199,395	243,894
Accrued salaries and benefits	50,698	8,751	85,255
Interest Payable	-	-	-
Current portion - compensated absences	-	-	-
Current portion - claims liability	-	-	-
Current portion - capital lease	-	-	171,148
Current portion - long-term debt	20,658	-	-
Total current liabilities	1,096,873	208,146	500,297
Noncurrent liabilities:			
Compensated absences	-	-	-
Claims liability	-	-	-
Net OPEB obligation	-	-	-
Long-term debt:			
Notes payable	-	-	-
Obligations under capital leases	-	-	534,827
Total liabilities	1,096,873	208,146	1,035,124
<u>NET ASSETS</u>			
Invested in capital assets, net of related debt	12,801,111	76,207	5,359,771
Unrestricted	9,176,211	1,639,455	5,161,575
Total net assets	\$ 21,977,322	\$ 1,715,662	\$ 10,521,346

<u>Insurance</u>	<u>Employee Benefits Management</u>	<u>Building Services</u>	<u>Total</u>
\$ 17,093,134	\$ -	\$ 402,594	\$ 34,604,683
407,719	112	-	407,831
569,124	-	57,615	627,313
15,376	47,992	891	105,004
410,594	-	-	602,610
-	-	-	12,000
-	-	-	428,267
-	2,431,738	-	2,431,738
<u>18,495,947</u>	<u>2,479,842</u>	<u>461,100</u>	<u>39,219,446</u>
-	13,165,150	-	13,165,150
-	-	-	4,899,109
-	1,637	102,440	13,976,884
<u>18,495,947</u>	<u>15,646,629</u>	<u>563,540</u>	<u>71,260,589</u>
476,975	17,894	50,007	2,013,682
8,742	6,186	15,910	175,542
-	-	-	-
-	5,712,816	-	5,712,816
4,686,703	-	-	4,686,703
-	-	-	171,148
-	-	-	20,658
<u>5,172,420</u>	<u>5,736,896</u>	<u>65,917</u>	<u>12,780,549</u>
-	5,734,708	-	5,734,708
16,390,335	-	-	16,390,335
-	57,697,947	-	57,697,947
-	-	-	-
-	-	-	534,827
<u>21,562,755</u>	<u>69,169,551</u>	<u>65,917</u>	<u>93,138,366</u>
-	1,637	102,440	18,341,166
<u>(3,066,808)</u>	<u>(53,524,559)</u>	<u>395,183</u>	<u>(40,218,943)</u>
<u>\$ (3,066,808)</u>	<u>\$ (53,522,922)</u>	<u>\$ 497,623</u>	<u>\$ (21,877,777)</u>

CITY OF MODESTO
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET ASSETS - INTERNAL SERVICE FUNDS
Year ended June 30, 2011

	<u>Fleet Management</u>	<u>Central Services</u>
OPERATING REVENUES:		
Charges for services	\$ 6,928,312	\$ 39,104
Sales	-	4,624,343
Cost of sales	-	(3,764,559)
Total operating revenues	<u>6,928,312</u>	<u>898,888</u>
OPERATING EXPENSES:		
Salaries and wages	1,087,000	201,821
Contractual services	1,430,683	76,127
Utilities	13,821	902
Maintenance and supplies	1,967,280	133,343
Insurance	85,895	9,519
Claims expense	-	-
Employee benefits	527,701	102,926
Administration services	561,756	42,803
Allocated indirect administrative costs	289,221	-
Depreciation	2,938,036	12,259
Total operating expenses	<u>8,901,393</u>	<u>579,700</u>
OPERATING INCOME (LOSS)	<u>(1,973,081)</u>	<u>319,188</u>
NONOPERATING REVENUES (EXPENSES)		
Operating grant	-	-
Loss on disposition of capital assets	(176,031)	-
Interest income	74,465	12,202
Net increase (decrease) in fair value of investments	(11,264)	(1,607)
Interest expense	(2,420)	-
Total nonoperating revenues (expenses)	<u>(115,250)</u>	<u>10,595</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	(2,088,331)	329,783
Capital contributions	64,105	3,757
Transfers in	345,562	20,000
Transfers out	-	(110,147)
CHANGE IN NET ASSETS	(1,678,664)	243,393
NET ASSETS (DEFICITS), July 1, (as restated)	23,655,986	1,472,269
PRIOR PERIOD ADJUSTMENTS	<u>-</u>	<u>-</u>
NET ASSETS (DEFICITS), June 30	<u>\$ 21,977,322</u>	<u>\$ 1,715,662</u>

Information & Technology Services	Insurance	Employee Benefits Management	Building Services	Total
\$ 5,206,758	\$ 21,498,426	\$ 2,999,150	\$ 2,559,468	\$ 39,231,218
-	-	-	-	4,624,343
-	-	-	-	(3,764,559)
<u>5,206,758</u>	<u>21,498,426</u>	<u>2,999,150</u>	<u>2,559,468</u>	<u>40,091,002</u>
1,990,362	265,474	97,483	394,389	4,036,529
165,668	262,044	239,968	1,365,385	3,539,875
147,097	836	-	-	162,656
1,505,446	7,049	17,065	69,758	3,699,941
10,185	14,464,644	3,163	32,769	14,606,175
-	6,133,528	-	-	6,133,528
762,116	107,321	16,142,429	242,097	17,884,590
502	1,245,270	97,686	195,894	2,143,911
-	-	-	-	289,221
1,224,372	-	-	10,555	4,185,222
<u>5,805,748</u>	<u>22,486,166</u>	<u>16,597,794</u>	<u>2,310,847</u>	<u>56,681,648</u>
<u>(598,990)</u>	<u>(987,740)</u>	<u>(13,598,644)</u>	<u>248,621</u>	<u>(16,590,646)</u>
335,241	-	-	-	335,241
-	-	-	-	(176,031)
34,360	263,068	130,729	3,018	517,842
(5,393)	(20,633)	(19,205)	(425)	(58,527)
-	-	-	-	(2,420)
<u>364,208</u>	<u>242,435</u>	<u>111,524</u>	<u>2,593</u>	<u>616,105</u>
<u>(234,782)</u>	<u>(745,305)</u>	<u>(13,487,120)</u>	<u>251,214</u>	<u>(15,974,541)</u>
-	-	-	-	67,862
4,047,310	-	-	-	4,412,872
<u>(287,580)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(397,727)</u>
3,524,948	(745,305)	(13,487,120)	251,214	(11,891,534)
6,938,373	(2,321,503)	(40,035,802)	236,060	(10,054,617)
<u>58,025</u>	<u>-</u>	<u>-</u>	<u>10,349</u>	<u>68,374</u>
\$ <u>10,521,346</u>	\$ <u>(3,066,808)</u>	\$ <u>(53,522,922)</u>	\$ <u>497,623</u>	\$ <u>(21,877,777)</u>

CITY OF MODESTO
COMBINING STATEMENT OF CASH FLOWS - INTERNAL SERVICE FUNDS
Year ended June 30, 2011

	<u>Fleet Management</u>	<u>Central Services</u>	<u>Information & Technology Services</u>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers and users	\$ 267,294	\$ 19,381	\$ 130,462
Receipts from interfund services provided	6,661,994	879,507	5,206,758
Payments to suppliers	(2,048,585)	28,998	(2,453,716)
Payment of insurance claims	-	-	-
Payments to employees	(1,614,210)	(303,801)	(2,742,415)
Payments for interfund services used	(1,343,476)	(124,849)	(42,177)
Net cash provided (used) by operating activities	<u>1,923,017</u>	<u>499,236</u>	<u>98,912</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Advances to other funds	-	-	-
Transfers in	345,562	20,000	4,047,310
Transfers out	-	(110,147)	(287,580)
Due from other funds	-	-	-
Interest paid	-	-	-
Operating grants received	-	-	335,241
Net cash provided (used) by noncapital financing activities	<u>345,562</u>	<u>(90,147)</u>	<u>4,094,971</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Acquisition and construction of capital assets	(1,733,295)	(6,051)	(3,384,220)
Proceeds from sale of capital assets	(176,031)	-	-
Principal repayments	(33,778)	-	(187,134)
Interest paid	(2,420)	-	-
Net cash used by capital and related financing activities	<u>(1,945,524)</u>	<u>(6,051)</u>	<u>(3,571,354)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest received	65,058	9,687	33,184
Net increase in the fair value of investments	(11,264)	(1,607)	(5,393)
Net cash provided by investing activities	<u>53,794</u>	<u>8,080</u>	<u>27,791</u>
Net increase (decrease) in cash and cash equivalents	376,849	411,118	650,320
PRIOR PERIOD ADJUSTMENTS	-	-	58,025
CASH AND CASH EQUIVALENTS, JULY 1	<u>9,865,815</u>	<u>1,003,921</u>	<u>4,742,907</u>
CASH AND CASH EQUIVALENTS, JUNE 30	<u>\$ 10,242,664</u>	<u>\$ 1,415,039</u>	<u>\$ 5,451,252</u>
RECONCILIATION TO STATEMENT OF NET ASSETS:			
Cash and cash equivalents	\$ 10,242,664	\$ 1,415,039	\$ 5,451,252
Cash and cash equivalents with fiscal agent	-	-	-
Restricted cash and cash equivalents	-	-	-
TOTAL CASH AND CASH EQUIVALENTS	<u>\$ 10,242,664</u>	<u>\$ 1,415,039</u>	<u>\$ 5,451,252</u>

<u>Insurance</u>	<u>Employee Benefits Management</u>	<u>Building Services</u>	<u>Total</u>
(106,786)	\$ 2,864,735	\$ 210,406	\$ 3,385,492
21,245,077	152,887	2,291,447	36,437,670
(14,325,610)	(288,617)	(1,447,612)	(20,535,142)
(6,737,989)	-	-	(6,737,989)
(377,875)	(4,358,330)	(637,875)	(10,034,506)
<u>(1,287,824)</u>	<u>(69,250)</u>	<u>(208,167)</u>	<u>(3,075,743)</u>
<u>(1,591,007)</u>	<u>(1,698,575)</u>	<u>208,199</u>	<u>(560,218)</u>
-	(2,431,738)	-	(2,431,738)
-	-	-	4,412,872
-	-	-	(397,727)
-	-	-	-
(3,138)	(446)	-	(3,584)
-	-	-	335,241
<u>(3,138)</u>	<u>(2,432,184)</u>	<u>-</u>	<u>1,915,064</u>
-	-	1	(5,123,565)
-	-	-	(176,031)
-	-	-	(220,912)
-	-	-	(2,420)
<u>-</u>	<u>-</u>	<u>1</u>	<u>(5,522,928)</u>
267,426	114,627	2,511	492,493
<u>(20,633)</u>	<u>(19,205)</u>	<u>(425)</u>	<u>(58,527)</u>
<u>246,793</u>	<u>95,422</u>	<u>2,086</u>	<u>433,966</u>
(1,347,352)	(4,035,337)	210,286	(3,734,116)
18,848,205	-	10,349	68,374
<u>17,500,853</u>	<u>17,200,599</u>	<u>181,959</u>	<u>51,843,406</u>
<u>17,500,853</u>	<u>\$ 13,165,262</u>	<u>\$ 402,594</u>	<u>\$ 48,177,664</u>
			(continued)
17,093,134	\$ -	\$ 402,594	\$ 34,604,683
407,719	112	-	407,831
-	13,165,150	-	13,165,150
<u>17,500,853</u>	<u>\$ 13,165,262</u>	<u>\$ 402,594</u>	<u>\$ 48,177,664</u>
			(continued)

CITY OF MODESTO
COMBINING STATEMENT OF CASH FLOWS - INTERNAL SERVICE FUNDS (Continued)
Year ended June 30, 2011

