

*City of*  
**Modesto**  
*California*



*Comprehensive Annual Financial Report*

**FOR THE FISCAL YEAR ENDED JUNE 30, 2009**



CITY OF  
**Modesto, California**

**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
**Fiscal Year Ended June 30, 2009**

**Prepared by**  
**Finance Department**

**CITY OF MODESTO**  
 June 30, 2009  
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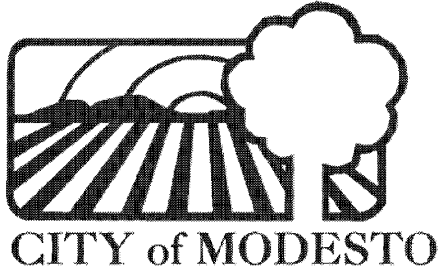
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# INTRODUCTORY SECTION



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1010 Tenth Street, P.O. Box 642, Modesto, CA 95353  
*[TDD (209) 526-9211 Hearing and Speech Impaired only]*

November 30, 2009

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

The Finance Department is 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 comprises 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, 2009.

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

The Charter also requires an annual audit by an independent certified public accountant selected by the City Council. The accounting firm of 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 year ended June 30, 2009, which is presented on page 3. In addition to meeting the City Charter audit requirements, the audit was also designed to meet the requirements of the federal Single Audit Act of 1996 and related OMB Circular A-133. The auditor's reports related specifically to the Single Audit will be presented separately at a later date.

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

### **City of Modesto Profile**

Modesto is a dynamic city located in the heart of California's San Joaquin Valley and is the retail, service and financial center of Stanislaus County. The City currently occupies a land area of approximately 36 square miles and serves a population of over 210,000. Periodically, as allowed by state statute, the City extends its corporate limits by annexation when deemed appropriate by the City Council.

Incorporated in 1884, Modesto adopted its City Charter on March 12, 1951, and has operated under the council-manager form of government since that date. Under this form of government, policy-making and legislative authority are vested in an elected council consisting of the Mayor

and six members. Historically, the Modesto City Council has been elected by chair on a non-partisan basis, meaning 6 members represent the entire City rather than specific geographical areas within the City's boundaries. Beginning with the November 2009 election, the City Council will be elected on the basis of district representation. The Mayor will continue to be elected separately on a non-partisan city-wide basis. Since February 2008, the Mayor has been responsible for the preparation of the annual budget in accordance with the Accountability Measure that was enacted at that time. Together, the Mayor and City Council are responsible for passing ordinances, adopting and amending the operating and capital budgets, appointing various committee members, and hiring the City Manager, City Attorney, City Clerk and City Auditor. The City Manager of Modesto is charged with carrying out the policies and ordinances of the City Council, overseeing the day-to-day operations of the City and for appointing the Deputy City Manager and department heads, with general responsibilities for the Economic Development and Health, Safety & Culture components of the City's Vision. Support services departments, like Finance, Human Resources and Information Technology report to the City Manager.

The City provides services typically associated with a municipality. These include 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 are also provided.

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

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

### **Local economy**

Modesto area employment in government, retail and manufacturing remained stable over the past year. Stanislaus County consistently ranks among the top 10 California counties in terms of annual agricultural production values. The county's leading commodities are milk, almonds and poultry.

The unemployment rate within the Modesto Metropolitan Statistical Area has increased significantly in June, 30 2009 at 14.60%. Just over 10 years ago the unemployment rate was 15%. Since 2008, the Labor Force for the Modesto Metropolitan Statistical Area has decreased by approximately 4.3%. Industries recording the most growth were: educational and health services; government, leisure and hospitality and transportation/warehousing. Employees within the community enjoy an average commute time of 26 minutes.

Building permit activity has boomed over the past decade, but has significantly slowed over the last few fiscal years in response to the economic recession that has overtaken the United States. In fiscal year 1996, the City issued 4,186 permits with estimated cost of construction valued at \$114 million. Permit activity peaked in 2001, when 7,155 permits with construction valued at \$477 million were issued. In 2005, the total construction was valued at \$360 million. Since that time construction values have fallen and for the calendar year 2007 they totaled \$271 million.

Since 2004, the City's population has grown 1.89% to 210,088. This population growth is steady due to the change in the economy and housing market crisis globally.

During the past ten years, public safety costs have risen not only in amount, but also as a percentage of total expenditures. Public safety represented 68.6% of total General Fund expenditures in 2009, compared with 63.5% ten years ago. Expenses for other governmental functions have remained steady or decreased compared to total fund expenses during the same time period. Increased staffing, driven by the growth in the population, as well as higher salaries and charges for retirement, has caused the increase in public safety charges during the past ten years.

### **Long-Term Financial Planning**

In Fiscal Year 2003, the City Council adopted a policy of maintaining at least 8% of General Fund expenditures in reserve. At the end of Fiscal Year 2009, the General Fund unreserved and undesignated balance was \$11.1 million representing 9.0% of total General Fund outflows (expenditures and transfers out).

### **State Impacts**

Between Fiscal Years 1991 and 2005, the State of California diverted \$36.6 million in local revenues from the City of Modesto into its own coffers. In 2005 the state enacted new legislation known as the Triple-Flip. As the name implies, a series of revenue exchanges take place leaving the City with 25% less sales tax revenue and more property tax revenue in its place. A similar exchange takes place leaving the City with property tax revenue in place of 67% of the In-Lieu Vehicle License Fees. These exchanges not only affect the character and amount of the revenues received by the City but also affect the City's cash flow, because a monthly stream of payments has been replaced by semi-annual payments. Legislation in the form of Proposition 1A was enacted by the voters in the 2004-2005 Fiscal Year to protect cities and counties from recurring raids on local revenue by the state. While no revenues were diverted by the state during the year just ended, on-going deliberations by the state legislature over the estimated \$42 billion deficit that has been forecast between the 2008-2009 and 2009-2010 Fiscal Years could see a shift of revenues away from the city as the protection offered by Proposition 1A allows such a diversion to occur at this time.

### **Important Financial Policies**

In 2003, the City Council adopted a series of financial policies that direct how the City's financial business is conducted. In addition to the 8% General Fund reserve level, these policies include direction on departmental annual budget savings, tracking of all transfers to the Redevelopment Agency for future payback, capital budgeting, interfund loan interest rates and investment pool interest allocation. These policies were reviewed and revised at the start of the 2008 Fiscal Year.

### **Awards and Acknowledgments**

For the twenty-fifth 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, 2007-2008. 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. I 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. I wish to convey my appreciation to all members of the Finance Department team who prepared and contributed to its successful completion. In particular, I commend the Accounting Division staff responsible for the preparation of this report.

Respectfully submitted,



James Miguel  
Acting 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, 2008

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.