	<u>Fleet Management</u>	<u>Central Services</u>	<u>Information & Technology Services</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
Operating income (loss)	\$ (1,973,081)	\$ 319,188	\$ (598,990)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	2,938,036	12,259	1,224,372
Change in assets and liabilities:			
(Increase) decrease in accounts receivable	976	-	-
(Increase) decrease in due from governments	-	-	130,462
Decrease in due from governments	-	-	-
(Increase) in prepaid expenses	(3,016)	-	-
Decrease in inventories	-	54,047	-
Increase (decrease) in accounts payable and accrued expenses	956,595	112,795	(666,995)
Increase in accrued salaries and benefits payable	3,507	947	10,063
Increase in compensated absences and OPEB	-	-	-
Decrease in claims liability	-	-	-
Total adjustments	<u>3,896,098</u>	<u>180,048</u>	<u>697,902</u>
Net cash provided (used) by operating activities	<u>\$ 1,923,017</u>	<u>\$ 499,236</u>	<u>\$ 98,912</u>
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:			
Capital contributions	64,105	3,757	\$ -
New capital lease transaction			

<u>Insurance</u>	<u>Employee Benefits Management</u>	<u>Building Services</u>	<u>Total</u>
<u>(987,740)</u>	<u>\$ (13,598,644)</u>	<u>\$ 248,621</u>	<u>\$ (16,590,646)</u>
-	-	10,555	4,185,222
(360,135)	18,472	(57,615)	(398,302)
-	-	-	130,462
-	-	-	-
(410,594)	-	-	(413,610)
-	-	-	54,047
366,409	15	8,027	776,846
(5,080)	2,485	(1,389)	10,533
-	11,879,097	-	11,879,097
<u>(193,867)</u>	<u>-</u>	<u>-</u>	<u>(193,867)</u>
<u>(603,267)</u>	<u>11,900,069</u>	<u>(40,422)</u>	<u>16,030,428</u>
<u>(1,591,007)</u>	<u>\$ (1,698,575)</u>	<u>\$ 208,199</u>	<u>\$ (560,218)</u>

- - - \$ 67,862

AGENCY FUNDS

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

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

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

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

Stanislaus Drug Enforcement Agency - To account for cash and investments of the Stanislaus Drug Enforcement Agency, a joint powers agency between Stanislaus County and the cities of Modesto, Oakdale, Turlock, Ceres, Hughson, Newman, Patterson, and Waterford. The agency's purpose 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. Cash and investments of the Agency are invested in the City's investment pool.

Industrial Fire District - To record and distribute the special assessments for fire protection that were established under the Industrial Fire District. This is a joint powers agency between the City of Modesto, the City of Ceres, and the Industrial Fire District. Cash and investments of the Agency are invested in the City's investment pool.

CITY OF MODESTO
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES - AGENCY FUNDS
Year ended June 30, 2011

Special Districts	Balance June 30, 2010	Additions	Deletions	Balance June 30, 2011
<u>ASSETS</u>				
Cash and cash equivalents	\$ 4,121,876	\$ 2,539,306	\$ 2,109,390	\$ 4,551,792
Cash and cash equivalents with fiscal agent	3,924,436	1,895,883	2,212,048	3,608,271
	<u>\$ 8,046,312</u>	<u>\$ 4,435,189</u>	<u>\$ 4,321,438</u>	<u>\$ 8,160,063</u>
<u>LIABILITIES</u>				
Due to special district bondholders	\$ 8,046,312	\$ 4,435,189	\$ 4,321,438	\$ 8,160,063
<u>Tuolumne River Regional Park</u>				
<u>ASSETS</u>				
Cash and cash equivalents	\$ 394,710	\$ 583,127	\$ 479,247	\$ 498,590
<u>LIABILITIES</u>				
Deposits held as agent for others	\$ 394,710	\$ 583,127	\$ 479,247	\$ 498,590
<u>City/County Joint Powers Financing Authority</u>				
<u>ASSETS</u>				
Cash and cash equivalents	\$ 208,291	\$ 24,045	\$ 232,336	\$ -
<u>LIABILITIES</u>				
Deposits held as agent for others	\$ 208,291	\$ 24,045	\$ 232,336	\$ -
<u>Stanislaus Drug Enforcement Agency</u>				
<u>ASSETS</u>				
Cash and cash equivalents	\$ 3,697,253	\$ 2,402,893	\$ 2,486,809	\$ 3,613,337
<u>LIABILITIES</u>				
Deposits held as agent for others	\$ 3,697,253	\$ 2,402,893	\$ 2,486,809	\$ 3,613,337
<u>Industrial Fire District</u>				
<u>ASSETS</u>				
Cash and cash equivalents	\$ 433,519	\$ 740,032	\$ 733,708	\$ 439,843
<u>LIABILITIES</u>				
Deposits held as agent for others	\$ 433,519	\$ 740,032	\$ 733,708	\$ 439,843
<u>Totals - All Agency Funds</u>				
<u>ASSETS</u>				
Cash and cash equivalents	\$ 8,855,649	\$ 6,289,403	\$ 6,041,490	\$ 9,103,562
Cash and cash equivalents with fiscal agent	3,924,436	1,895,883	2,212,048	3,608,271
	<u>\$ 12,780,085</u>	<u>\$ 8,185,286</u>	<u>\$ 8,253,538</u>	<u>\$ 12,711,833</u>
<u>LIABILITIES</u>				
Due to special district bondholders	\$ 8,046,312	\$ 4,435,189	\$ 4,321,438	\$ 8,160,063
Deposits held as agent for others	4,733,773	3,750,097	3,932,100	4,551,770
	<u>\$ 12,780,085</u>	<u>\$ 8,185,286</u>	<u>\$ 8,253,538</u>	<u>\$ 12,711,833</u>

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STATISTICAL SECTION

Statistical Section

This part of the Comprehensive Annual Financial Report presents detailed information to aid in understanding what the information in the financial statements, note disclosures, and required supplementary information says about the City's overall financial health. In contrast to the financial section, the statistical section information is not subject to independent audit.

Financial Trends

These schedules contain trend information to help the reader understand how the City's financial performance has changed over time.

1. Net Assets by Component
2. Changes in Net Assets
3. Fund Balances of Governmental Funds
4. Changes in Fund Balance of Governmental Funds

Revenue Capacity

This schedule gives information on the City's most significant local revenue source, the water user charges:

1. Water Utility System – Ten Largest Customers
2. Water revenues by customer class
3. Water rates

Debt Capacity

These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future:

1. Ratio of Outstanding Debt by Type
2. Computation of Direct and Overlapping Debt
3. Computation of Legal Bonded Debt Margin
4. Bonded Debt Pledged Revenue Coverage, Wastewater Revenue Bonds
5. Continuing Disclosure Requirements:
 - a. Wastewater Revenue Bonds and Refunding Revenue Bonds
 - b. Water Utility System Revenue Certificates of Participation and Refunding Revenue Certificates of Participation, and Modesto Irrigation District Financing Authority Domestic Water Project Revenue Bonds and Refunding Revenue Bonds

Demographic and Economic Information

These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place:

1. Demographic and Economic Statistics
2. Principal Employers

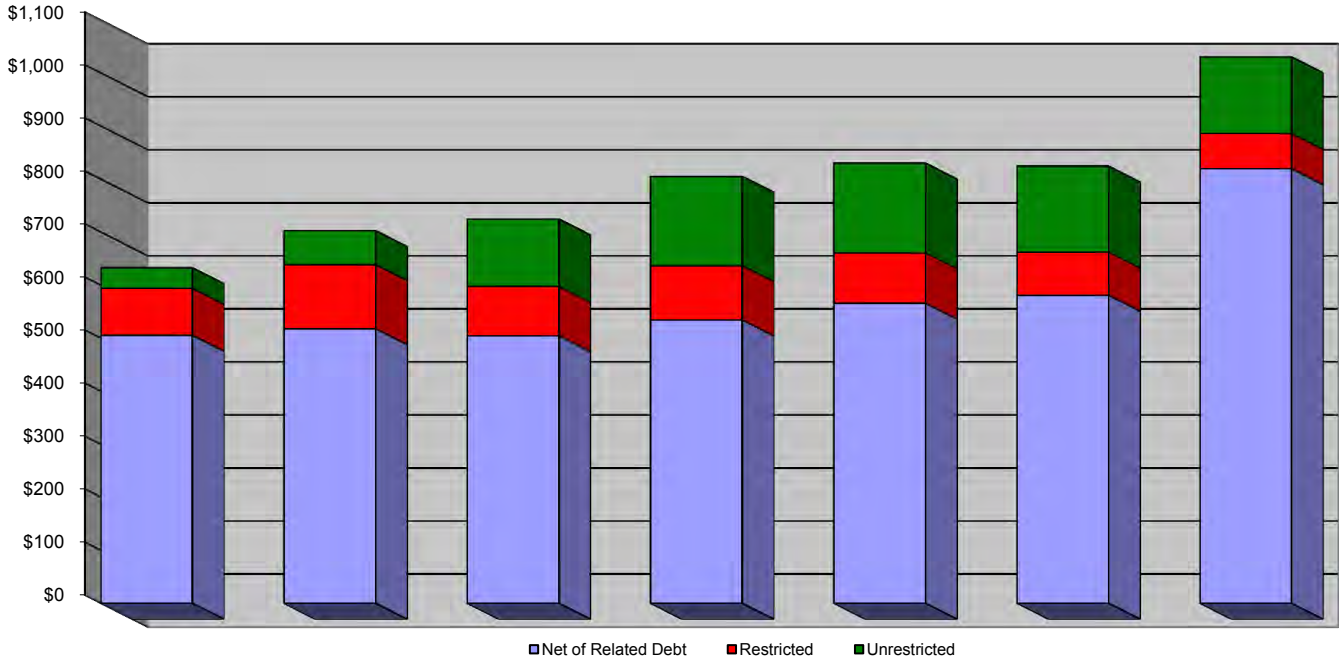
Operating Information

These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the City provides and the activities it performs:

1. Full-Time Equivalent City Government Employees by Function
2. Operating Indicators by Function/Program
3. Capital Asset Statistics by Function/Program

Sources: Unless otherwise noted, the information in these schedules is derived from the Comprehensive Annual Financial Reports for the relevant year. The City implemented GASB Statement No. 34 in 2002; however, for schedules presenting entity-wide information, the City has elected to include information beginning in fiscal year 2003.

CITY OF MODESTO
NET ASSETS BY COMPONENT
 Last Seven Fiscal Years
 (accrual basis of accounting)



	2005	2006	2007	2008	2009	2010	2011
Governmental activities							
Invested in capital assets, net of related debt	\$288,391,776	\$296,401,824	\$333,409,532	\$339,396,266	\$347,357,492	\$329,592,169	\$338,010,133
Restricted	88,725,341	120,937,678	93,168,664	102,602,698	94,819,773	81,528,516	66,570,581
Unrestricted	(6,715,483)	(2,303,306)	(12,566,297)	4,627,884	(472,402)	14,399,778	6,540,870
Total governmental activities net assets	\$370,401,634	\$415,036,196	\$414,011,899	\$446,626,848	441,704,863	425,520,463	411,121,584
Business-type activities							
Invested in capital assets, net of related debt	\$216,558,150	\$220,881,691	\$170,791,021	\$194,435,373	\$218,432,739	\$251,025,494	\$481,186,894
Restricted	45,548,813	66,550,276	139,613,374	163,792,245	169,639,845	147,661,517	138,033,147
Total business-type activities net assets	\$262,106,963	\$287,431,967	\$310,404,395	\$358,227,618	\$388,072,584	\$398,687,011	\$619,220,041
Primary government							
Invested in capital assets, net of related debt	\$504,949,926	\$517,283,515	\$504,200,553	\$533,831,639	\$565,790,231	\$580,617,663	\$819,197,027
Restricted	88,725,341	120,937,678	93,168,664	102,602,698	94,819,773	81,528,516	66,570,581
Unrestricted	38,833,330	64,246,970	127,047,077	168,420,129	169,167,443	162,061,295	144,574,017
Total primary government net assets	\$632,508,597	\$702,468,163	\$724,416,294	\$804,854,466	\$829,777,447	\$824,207,474	\$1,030,341,625

CITY OF MODESTO
CHANGES IN NET ASSETS
Last Seven Fiscal Years
(Accrual Basis of Accounting)

	2005	2006	2007	2008	2009	2010	2011
Expenses							
Governmental Activities:							
General Government	\$15,273,174	\$15,529,735	\$17,227,876	\$15,997,582	\$12,700,264	\$12,093,091	\$12,473,794
Community Development	\$14,105,411	\$12,241,213	12,025,105	14,619,525	14,694,997	18,912,766	28,301,160
Highways and streets	23,721,458	26,025,311	26,246,306	26,436,475	23,682,253	23,668,779	24,114,799
Public works	5,263,984	6,491,062	12,557,512	11,471,344	9,151,786	6,759,562	7,393,809
Parks and Recreation	13,334,330	11,733,698	14,568,192	14,264,334	15,070,007	13,268,871	10,310,549
Public safety	71,239,341	74,500,043	83,793,361	88,651,249	84,395,987	80,254,834	83,381,310
Interest on Long Term Debt	4,987,911	5,178,130	7,286,026	4,998,482	6,114,875	5,766,421	3,609,345
Total Governmental Activities Expenses	147,925,609	151,699,192	173,704,378	176,438,991	165,810,169	160,724,324	169,584,766
Business-Type Activities:							
Parking	1,162,479	1,287,450	1,475,340	1,982,066	2,011,386	1,826,401	1,518,955
Water	30,691,348	29,989,775	35,540,918	36,713,351	38,190,214	43,619,704	36,305,860
Sewer	22,422,268	22,716,100	24,156,577	23,974,989	22,416,713	28,055,056	28,497,430
Storm Drain	6,111,317	5,795,746	6,924,335	6,349,113	6,140,963	5,201,741	7,619,939
Compost		941,919	1,225,462	1,312,511	1,130,816	1,480,068	4,112,837
Airport	1,131,889	1,342,645	2,039,988	1,444,667	1,682,644	1,918,113	2,157,180
Bus	11,074,907	12,119,311	13,758,421	14,834,612	15,210,224	15,671,731	16,064,104
Golf	2,354,759	2,461,470	2,479,447	2,497,161	2,440,599	2,473,968	2,366,052
Community Center	2,323,169	2,465,644	2,543,121	2,465,825	2,303,256	2,346,175	2,284,082
Total Business-Type Activities Expenses	77,272,136	79,120,060	90,143,609	91,574,295	91,526,815	102,592,957	100,926,439
Total Primary Government Expenses	\$225,197,745	\$230,819,252	\$263,847,987	\$268,013,286	\$257,336,984	\$263,317,281	\$270,511,205
Program Revenues							
Governmental Activities:							
Charges for Services:							
General Government	\$3,252,732	\$4,179,505	\$3,775,368	\$6,726,893	\$6,987,127	\$6,323,865	\$6,804,398
Community Development	11,294,130	9,466,082	10,873,541	7,869,742	4,788,324	2,941,932	4,730,263
Highway and streets	14,081,840	12,104,089	10,719,009	5,804,342	8,222,178	2,801,213	3,179,788
Public Works	2,024,509	1,986,957	1,757,648	5,110,428	1,349,956	3,344,967	2,909,677
Parks and Recreation	4,821,884	4,928,366	4,437,320	5,590,196	4,006,123	6,038,468	3,105,490
Public Safety	8,011,509	7,124,387	8,414,456	4,868,612	4,625,935	4,325,231	4,977,440
Operating Grants and Contributions	13,736,453	11,892,511	12,701,177	14,221,390	11,424,548	14,559,357	19,861,492
Capital Grants and Contributions	22,799,320	38,484,548	4,207,389	17,930,957	6,595,213	10,876,018	7,334,967
Total Government Activities Program Revenues	80,022,377	90,166,445	56,885,908	68,122,560	\$47,999,404	\$51,211,051	\$52,903,515
Business-Type Activities:							
Charges for Services:							
Parking	908,920	1,176,061	1,128,755	1,297,484	1,256,360	1,239,995	1,274,482
Water	31,315,920	42,639,348	49,305,033	51,679,042	53,218,692	54,670,041	55,345,414
Sewer	24,419,607	23,083,280	24,833,019	29,340,615	35,854,857	37,310,731	39,142,045
Storm Drain	5,162,217	5,277,304	5,403,474	5,338,838	5,301,150	5,428,291	6,152,211
Compost		1,317,105	1,254,137	1,075,032	1,397,708	1,706,189	4,490,110
Airport	559,215	577,688	604,214	593,349	661,524	675,565	1,019,177
Bus	2,264,506	2,645,622	2,545,790	3,182,762	2,944,108	2,769,814	2,877,492
Golf	2,115,712	2,222,738	2,189,384	2,124,672	1,984,769	1,924,015	1,647,400
Community Center	504,338	543,085	552,878	532,471	492,989	489,562	433,460
Operating Grants and Contributions	7,525,367	8,317,889	11,059,129	12,459,707	11,462,346	13,706,512	12,629,219
Capital Grants and Contributions	8,498,408	10,467,873	7,962,675	9,793,356	4,527,875	2,898,489	4,856,649
Total Business-Type Activities Program Revenue	83,274,210	98,267,993	106,838,488	117,417,328	119,102,378	122,819,204	129,867,659
Total Primary Government Program Revenues	\$163,296,587	\$188,434,438	\$163,724,396	\$185,539,888	167,101,782	174,030,255	182,771,174
Net (Expense)/Revenue							
Governmental Activities	(\$67,903,232)	(\$61,532,747)	(116,818,470)	(108,316,431)	(117,810,765)	(109,513,273)	(116,681,251)
Business-Type Activities	6,002,074	19,147,933	16,694,879	25,843,033	27,575,563	20,226,247	28,941,220
Total Primary Government Net Expense	(\$61,901,158)	(\$42,384,814)	(\$100,123,591)	(\$82,473,398)	(\$90,235,202)	(\$89,287,026)	(\$87,740,031)

(continued)

City of Modesto
CHANGES IN NET ASSETS
(continued)
Last Seven Fiscal Years
(Accrual Basis of Accounting)

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
General Revenues and Other Changes in Net Assets							
Governmental Activities:							
Taxes:							
Utility Users Tax	\$15,621,566	\$17,583,690	\$18,319,573	\$19,173,295	19,093,222	19,117,518	12,107,226
Property taxes, levied for general purposes	11,316,694	14,318,747	16,456,379	16,202,587	13,863,471	12,306,702	19,119,037
Tax increments for redevelopment agency	3,909,452	4,450,836	5,303,521	5,813,822	6,228,634	6,521,515	5,750,235
Transient occupancy tax	2,098,303	2,181,467	2,264,699	2,038,255	1,853,732	1,460,613	1,639,761
Franchise tax	3,420,453	3,693,307	3,823,216	7,735,131	4,779,854	3,962,159	3,940,364
Business license tax - for general purposes	9,726,816	10,374,157	10,359,058	9,680,721	9,330,563	9,068,219	9,339,077
Business license tax - for downtown improvement district	201,308	214,022	221,487	202,100	196,253	169,471	172,520
Grants and contributions not restricted to specific programs:							
Sales tax	26,589,449	29,627,835	27,884,852	26,305,982	24,578,230	22,301,060	24,110,596
Motor vehicle license fee	16,403,864	14,986,883	16,233,262	16,856,108	15,255,503	13,945,172	13,419,232
Other	1,702,234	4,070,593	4,169,354	917,347	3,285,651	1,286,466	9,718,308
Unrestricted investment earnings	4,463,080	3,255,401	8,330,079	9,960,367	5,247,506	1,211,702	696,848
Miscellaneous	3,792,340	2,827,161	3,582,325	3,469,916	5,809,581	2,502,397	1,630,466
Settlements							
Transfers	(1,306,914)	(1,416,790)	(1,153,632)	(779,437)	(5,490,881)	402,303	1,503,170
Special Item - PCE legal fees							
Total Government Activities	<u>97,938,645</u>	<u>106,167,309</u>	<u>115,794,173</u>	<u>117,576,194</u>	<u>104,031,319</u>	<u>94,255,297</u>	<u>103,146,840</u>
Business-Type Activities:							
Taxes:							
Property taxes, generated by and allocated to the airport	239,518	166,641	209,722	182,031	202,460	265,587	309,699
Business license tax, generated by and allocated to the airport	20,546	41,108	13,054	19,188			
Unrestricted investment earnings	1,819,870	2,504,291	5,406,639	7,099,765	6,227,615	3,155,954	1,947,417
Miscellaneous	1,306,914				253,032		
Transfers	7,396,627	1,416,790	1,153,632	779,437	5,490,881	(402,303)	(1,503,170)
Settlements and Recoveries		3,784,295		14,525,389		447,102	187,096
Special Item	(1,938,606)	(1,736,054)	(505,498)	(625,620)	(2,211,514)	(1,326,309)	(727,310)
Total Business-Type Activities	<u>8,844,869</u>	<u>6,177,071</u>	<u>6,277,549</u>	<u>21,980,190</u>	<u>9,962,474</u>	<u>2,140,031</u>	<u>213,732</u>
Total Primary Government	<u>\$106,783,514</u>	<u>\$112,344,380</u>	<u>\$122,071,722</u>	<u>\$139,556,384</u>	<u>\$113,993,793</u>	<u>\$96,395,328</u>	<u>\$103,360,572</u>
Change in Net Assets							
Governmental Activities	\$30,035,413	\$44,634,562	(\$1,024,297)	\$9,259,763	(\$13,779,446)	(\$15,257,976)	(\$13,534,411)
Business-Type Activities	14,846,943	25,325,004	22,972,428	47,823,223	37,538,037	22,366,278	29,154,952
Total Primary Government	<u>\$44,882,356</u>	<u>\$69,959,566</u>	<u>\$21,948,131</u>	<u>\$57,082,986</u>	<u>\$23,758,591</u>	<u>\$7,108,302</u>	<u>\$15,620,541</u>

CITY OF MODESTO
FUND BALANCES OF GOVERNMENTAL FUNDS
Last Seven Fiscal Years
(Modified Accrual Basis of Accounting)

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011 (b)</u>
General Fund							
Reserved	\$2,955,054	2,702,381	\$3,734,973	\$3,816,559	\$3,568,273	\$2,871,715	-
Unreserved	17,460,005	20,607,134	10,713,910	11,942,168	11,185,485	10,103,645	-
Non-spendable		-	-	-	-	-	-
Restricted		-	-	-	-	-	\$4,313,287
Committed		-	-	-	-	-	-
Assigned		-	-	-	-	-	458,415
Unassigned		-	-	-	-	-	10,215,682
Total General Fund	<u><u>\$20,415,059</u></u>	<u><u>\$23,309,515</u></u>	<u><u>\$14,448,883</u></u>	<u><u>\$15,758,727</u></u>	<u><u>\$14,753,758</u></u>	<u><u>\$12,975,360</u></u>	<u><u>\$14,987,384</u></u>
All Other Governmental Funds							
Reserved	\$40,160,539	\$40,168,886	\$40,174,920	\$42,799,130	\$39,607,945	\$39,686,892	-
Unreserved, reported in:							
Special revenue funds	15,931,290	13,431,304	11,885,910	8,746,111	12,808,809	6,867,750	-
Capital project funds	42,534,688	72,752,412	72,253,464	71,780,583	58,718,023	54,341,594	-
Non-spendable		-	-	-	-	-	-
Restricted		-	-	-	-	-	\$118,919,268
Committed		-	-	-	-	-	-
Assigned		-	-	-	-	-	3,647,941
Unassigned		-	-	-	-	-	(23,614,308)
Total all other governmental funds	<u><u>\$98,626,517</u></u>	<u><u>\$126,352,602</u></u>	<u><u>\$124,314,294</u></u>	<u><u>\$123,325,824</u></u>	<u><u>\$111,134,777</u></u>	<u><u>\$100,896,236</u></u>	<u><u>\$98,952,901</u></u>

The change in total fund balance for the General Fund and other governmental funds is explained in Management's Discussion and Analysis.