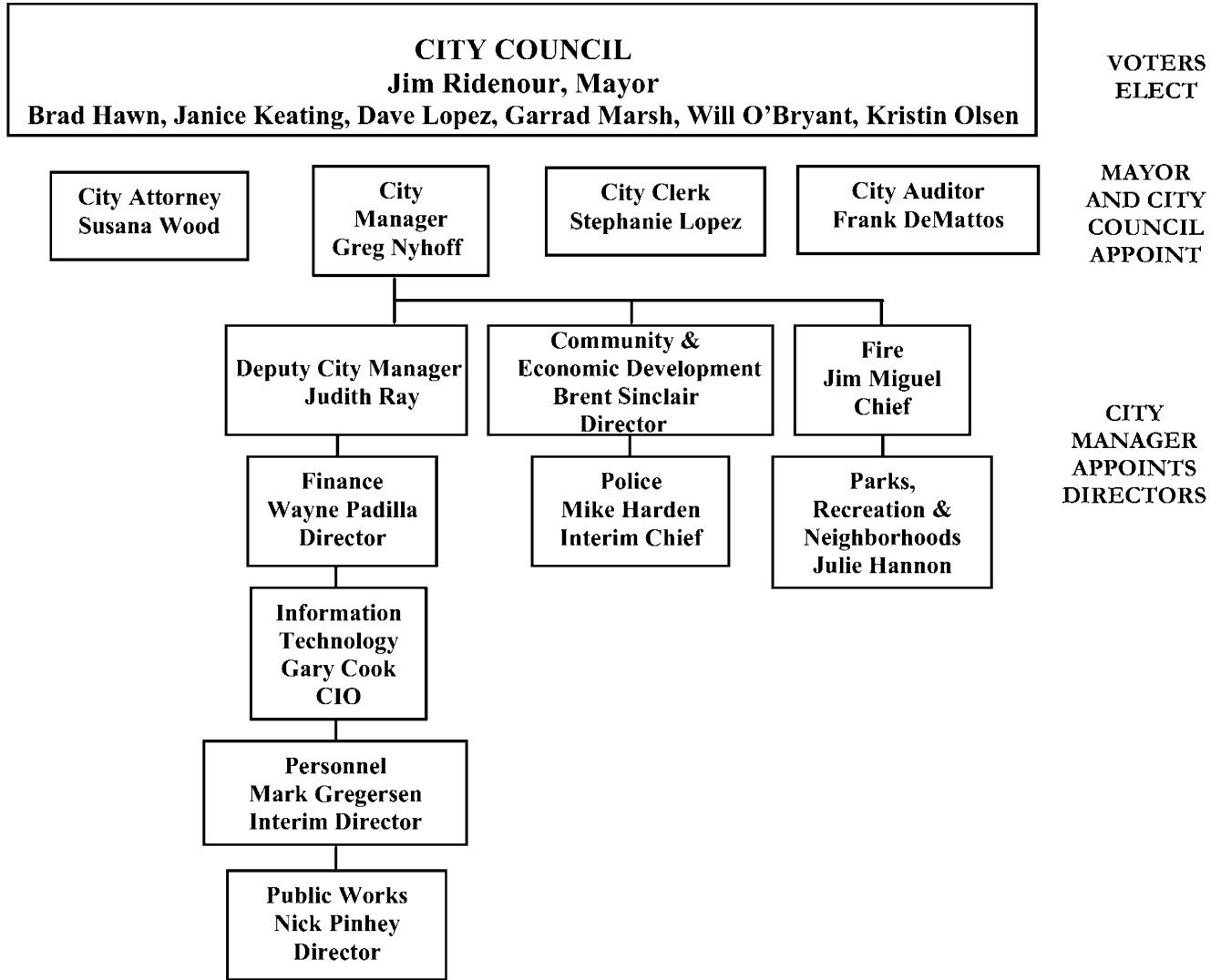
A stylized, handwritten signature in black ink, appearing to be "JHE".

President

A handwritten signature in black ink, appearing to be "Jeffrey R. Emer".

Executive Director

# CITIZENS OF MODESTO



## Citizens Advisory Boards, Commissions and Committees

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

**ALSO  
APPOINTED  
BY THE  
MAYOR AND  
CITY  
COUNCIL**

# FINANCIAL SECTION

## INDEPENDENT AUDITOR'S REPORT

The Honorable City Council of the  
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, 2009, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Modesto's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

The management's discussion and analysis and schedules of funding progress identified in the accompanying table of contents are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

BROWN ARMSTRONG  
ACCOUNTANCY CORPORATION

A handwritten signature in black ink, appearing to read "G. H. H.", is positioned below the company name.

Bakersfield, California  
November 30, 2009

## 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, 2009. 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 2009 fiscal year by \$829,777,447 (*total net assets*). Of this amount, \$169,167,443 (*unrestricted net assets*) may be used to meet ongoing obligations to citizens and creditors, \$94,819,773 is restricted for a specific purpose (*restricted net assets*), and \$565,790,231 is invested in capital assets, net of related debt.
- The City's total net assets increased by \$24,922,981 compared to the prior year. All of this increase is attributable to business type activities.
- As of June 30, 2009, the City's governmental funds reported combined fund balances of \$125,888,535, a decrease of \$13,196,016 in comparison with the prior year. Approximately 66% of the combined fund balances, \$82,712,317 is available to meet the City's current and future needs (*unreserved fund balance*).
- At the end of the fiscal year, the General Fund balance was \$14,753,758, or 13% of total General Fund expenditures. Of this, \$3,568,273 million is reserved for encumbrances and non-current assets. The unreserved/undesignated balance of \$11,185,485 represents 10% 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 decrease of \$2,030,239 in comparison with the prior year. The City refunded the 1998 Lease Revenue Bonds and 2007 Lease Revenue Refunding and Capital Improvement Bonds. The remaining decrease was generated by timely payments of principal and other reductions.