Note: The City has elected to show only seven years of data for this schedule.

(b) The City implemented the provisions of GASB Statement 54 in fiscal year 2011.

CITY OF MODESTO
CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS
Last Seven Fiscal Years
(Modified Accrual Basis of Accounting)

	2005	2006	2007	2008	2009	2010	2011
Revenues							
Taxes	\$46,295,678	\$52,816,596	\$56,748,017	\$57,142,392	\$55,345,729	\$52,606,197	\$52,068,220
Licenses, permits and fees	128,754	146,854	187,289	153,545	132,459	138,811	139,073
Intergovernmental	73,889,063	64,759,658	66,129,862	71,179,504	63,606,634	61,551,617	74,242,596
Charges for services	41,660,016	37,802,149	36,979,023	33,319,642	27,051,151	23,509,170	22,638,801
Special assessments levied	107,696	65,909	51,634	35,294	37,299	38,520	1,852,529
Interest and rent	3,146,452	3,755,169	4,837,419	5,236,476	2,909,155	1,322,005	838,178
Net increase in fair value of investments	186,515	103,036	1,168,857	1,404,913	860,820	399,322	(89,608)
Fines and forfeits	1,646,472	1,675,926	2,699,445	2,614,523	2,443,506	2,253,014	2,929,182
Contribution from property owners	-	30,473,773	-	-	-	-	-
Miscellaneous	2,991,745	2,821,161	2,814,421	3,469,916	5,809,581	2,502,397	1,630,467
Total Revenues	170,052,391	194,420,231	171,615,967	174,556,205	158,196,334	144,321,053	156,249,438
Expenditures							
Current:							
General government	11,819,603	14,111,535	15,517,544	15,107,461	13,715,577	11,482,240	10,879,751
Community development	12,832,640	12,296,072	11,789,640	13,820,295	14,137,095	18,536,120	26,077,905
Highways and streets	12,152,087	14,357,041	12,553,681	12,549,018	9,721,445	8,102,327	11,530,856
Public works	5,053,030	5,647,023	11,307,307	9,719,098	7,667,125	6,124,685	6,035,524
Parks and recreation	12,021,937	11,662,263	13,348,613	12,605,651	13,307,764	12,138,077	8,722,311
Public safety	70,882,176	74,527,875	80,988,650	82,707,285	78,103,260	75,081,791	73,207,608
Capital outlay	24,412,735	21,563,774	30,194,778	22,745,308	27,663,037	16,655,242	11,219,489
Debt service:							
Principal retirement	1,666,764	1,901,827	2,008,538	2,265,000	1,093,000	2,045,000	2,234,000
Interest	4,425,980	4,576,780	4,413,300	3,473,369	3,033,829	4,032,612	3,620,851
Advance refunding escrow	-	-	822,228	-	-	-	-
Other	553,645	618,742	1,333,129	1,337,611	1,395,211	1,408,771	57,557
Total Expenditures	155,820,597	161,262,932	184,277,408	176,330,096	169,837,343	155,606,865	153,585,852
Excess of revenues over (under) expenditures	14,231,794	33,157,299	(12,661,441)	(1,773,891)	(11,641,009)	(11,285,812)	2,663,586
Other Financing Sources (Uses)							
Transfers in	17,962,442	17,724,718	23,985,863	24,429,880	19,237,526	12,346,246	10,557,218
Transfers out	(19,644,937)	(20,267,476)	(26,399,280)	(22,579,265)	(18,149,564)	(12,402,937)	(13,069,195)
Proceeds of capital lease	-	-	-	-	-	-	-
Proceeds of loan payable	-	-	44,138	244,650	209,575	-	-
Proceeds of notes payable	-	-	-	-	-	-	-
Proceeds of lease revenue bonds	-	-	62,275,000	-	65,170,000	-	-
Refunding of lease revenue bonds	-	-	-	-	(65,210,000)	-	-
Sale of Assets	928,595	6,000	767,904	-	34,900	-	-
Payments to refunded debt escrow agent	-	-	(58,911,124)	-	(2,431,247)	-	-
Total other financing sources (uses)	(753,900)	(2,536,758)	1,762,501	2,095,265	(1,138,810)	(56,691)	(2,511,977)
Net Change in fund balances	13,477,894	30,620,541	(10,898,940)	321,374	(12,779,819)	(11,342,503)	151,609
FUND BALANCES, July 1	105,563,682	119,041,576	149,662,117	138,763,177	139,084,551	125,888,535	113,871,596
PRIOR PERIOD ADJUSTMENT	-	-	-	-	(416,197)	(674,436)	(82,920)
FUND BALANCES, June 30	\$119,041,576	\$149,662,117	\$138,763,177	\$139,084,551	125,888,535	113,871,596	113,940,285
Debt service as a percentage of noncapital expenditures	0.05327	0.05352	0.05895	0.04830	0.04041	0.05695	0.04333

Note : The City has elected to show only seven years of data for this schedule.

CITY OF MODESTO
REVENUE CAPACITY - MOST SIGNIFICANT LOCAL REVENUE SOURCE
WATER UTILITY CHARGES
(Fiscal Year ended June 30, 2011)

Ten Largest Customers of Water Utility System, Year Ended 06/30/11

<u>Customer</u>	<u>Usage (ccf) (1)</u>	<u>% of Total Usage</u>	<u>Water Sales Revenue (\$)</u>	<u>% of Total Water Sales Revenue</u>
1) City of Modesto-Stores	476,340	1.71%	\$849,992	1.70%
2) Signature Fruit Co, LLC	469,672	1.68%	617,774	1.23%
3) Stanislaus Food Products	443,314	1.59%	593,402	1.18%
4) Modesto City Schools	398,360	1.43%	641,163	1.28%
5) Foster Farms	322,047	1.15%	425,920	0.85%
6) Modesto Irrigation Dist	188,084	0.67%	277,059	0.55%
7) Stanislaus Housing Authority	164,561	0.59%	281,817	0.56%
8) Sylval Union School Dis	115,441	0.41%	192,371	0.38%
9) Yosemite Com Clg Dist	113,760	0.41%	185,428	0.37%
10) Stanislaus County Building Mntc	109,247	0.39%	213,365	0.43%
Total Top Ten	<u>2,800,826</u>	<u>10.03%</u>	<u>\$4,278,291</u>	<u>8.54%</u>

Total Flat/Metered Revenues (Water Sales)

\$50,079,180

(1) "ccf" means "hundred cubic feet"

Water Sales Revenue, Year Ended 06/30/11

Residential - flat rates

\$16,888,754

Commercial, Industrial and municipal - metered rates

33,190,426

Total Water Sales

\$50,079,180

Water Rates and Charges as of 11/10/10

The average monthly flat rate service charge for residential customers is: \$43.20

Commercial Accounts:

<u>Meter Size</u>	
3/4"	\$14.00
1"	19.86
1 1/2"	34.37
2"	51.86
3"	98.56
4"	150.99
6"	296.61
8"	471.45
10"	675.47
12"	1,258.19

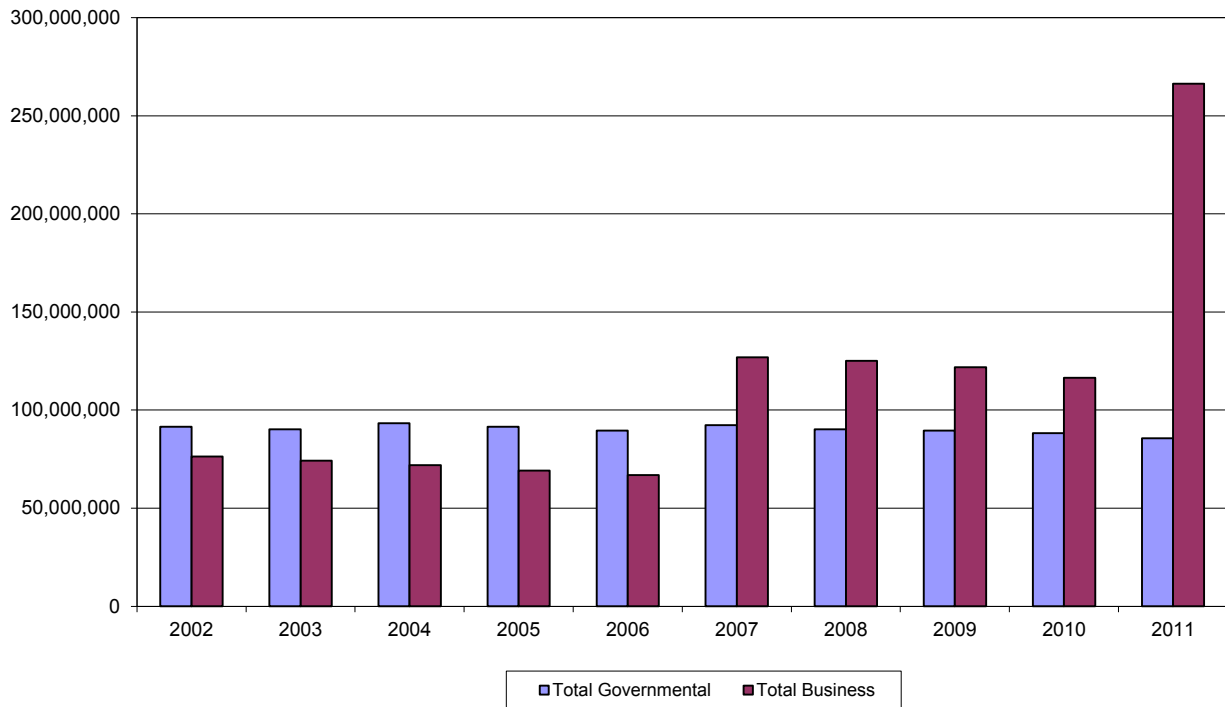
In addition to these minimum charges, commercial accounts are charged \$1.31 per 100 cubic feet of water used. Water rates for both metered and flat rate services were increased on November 10, 2010

Source:

City of Modesto-Customer Services

Note: Information about Water Utility Customers was not available for the year ended June 30, 1998.

CITY OF MODESTO
RATIO OF OUTSTANDING DEBT BY TYPE
Last Ten Fiscal Years



Governmental Activities

Fiscal Year	Governmental Activities					Total
	Loans Payable	Certificates of Participation	Lease Revenue Bonds	Notes Payable	Obligations Under Capital Leases	
2002	\$191,835	24,625,000	64,250,000	\$262,807	2,153,350	91,482,992
2003	348,273	23,935,000	63,865,000	241,880	1,753,685	90,143,838
2004	523,363	23,215,000	63,455,000	4,719,663	1,335,182	93,248,208
2005	485,077	22,455,000	63,000,000	4,696,076	896,833	91,532,986
2006	446,634	21,655,000	62,505,000	4,535,034	444,904	89,586,572
2007	449,138	20,820,000	66,440,000	4,365,446	211,354	92,285,938
2008	693,788	19,935,000	65,210,000	4,187,220	137,392	90,163,400
2009	903,362	19,000,000	65,170,000	3,999,252	454,401	89,527,015
2010	903,362	18,015,000	64,275,000	3,802,436	1,221,553	88,217,351
2011	903,392	16,975,000	63,255,000	3,594,658	975,955	85,704,005

Business-Type Activities

Fiscal Year	Business-Type Activities					Total Primary Government	Percentage of Personal Income (a)	Per Capita (a)
	Loans Payable	Certificates of Participation	Revenue Bonds (b)	Capital Leases	Total			
2002	2,887,342	29,765,000	43,640,000	-	76,292,342	167,775,334	3.35%	844.79
2003	2,713,066	28,965,000	42,490,000	-	74,168,066	164,311,904	3.07%	808.22
2004	2,533,380	28,125,000	41,285,000	-	71,943,380	165,191,588	2.97%	801.12
2005	2,347,602	27,240,000	39,235,000	\$290,487	69,113,089	160,646,075	2.78%	773.70
2006	2,156,040	26,305,000	38,245,000	222,588	66,928,628	156,515,200	2.65%	752.09
2007	1,958,276	26,305,000	53,130,000	151,633	126,834,909	219,120,847	3.67%	1,047.55
2008	1,754,300	26,305,000	51,420,000	77,485	125,166,785	215,330,185	3.65%	1,025.69
2009	1,543,554	26,305,000	49,760,000	-	121,848,554	211,375,569	3.69%	1,006.13
2010	1,326,174	26,305,000	48,050,000	-	116,442,387	204,659,738	3.66%	967.49
2011	6,522,243	26,305,000	198,654,489	-	266,351,705	352,055,710	6.67%	1,750.08

Note: debt amounts are gross outstanding at year end without eliminating any premiums, discounts, or other amortization amounts.

(a) See Demographic and Economic Statistics for personal income and population data.

(b) The MID Treatment and Delivery issued by MID on behalf of the City has been reported as a City liability.

CITY OF MODESTO
COMPUTATION OF DIRECT AND OVERLAPPING DEBT
June 30, 2011

<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 General Obligation debt - school districts:			
Ceres Unified District	66,829,101	5.71	3,815,942
Hart-Ransom Union School District	3,887,383	34.75	1,350,866
Modesto Elementary School District	14,842,782	79.23	11,759,936
Modesto High School District	56,048,450	67.18	37,653,349
Paradise Elementary School District	400,000	0.00	0
Salida Union Elementary District	875,000	28.99	253,663
Stanislaus Union School District	12,525,000	27.09	3,393,023
Sylvan School District	26,525,000	77.27	20,495,868
Yosemite Community College District	<u>308,838,990</u>	35.62	110,008,448
Total overlapping debt	<u>490,771,706</u>		<u>188,731,095</u>
Total direct and overlapping debt	<u>\$ 490,771,706</u>		<u>\$ 188,731,095</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
COMPUTATION OF LEGAL DEBT MARGIN
June 30, 2011

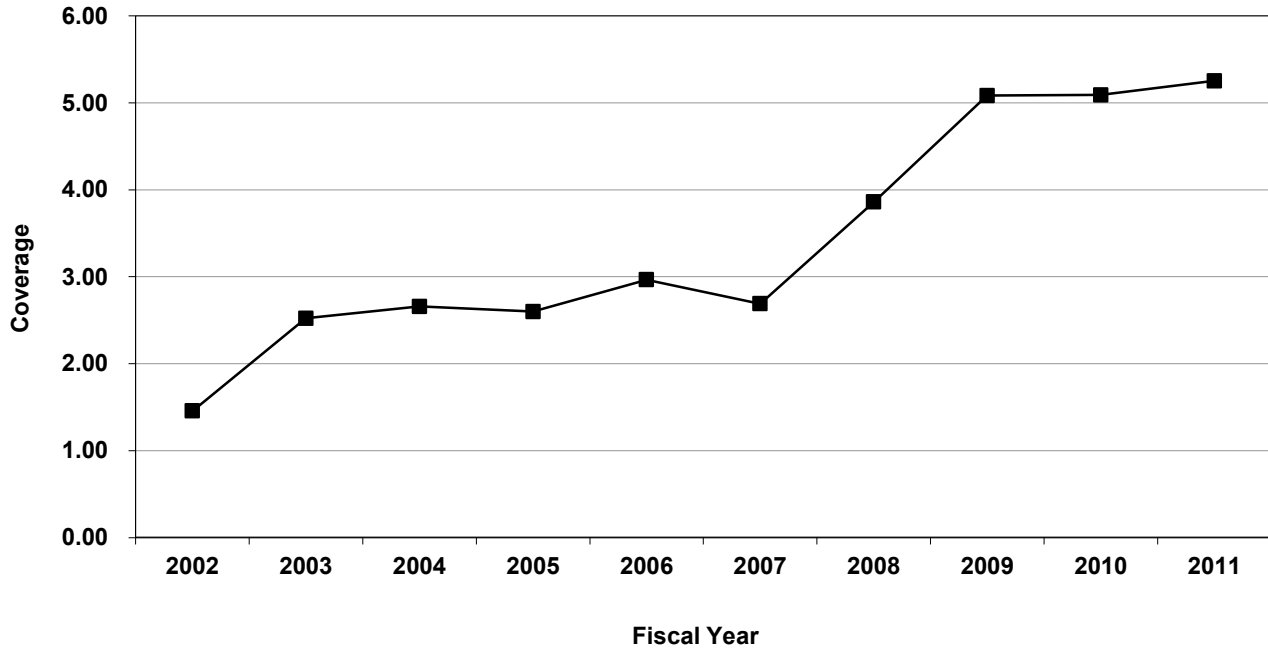
Net assessed value (1)		\$ 12,151,454,248
Plus homeowners' exemption (1)		<u>226,617,558</u>
Gross assessed value (1)		\$ 12,378,071,806
Debt limit - 15% of gross assessed value (2)		\$ 1,856,710,771
Amount of debt applicable to debt limit:		
Total general bonded debt, including special assessment debt	\$	<u>0</u>
Less: Assets in debt service funds available for payment of principal	\$	<u>0</u>
Other deductions: Special assessment debt	<u>0</u>	
Total deductions		<u>0</u>
Total amount of debt applicable to debt limit		<u>0</u>
Legal debt margin		<u><u>\$ 1,856,710,771</u></u>

Fiscal Year	Debt Limit	Total Net Debt Applicable to Limit	Legal Debt Margin	Total Net Debt Applicable to the Limit as a Percentage of Debt Limit
2007	\$ 2,160,683,976	\$ 0	\$ 2,160,683,976	0%
2008	\$ 2,327,946,572	\$ 0	\$ 2,327,946,572	0%
2009	\$ 2,138,574,915	\$ 0	\$ 2,138,574,915	0%
2010	\$ 1,945,371,241	\$ 0	\$ 1,945,371,241	0%
2011	\$ 1,856,710,771	\$ 0	\$ 1,856,710,771	0%

Notes: (1) Source of Data: Stanislaus County Auditor; Certified Values Report (AUD70-2360-100, including aircraft).
(2) Section 43605 California Government Code.

Note: The City has elected to show only five years worth of data for this schedule.

CITY OF MODESTO
REVENUE BOND COVERAGE
WASTEWATER REVENUE BONDS
Last ten fiscal years



<u>Fiscal Year</u>	<u>Gross Revenue (1)</u>	<u>Operating Expenses (2)</u>	<u>Net Revenue Available for Debt Service</u>	<u>Debt Service Requirements(3)</u>	<u>Coverage</u>
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	2.66
2005	25,701,300	16,476,917	9,224,383	3,549,633	2.60
2006	24,695,878	16,044,781	8,651,097	2,916,462	2.97
2007	26,367,977	16,399,785	9,968,192	3,705,523	2.69
2008	32,214,071	16,280,914	15,933,157	4,127,837	3.86
2009	37,539,860	17,050,138	20,489,722	4,030,633	5.08
2010	39,086,504	18,161,292	20,925,212	4,110,221	5.09
2011	39,844,523	18,722,729	21,121,794	4,021,108	5.25

- Notes: (1) Consists of all receipts of the Sewer fund not dedicated to capital spending purposes and including charges for services, connection fees, interest and rental income.
(2) Reflects total sewer fund operating expenses less depreciation; also includes certain transfers out that are made for operational costs incurred in other funds.
(3) Includes total principal and interest of Wastewater Refunding Revenue Bonds Series 2005A and 2005 B and 2006 Wastewater Revenue Bonds.

CITY OF MODESTO
CONTINUING DISCLOSURE REQUIREMENTS INFORMATION
Year Ended June 30, 2011

Wastewater Revenue Refunding Bonds, Series 2005 A and B, and
Wastewater Revenue Bonds, Series 2006 A

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

Capacity charge: \$4,905 per Equivalent Dwelling Unit for residential units. Commercial and industrial property charged based on type of business.
 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 by Type of Account</u>			
<u>Category</u>	<u>Number of</u> <u>Accounts</u>	<u>% of Total</u> <u>Accounts</u>	<u>% of Sewer Fee</u> <u>Operating Revenue</u>
Residential	57,488	93.40%	55.44%
Commercial	2,489	4.04%	11.81%
Industrial	47	0.08%	30.52%
Other	1,526	2.48%	2.23%
Total	61,550	100.00%	100.00%

Ten Largest Users of Sewer Facilities, Year Ended 6/30/11

<u>User</u>	<u>Sewer Fee</u> <u>Revenue</u>	<u>% of Sewer Fee</u> <u>Operating Revenue</u>
1) Stanislaus Food Products	\$ 2,495,341	6.70%
2) Del Monte Food Plant 1	2,106,930	5.66%
3) Signature Fruit CO, LLC	2,025,048	5.44%
4) E & J Gallo Winery	1,221,725	3.28%
5) Frito Lay, Site #34390	895,658	2.40%
6) Foster Farms	818,510	2.20%
7) City of Ceres	707,780	1.90%
8) Nestle Food Company	457,856	1.23%
9) Modesto City Schools	203,258	0.55%
10) Stan CO Housing Authority	173,200	0.46%
Total (Top Ten Customers)	\$ 11,105,306	29.82%
Total (All Customers)	\$ 37,254,118	

The average single-family residence monthly sewer charge is \$24.11

<u>Commercial Group</u>	<u>Charge</u> <u>Per 1,000 Gallons</u>	<u>Fixed Charge</u>
Group 1 (no food, just toilets or working facilities)	\$1.81	\$3.43
Group 2 (commercial laundromats, service stations, hotels without food)	\$2.24	\$3.43
Group 3 (industrial laundromats, hotels with food)	\$2.66	\$3.43
Group 4 (restaurants, bakeries, auto steam, markets)	\$3.16	\$3.43

Industrial users pay a minimum account charge of \$3.43 with additional charges of: \$1,976.07 per million gallons of flow, \$98.11 per 1,000 pounds of excess biochemical oxygen demand (BOD), and \$171.57 per 1,000 pounds of Total Suspended Solids (TSS).

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

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

Statement of Revenues, Expenses and Changes in Fund Net Assets	Page 27	
Principal Amount of Bonds and Other Parity Debt	Page 44-45	(Note III-C)
Historical Debt Service Coverage	Page 115	
	(continued)	

CITY OF MODESTO
WASTEWATER COMPARISON INFORMATION
Year Ending June 30, 2011

Residential, commercial and industrial rates have increased according to the following approved schedule.

CITY OF MODESTO
WASTEWATER SYSTEM
Six Year History Rate Increases

<u>Fiscal Year</u>	<u>Percent Increase</u>
2005/06	0.0
2006/07	0.0
2007/08	30.0
2008/09	30.0
2009/10	0.0
2010/11	0.0

Comparative Monthly Wastewater Service Charges. The City's residential charges as of July 1, 2009 are set forth in the table below with a comparison to other Central Valley and Northern California cities.

CITY OF MODESTO
WASTEWATER SYSTEM
Monthly Sewer Charge Comparison
Residential Service
As of July 1, 2010

<u>City</u>	<u>Monthly Residential Charge</u>
Modesto	\$24.83
Stockton	27.07
Fresno(1)	25.75
Lodi(2)	40.78
Turlock	35.20
Tracy	31.00

(1) Minimum charge.

(2) Based upon a three-bedroom residence.

CITY OF MODESTO
CONTINUING DISCLOSURE REQUIREMENTS
Year Ending June 30, 2011

CITY OF MODESTO
WASTEWATER SYSTEM
Wastewater Connection Fees Comparison
As of July 1, 2010

<u>City</u>	<u>Connection Fee</u>
Modesto	\$4,905
Turlock (1)	2,627
Fresno	2,119
Stockton-South of the Calaveras River (2)	4,096
Tracy	15,300
Stockton-North of the Calaveras River (3)	4,911
Lodi (4)	6,140

-
- (1) Based on 4" service
 - (2) Represents an average of six fee zones.
 - (3) Represents an average of three fee zones.
 - (4) Based upon a two-bedroom residence.

CITY OF MODESTO
CONTINUING DISCLOSURE REQUIREMENTS INFORMATION (continued)
Year Ended June 30, 2011

1997 Water Utility System Refinancing Project, Refunding Revenue Certificates of Participation
Water Revenue Refinancing Certificates of Participation, 2008 Series A
Modesto Irrigation District Financing Authority Domestic Water Project Refunding Revenue Bonds, Series 1998D⁽¹⁾
Modesto Irrigation District Financing Authority Domestic Water Project Revenue Bonds, Series 2007F⁽¹⁾

Reserve Account Requirement as of 6/30/11	\$4,246,467
Surety Policy Value:	(2,530,457) Provided by FGIC
Balance in Parity Reserve Account as of 6/30/11	(2,082,513)
Shortfall/(Excess) Reserve Coverage:	<u>(366,503)</u>

Balance in Rate Stabilization Account as of 6/30/11: 3,000,000

Ten Largest Customers of Water Utility System, Year Ended 6/30/11

Customer	Business Type	Usage (ccf) (2)	% of Total Usage	Water Sales Revenue (\$)	% of Total Water Sales Revenue
1) City of Modesto-Stores	Local Government	476,340	1.71%	\$849,992	1.70%
2) Signature Fruit Co, LLC	Cannery	469,672	1.68%	617,774	1.23%
3) Stanislaus Food Products	Cannery	443,314	1.59%	593,402	1.18%
4) Modesto City Schools	Education	398,360	1.43%	641,163	1.28%
5) Foster Farms	Dairy Processor	322,047	1.15%	425,920	0.85%
6) Modesto Irrigation Dist	Power Company	188,084	0.67%	277,059	0.55%
7) Stanislaus Housing Authority	Housing Authority	164,561	0.59%	281,817	0.56%
8) Sylvan Union School Dist	Education	115,441	0.41%	192,371	0.38%
9) Yosemite Com Clg Dist	Education	113,760	0.41%	185,428	0.37%
9) Stanislaus County Bldg Mntc	County Offices	109,247	0.39%	213,365	0.43%
Total Top Ten		<u>2,800,826</u>	<u>10.03%</u>	<u>\$4,278,291</u>	<u>8.54%</u>

Total Flat/Metered Revenues (Water Sales)

\$50,079,180

(1) Grover Landscaping maintains City parks

(2) "ccf" means "hundred cubic feet"

Water Sales Revenue, Year Ended 6/30/11

Residential - flat rates	\$16,888,754
Commercial, industrial and municipal - metered rates	28,758,412
Total Water Sales	<u>\$45,647,166</u>

The average monthly flat rate service charge for residential customers is

\$43.20

Current Water Rates as of 11/10/2010- Commercial Accounts

Meter Size	
3/4"	\$14.00
1"	19.86
1 1/2"	34.37
2"	51.86
3"	98.56
4"	150.99
6"	296.61
8"	471.45
10"	675.47
12"	1,258.19

In addition to these minimum charges, commercial accounts are charged \$1.31 per 100 cubic feet of water used. Water rates for both metered and flat rate services were increased as of November 10, 2010

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

(1) Water Fund parity debt obligations, 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. As of 6/30/11, the balance of the 1998 Bonds was \$60,390,000 and the balance of the 2007 Bonds was \$93,190,000.

(continued)

CITY OF MODESTO
CITY WATER- HISTORICAL DEBT SERVICE COVERAGE
CONTINUING DISCLOSURE REQUIREMENTS
Last Six Fiscal Years

CITY WATER UTILITY SYSTEM
Historical Debt Service Coverage⁽¹⁾

	<i>Fiscal Year</i> 2006	<i>Fiscal Year</i> 2007	<i>Fiscal Year</i> 2008	<i>Fiscal Year</i> 2009	<i>Fiscal Year</i> 2010	<i>Fiscal Year</i> 2011
Charges for services	\$ 42,500,107	\$ 49,258,673	\$ 52,927,134	\$ 52,990,138	\$ 51,572,801	\$ 51,876,505
Connection charges	1,873,465	2,289,994	1,943,456	1,113,082	647,579	452,021
Refunds, Damages & Recoveries	40,765	566,307	232,570	29,033	428,083	460,766
Interest and rental income	149,145	735,396	1,984,517	2,055,531	1,006,611	588,917
Draw from (Deposit to) rate stabilization fund	(153,200)	-	-	-	-	-
Service Credits ⁽²⁾	403,717	314,930	604,082	501,671	2,170,367	2,562,986
Miscellaneous			13,190	32,586	25,782	58,083
Total Gross Operating Revenues	44,813,999	53,165,300	57,704,949	56,722,041	55,851,223	55,999,278
Total operating expenses ⁽³⁾	20,596,957	23,983,380	23,664,217	28,359,392	30,219,002	26,638,348
Operating transfers ⁽⁴⁾⁽⁵⁾	95,385	65,000	65,000	482,503	765,000	776,000
CIP expenses moved to operating ⁽⁶⁾	496,547	2,023,261	2,156,833	3,054,407	1,127,185	
Total Operating Expenses⁽⁷⁾	21,188,889	26,071,641	25,886,050	31,896,302	32,111,187	27,414,348
Net Operating Revenues	23,625,110	27,093,659	31,818,899	24,825,739	23,740,036	28,584,930
Total Debt Service:						
1997 Refunding Certificate of Participation ⁽⁸⁾	1,790,658	1,794,120	1,791,930	1,792,258	1,794,688	1,797,013
2006 Revenue Certificates of Participation	-	1,082,432	1,982,256	-	-	-
2008 Revenue Certificates of Participation	-	-	-	2,262,117	2,145,966	2,271,034
MID Treatment & Delivery Agreement ⁽⁹⁾	6,690,994	6,687,444	6,681,894	6,672,406	7,455,918	10,794,041
CDWR Loan	264,653	264,719	264,719	263,079	264,719	264,719
Total Debt Service \$	8,746,305	\$ 9,828,715	\$ 10,720,799	\$ 10,989,860	\$ 11,661,291	\$ 15,126,807
Debt Service Coverage	2.70	2.76	2.97	2.26	2.04	1.89

(1) Calculated in conformity with the Contract and Trust Agreement.

(2) Service Credits are reimbursements from other City funds of costs associated with employee time worked on other projects. In Fiscal Year 2010 Cashiering, Utilities, and Collections division was moved into the Water Fund. This caused a structural change and in return an increase in service credits.

(3) Beginning in Fiscal Year 2009 total operating expenses increased as a result of the initiation of a meter program and increases in costs associated with supplies, maintenance, water treatment litigation and administration.

(4) Operating transfers in Fiscal Year 2009 increased due to an administrative oversight and funds were returned to the correct fund.

(5) Includes operating transfers for building rental fee of \$65,000 annually and commencing in Fiscal Year 2010 \$700,000 annual transfer to the Storm Drain Fund to actively protect the groundwater supply source from contamination.

(6) In Fiscal Year 2010, the City made a prior period adjustment to reclassify certain operating costs previously recorded as capital improvements. This prior period adjustment has been reflected in this table in the years costs were incurred.

(7) Total operating expenses excludes depreciation and amortization, as well as the debt service component under the Treatment and Delivery Agreement.

(8) 1997 COPS were prepaid in full in Fiscal Year 2011

(9) Debt service payment increased by \$4.1 million in Fiscal Year 2011 due to the expiration of capitalized interest.

Source: City of Modesto

**CITY OF MODESTO
CITY WATER UTILITY SYSTEM
PROJECTED OPERATING RESULTS ⁽¹⁾
CONTINUING DISCLOSURE REQUIREMENTS**

The City has prepared the following table of projections of operating results of the Water Utility System for the five fiscal years 2012-16. The projected amounts set forth below are based on certain assumptions made by the City. To the extent that actual future conditions vary from those assumed in preparing the projections, the actual results will vary.

	Fiscal Year Projected 2012	Fiscal Year Projected 2013	Fiscal Year Projected 2014	Fiscal Year Projected 2015	Fiscal Year Projected 2016
Charges for services(2)	\$ 54,310,282	\$ 55,396,488	\$ 56,504,417	\$ 57,634,506	\$ 58,787,196
Connection charges	338,423	340,000	340,000	340,000	340,000
Refunds, Damages & Recoveries	207,702	-	-	-	-
Interest and rental income	231,099	299,117	240,426	305,303	229,701
Draw from (Deposit to) rate stabilization fund	-	-	-	-	-
Service Credits	2,622,023	3,184,463	3,248,153	3,313,116	3,379,378
Miscellaneous	36,401	37,129	37,872	38,629	39,402
GF (Park Loan) Interest		53,500	53,000	52,500	52,000
Grant Reimbursement (UPP Well Field Ph A&B)	250,000				
Total Gross Operating Revenues	\$57,995,930	\$59,310,697	\$60,423,868	\$61,684,054	\$62,827,677
Total operating expenses(3)	34,783,016	36,052,892	37,791,963	39,469,442	40,856,820
Operating transfers (4)	1,783,610	765,000	765,000	765,000	765,000
Total Operating Expenses (5)	\$36,566,626	\$36,817,892	\$38,556,963	\$40,234,442	\$41,621,820
Net Operating Revenues	21,429,304	22,492,805	21,866,905	21,449,612	21,205,857
Total Debt Service:					
1997 Refunding Certificate of Participation(6)	-	-	-	-	-
2008 Revenue Certificates of Participation	2,684,462	2,632,225	2,619,139	2,835,077	2,835,077
MID Treatment & Delivery Agreement	10,794,041	10,789,791	10,778,307	10,778,701	10,767,819
CDWR Loan	264,719	264,719	264,719	264,719	132,359
0340 ARRA Funding CDPH	18,634	36,289	36,289	36,289	36,289
Total Debt Service	\$13,761,856	\$13,723,024	\$13,698,454	\$13,914,786	\$13,771,544
Debt Service Coverage	1.56	1.66	1.62	1.56	1.56

(1) Calculated in conformity with the Contract and Trust Agreement.

(2) Includes a Consumer Price Index increase in 2012 of 1.8%. Assumes a 2% annual CPI Increase not yet approved in 2013-16.

(3) Costs in 2013-14 inflated by 2% Cost in 2015-16 inflated by 4%

(4) Includes operating transfers for building rental fee of \$65,000 annually and \$700,000 annual transfer to the Storm Drain Fund to actively protect the groundwater supply source from contamination. Transfers also include a one time transfer to Parks for a \$350,000 loan in Fiscal Year 2012 for Agriculture Wells in Parks and a one time payment of \$668,000 in Fiscal Year 2012 to Information Technology for a new financial system.

(5) Excludes depreciation and amortization and the debt service component under the Treatment and Delivery Agreement.

(6) 1997 COPS were prepaid in full in Fiscal Year 2011.

Source: City of Modesto.

**CITY OF MODESTO
CITY WATER UTILITY SYSTEM STATISTICS
CONTINUING DISCLOSURE REQUIREMENTS
Year Ended June 30, 2011**

**CITY WATER UTILITY SYSTEM STATISTICS
(Calendar Years 2006 through 2011)**

	2006	2007	2008	2009	2010	2011
Number of Service Accounts	75,227.0	76,661.0	76,852.0	76,899.0	76,508.0	76,983.0
Total Water Production (MG)(1)	25,660.0	25,886.0	25,182.0	23,824.0	21,712.0	20,892.0
Capacity (MGD)(2)	166.0	166.0	166.0	166.0	166.0	166.0
Peak Daily Distribution (MGD)	125.0	115.4	116.5	113.0	110.0	98.5
Average Daily Distribution (MGD)	69.8	70.9	68.8	65.3	59.5	57.2

(1) "MG" means million gallons.

(2) "MGD" means million gallons daily.

**CITY WATER UTILITY SYSTEM
Service Area Total Production (Billion Gallons)
(Calendar Years 2006 through 2011)**

Year Ending December 31	Well Water	Surface Water	Total
2006	14.69	10.92	25.61
2007	13.97	11.92	25.89
2008	14.74	10.44	25.18
2009	14.14	9.69	23.83
2010	11.32	10.39	21.71
2011	11.72	9.17	20.89

**CITY WATER UTILITY SYSTEM
Comparison of
Average Monthly, Water Rates
Flat Rate (1" Service)
As of July 1,2010**

<u>City</u>	<u>Flat Rate Typical Home</u>
Modesto	\$37.23-\$42.31
Stockton(1)	61.25
Tracy(2)	56.65
Turlock(3)	31.50
Lodi(4)	41.09
Fresno(5)	20.56

(1) All water is metered. A monthly base rate of \$26.25 plus an estimated monthly consumption of 25 units (CCF) (consumption charges are \$1.40 per ccf), are used to calculate the average monthly water charges.

(2) Water rates based on a monthly base rate of \$20.40 plus an estimated consumption of 25 units. (CCF) (consumption charges are \$1.45 per ccf), are used to calculate the average monthly water charges.

(3) Based on a typical 7 room dwelling (one living room, 3 bedrooms 2 bathrooms and 1 kitchen) and a lot size 7,500 sqf.

(4) Based on a 3 bedroom single family unit.

(5) Based rate for a lot size 6,000 square feet or less, (a fee of \$0.204 is added for every additional 100 Square feet)

CITY OF MODESTO
CONTINUING DISCLOSURE REQUIREMENTS
Year Ended June 30, 2011

The following table sets forth connection fees for all users except multi-family units by meter size for year 2009-2010

CITY WATER UTILITY SYSTEM
Connection Fees for All users
Except Multiple Family Units
(Fiscal Year 2010-2011)

<u>Meter Size</u>	<u>Connection Fees</u>
5/8" meter**	\$2,175
1" meter	5,436
1-1/2" meter	10,873
2" meter	17,395
3" meter	34,789
4" meter	54,359
6" meter	108,717
8" meter	173,947
10" meter	250,049
12" meter	467,482

**NOTE- Single-family residences qualify for the 5/8" connection fee only under the following conditions:

Single story, single-family residences on a lot of 4,000 square feet or less.

Two-story single family residence on a lot of 4,000 square feet or less, provided the request for such a service accompanied by a report from a licensed professional engineer that certifies that the 5/8" service is adequate to meet the needs of the proposed dwelling.

A 5/8" "service" shall not be allowed for a single-family dwellings of greater than 2 stories on lots less than 4,000 square feet.

CITY OF MODESTO
CONTINUING DISCLOSURE REQUIREMENTS INFORMATION
Year Ended June 30, 2011

CITY WATER UTILITY SYSTEM
Sale of Water
(Fiscal Year Ended June 30, 2011)*

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Revenues (\$000)					
Residential (Flat Rates)	\$30,716	\$31,495	\$30,585,450	\$21,256,928	\$16,888,754
Commercial, Industrial and Municipal (Metered)	17,006	17,890	20,445,393	28,758,412	33,190,426
Total Water Sales	<u>\$47,722</u>	<u>\$49,385</u>	<u>\$51,030,843</u>	<u>\$50,015,340</u>	<u>\$50,079,180</u>

The table below sets forth the adopted single family residential flat rates approved through fiscal year 2010-11.

CITY WATER UTILITY SYSTEM
Monthly Single Family Residential Flat Water Rates (1)

Lot Size	Effective July 1, 2007	Effective July 1, 2008	Effective July 1, 2009	Effective July 1, 2010	Effective November 1, 2010
0-5,000 sq. ft. lot	\$35.45	\$37.23	\$37.23	\$37.23	\$38.01
5,001-7,000 sq. ft. lot	40.30	42.31	42.31	42.31	43.2
7,001-11,000 sq. ft. lot	47.82	50.21	50.21	50.21	51.26
11,001-17,000 sq. ft. lot	50.76	53.30	53.30	53.30	54.42
over 17,000 sq. ft. lot	59.68	62.66	62.66	62.66	63.98

(1) Single family residential properties with water meters that are read for billing purposes, are charged the meter water rate.

NOTE: The City has elected to show only five years of data for these schedules.

NOTE: Additional financial information available at www.modestogov.com

CITY OF MODESTO
CONTINUING DISCLOSURE REQUIREMENTS INFORMATION
Year Ended June 30, 2011

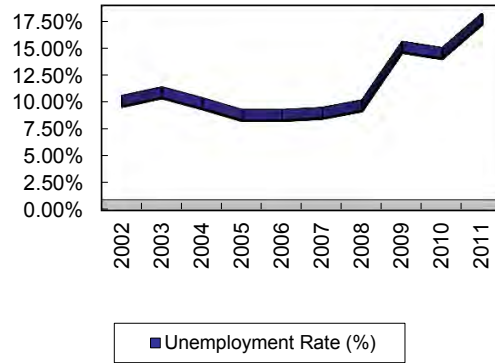
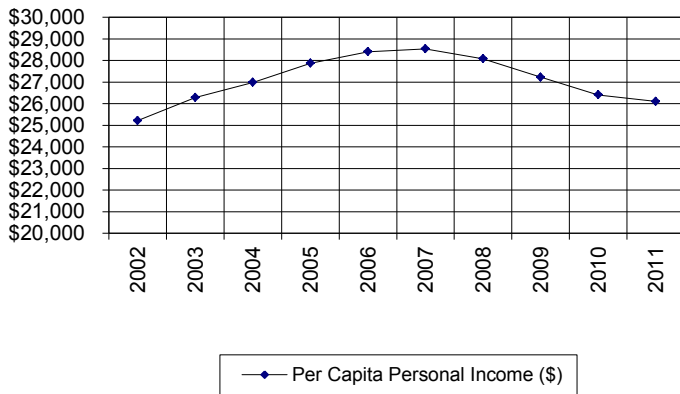
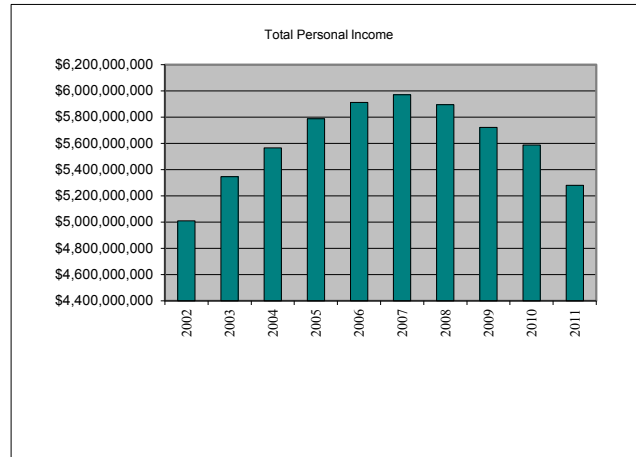
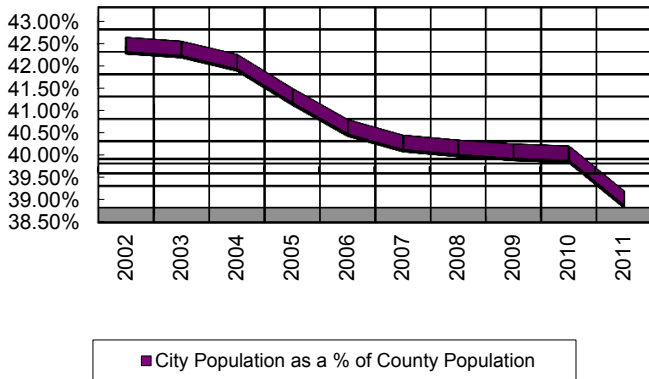
The following table sets forth the adopted monthly service charge and volume charge for commercial accounts through fiscal year 2010-11.

CITY WATER UTILITY SYSTEM
Water Rates and Charges
Commercial Accounts

	Effective July 1, 2006	Effective July 1, 2007	Effective July 1, 2008	Effective July 1, 2009	Effective July 1, 2010	Effective November 1, 2010
Volume-based Rate (\$/hcf)	\$1.16	\$1.22	\$1.28	\$1.28	\$1.28	1.33
Fixed Monthly Meter Charge (in addition to volume-based charges)						
5/8"-3/4" meter	\$12.44	\$13.06	\$13.71	\$13.71	\$13.71	\$14.00
1" meter	17.64	18.52	19.45	19.45	19.45	19.86
1-1/2" meter	30.53	32.06	33.66	33.66	33.66	34.37
2" meter	46.06	48.37	50.79	50.79	50.79	51.86
3" meter	87.53	91.91	96.51	96.51	96.51	98.54
4" meter	134.13	140.83	147.88	147.88	147.88	150.99
6" meter	263.51	276.68	290.51	290.51	290.51	296.61
8" meter	418.82	439.76	461.75	461.75	461.75	471.45
10" meter	600.07	630.08	661.58	661.58	661.58	675.47
12" meter	1,117.74	1,173.62	1,232.31	1,232.31	1,232.31	1,258.19

Note: The City has elected to show only five years of data for these schedules
Note: Additional financial information is available at www.modestogov.com

**CITY OF MODESTO
DEMOGRAPHIC AND ECONOMIC STATISTICS
Last ten fiscal years**



Fiscal Year	City Population	Total Personal Income	Per Capita Personal Income (\$)	Unemployment Rate (%)	Stanislaus County Population	City Population % of County
2002	198,600	\$5,008,890,600	\$25,221	9.6%	469,512	42.30%
2003	203,300	\$5,344,960,300	\$26,291	10.4%	481,604	42.21%
2004	206,200	\$5,565,131,800	\$26,989	9.4%	491,900	41.92%
2005	207,634	\$5,787,174,848	\$27,872	8.3%	504,482	41.16%
2006	208,107	\$5,912,527,977	\$28,411	8.3%	514,370	40.46%
2007	209,174	\$5,970,871,830	\$28,545	8.5%	521,497	40.11%
2008	209,936	\$5,895,212,816	\$28,081	9.20%	525,903	40.00%
2009	210,088	\$5,720,906,328	\$27,231	14.60%	526,383	39.91%
2010	211,536	\$5,586,877,296	\$26,411	14.02%	530,584	39.87%
2011	201,165	\$5,280,982,740	\$26,106	17.20%	517,685	38.86%

Source: State of California, Department of Finance (population)
 State of California, Economic Development Department (unemployment rate)
 U.S. Department of Commerce, Bureau of Economic Analysis (income)

**CITY OF MODESTO
Principal Employers**

Employer	2010/11		
	Number of Employees	Rank	Percentage of Total City Employment
E&J Gallo Winery	3,308	1	3.17%
Modesto City Schools	3,113	2	2.98%
Memorial Medical Center	3,013	3	2.89%
Seneca	2,100	4	2.01%
Doctors Medical Center	1,984	5	1.90%
Del Monte Foods	1,700	6	1.63%
Modesto Junior College	1,643	7	1.58%
Stanislaus Food Products	1,500	8	1.44%
Kaiser Permanente Modesto	1,500	9	1.44%
City of Modesto	1,187	10	1.14%
Subtotal	21,048		20.18%
Total City Employment	104,300		
Total City Population	201,165		

Source: Stanislaus Economic Development & Workforce Alliance

CITY OF MODESTO
CAPITAL ASSET STATISTICS BY FUNCTION/PROGRAM

Function/Program	2007	2008	2009	2010	2011
Public safety:					
Fire stations	11	11	11	11	14
Police stations	1	1	1	1	1
Police patrol units	102	102	70	100	98
Public works					
Streets:					
Miles of streets (1)	674	675	675	675	676
Water:					
Miles of water mains	990	994	1,007	1,008	1,008
Fire hydrants	7,200	7,301	7,412	7,516	7,536
Storage capacity (thousands of gallons)	9,400,000	9,400,000	9,400,000	13,100,000	12,300,000
Wastewater:					
Miles of sanitary sewers	641.0	656.7	642	642	642
Miles of storm sewers	132.9	133.6	183	183	183
Number of treatment plants (2)	2	2	2	2	2
Treatment capacity (millions of gallons)	70	70	72	72	72
Community services:					
City parks	75	76	76	76	6
City parks acreage	1,088	1,088	1,088	1,088	1,088
Playgrounds	55	55	55	55	55
City trails	4	4	4	4	4
City trails miles	11	12	12	12	12
Regional park acreage	324	324	324	324	324
Regional park facilities:					
Golf courses (18 holes)	2	2	2	2	2
Golf courses (9 holes)	1	1	1	1	1
Clubhouse and banquet facility	8	8	8	8	8
Historic house	4	4	4	4	4
Community gardens	2	2	2	2	2
Community centers	6	6	7	7	6
Senior centers	1	1	1	1	1
Sports centers	1	1	1	1	1
Performing arts centers	1	1	1	1	1
Swimming pools	16	13	13	13	4
Tennis courts	37	37	37	37	37
Baseball/softball diamonds	24	24	24	24	24
Soccer/football fields	22	22	22	22	22

(1) Information now reported from the City's GIS system and is more accurate.

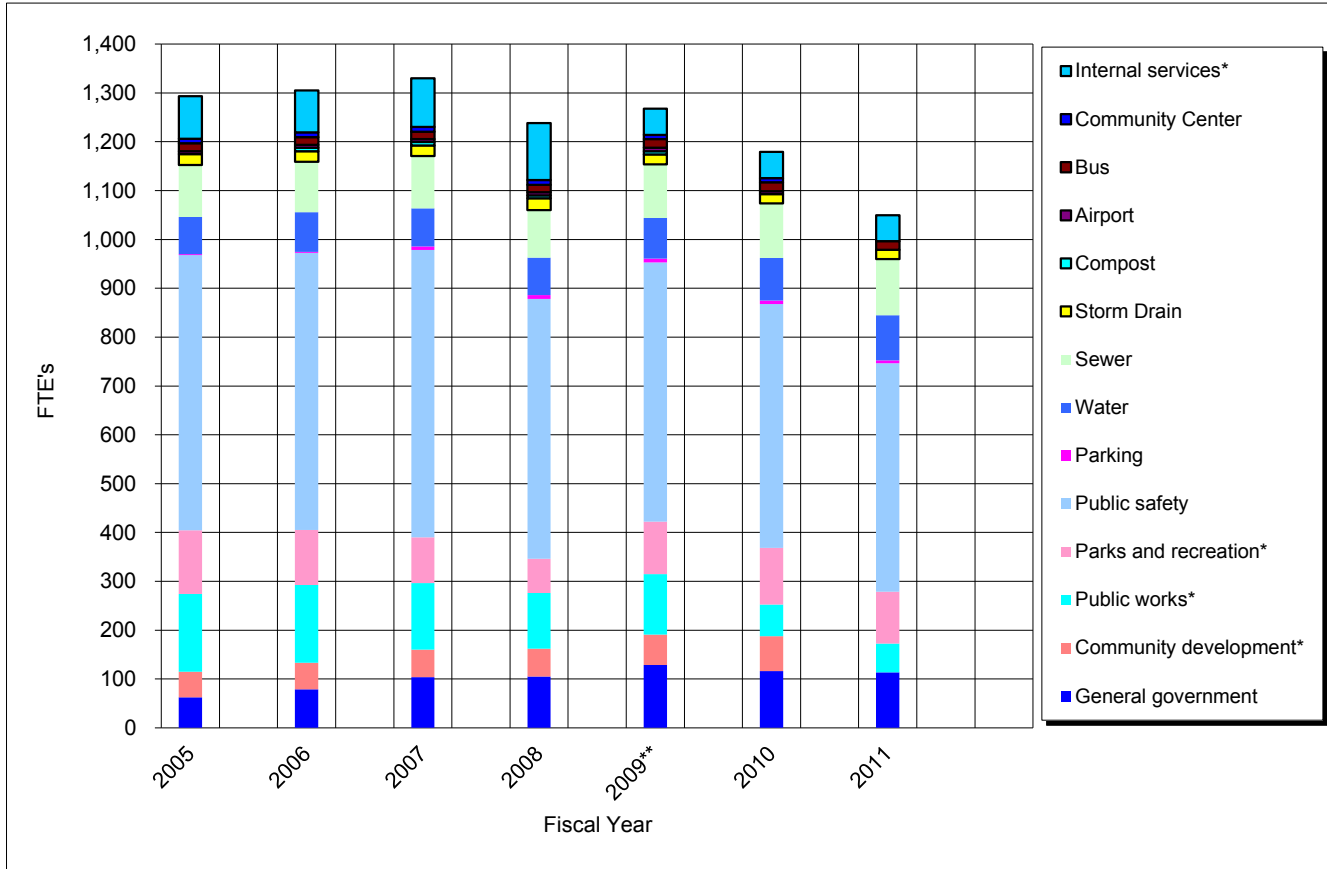
(2) The City has both a Primary and a Secondary treatment facility.

Source: City of Modesto - Various Departments

Note: N/A denotes information is not available.

Note: The City has elected to show only five years of data for this schedule

CITY OF MODESTO
FULL-TIME CITY GOVERNMENT EMPLOYEES BY FUNCTION
 Last Seven Fiscal Years



	2005	2006	2007	2008	2009**	2010	2011
Function							
General government	62.25	79.00	104.10	105.00	128.60	116.60	113.60
Community development*	53.00	54.00	56.00	57.00	62.20	71.20	74.20
Public works*	159.00	159.50	136.50	114.00	124.00	65.00	59.00
Parks and recreation*	130.50	112.50	93.25	70.00	107.25	116.00	106.23
Public safety	563.00	567.75	588.75	532.00	530.75	499.00	467.75
Parking	2.00	2.00	7.00	8.00	8.00	7.00	6.00
Water	76.00	81.00	78.00	77.00	83.00	87.00	92.00
Sewer	107.00	103.00	107.00	97.00	110.00	112.00	115.00
Storm Drain	22.00	22.00	22.00	24.00	20.00	19.00	19.00
Compost		7.00	7.00	6.00	7.00	8.00	8.00
Airport	6.00	6.00	6.00	7.00	6.75	6.00	6.00
Bus	16.00	16.00	15.00	15.00	18.00	18.00	18.00
Community Center	9.50	9.50	9.50	9.50	8.50	8.50	7.25
Internal services*	87.00	86.00	99.60	117.00	54.00	54.00	53.00
Total	1,206.25	1,305.25	1,329.70	1,238.50	1,268.05	1,187.30	1,145.03

Source: City of Modesto

**Fiscal Year 2008/09, positions were updated to only include full-time positions. The CAFR 2009 reported part-time positions in error.

CITY OF MODESTO
OPERATING INDICATORS BY FUNCTION

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Function/Program					
Public safety:					
Fire:					
Fire calls for service	21,526	23,246	22,911	20,888	20,400
Primary fire inspections conducted	936	976	1,069	1,012	1,214
Police:					
Police calls for Service	92,971	121,434	116,383	167,576	154,549
Law violations:					
Part I and Part II crimes	46,401	60,595	57,844	52,182	49,914
Physical arrests (adult and juvenile)	15,374	14,185	12,471	15,105	11,872
Traffic violations	27,111	25,739	26,914	30,941	24,278
Parking violations	21,600	16,079	21,391	18,041	20,452
Public works					
Street resurfacing (lane miles)	10.06	9.32	1	7	6.48
Potholes repaired (square miles)	31,055	40,411	39,473	39,705	27,724
Water Utility Cust repaired (sq. ft)			58,737	6,990	58,044
Crack Sealing (lane miles)				15.70	22.90
Airport:					
Number of passengers enplaned	50,782	49,525	28,470	25,640	22,514
Number of tenant aircraft	202	195	184	190	183
Number of hangars	109	109	109	118	118
Number of runways	2	2	2	2	2
Annual fuel consumption in gallons	1,102,439	1,140,426	672,406	639,971	311,500
Bus Service:					
Number of buses	51	56	56	56	63
Number of routes	19	20	20	20	20
Total route miles	356	362	362	362	362
Average weekday number of passengers	12,295	12,599	12,599	12,524	10,688
Total number of passengers carried	3,629,128	3,699,846	3,699,846	3,478,120	3,145,400
Community Development					
Permits issued	5,174	4,182	3,242	3,733	3,801
Estimated cost of construction	\$228,814,464	\$157,006,451	\$96,127,131	\$67,488,906	\$73,397,148
Building Inspections made	44,542	39,172	32,362	32,846	29,034
Traffic Electrical:					
Street lights	13,358	13,595	13,764	13,765	13,765
Traffic Signals	140	140	146	149	143
Lighted Ped Walks*			28	28	28
Beacons*			1	12	5
Four Way Flashers*			9	9	9
School Flashers*			22	22	22
CCTV*			38	38	38
Hubs*			5	5	5
Culture and recreation:					
Recreation class participants	5,175	4,255	3,271	3,171	2,297
Solid Waste:					
Recyclables Processed (tons per year)	74,645	106,664	74,288	47,170	50,789
Yard waste		38,889	41,235	48,856	60,408
Commercial food waste		280	597	667	814
Waste tires		7,120	5,214	3,683	2,388

* Counts prior to 2009 are not available.

Source: City of Modesto - Various Departments

Note: The City has elected to show only five years of data for this schedule