### 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 19-21 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 18 individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures and changes in fund balances for the General Fund and the Capital Facility Fees Fund. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* elsewhere in this report.

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

**Proprietary funds** are maintained two ways. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its Water, Sewer, Parking, Storm Drain, 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 26-29 of this report.**

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

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

**Notes to Basic Financial Statements** provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes can be found on pages 31-60 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 61-65 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 70-105 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 \$829,777,447 at the close of the most recent fiscal year.

	Net Assets					
	Governmental activities		Business-type activities		Total	
	2009	2008	2009	2008	2009	2008
Current and other assets	\$215,486,724	\$239,267,288	\$197,977,889	\$181,562,760	\$413,464,613	\$420,830,048
Capital assets	402,097,561	390,257,381	336,708,420	315,814,398	738,805,981	706,071,779
Total assets	<u>617,584,285</u>	<u>629,524,669</u>	<u>534,686,309</u>	<u>497,377,158</u>	<u>1,152,270,594</u>	<u>1,126,901,827</u>
Current and other liabilities	21,092,495	20,300,872	17,467,696	15,783,294	38,560,191	\$36,084,166
Long-term liabilities	154,786,927	162,596,949	129,146,029	123,366,246	283,932,956	285,963,195
Total liabilities	<u>175,879,422</u>	<u>182,897,821</u>	<u>146,613,725</u>	<u>139,149,540</u>	<u>322,493,147</u>	<u>322,047,361</u>
Net assets:						
Invested in capital assets, net of related debt	347,357,492	339,396,266	218,432,739	194,435,373	565,790,231	\$533,831,639
Restricted net assets	94,819,773	102,602,698			94,819,773	\$102,602,698
Unrestricted net assets	(472,402)	4,627,884	169,639,845	163,792,245	169,167,443	168,420,129
Total net assets	<u>\$441,704,863</u>	<u>\$446,626,848</u>	<u>\$388,072,584</u>	<u>\$358,227,618</u>	<u>\$829,777,447</u>	<u>\$804,854,466</u>

The largest portion of the City's net assets, \$565,790,231 (68 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 \$169,167,443 (20 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 \$94,819,773 (12 percent) represents resources that are subject to external restrictions on how they may be used.

At the end of the 2009 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 \$24,922,981 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	
	2009	2008	2009	2008	2009	2008
Revenues:						
Program revenues:						
Charges for services	\$29,979,644	\$35,970,213	\$103,112,157	\$95,164,265	\$133,091,801	131,134,478
Operating grants and contributions	11,424,548	14,221,390	11,462,346	12,459,707	22,886,894	26,681,097
Capital grants and contributions	6,595,213	17,930,957	4,527,875	9,793,356	11,123,088	27,724,313
General revenues:						
Taxes	55,345,729	57,142,392	202,460	201,219	55,548,189	57,343,611
Intergovernment revenue not restricted for specific purposes	43,119,384	47,782,956			43,119,384	47,782,956
Unrestricted investment earnings	5,247,506	9,960,367	6,227,615	7,099,765	11,475,121	17,060,132
Settlements and recoveries			253,032	14,525,389	253,032	14,525,389
Miscellaneous	5,809,581	3,469,916			5,809,581	3,469,916
Total revenues	<u>157,521,605</u>	<u>186,478,191</u>	<u>125,785,484</u>	<u>139,243,701</u>	<u>283,307,089</u>	<u>325,721,892</u>
Expenses:						
General government	12,700,264	15,997,582			12,700,264	15,997,582
Community development	14,694,997	14,619,525			14,694,997	14,619,525
Highways and streets	23,682,253	26,436,475			23,682,253	26,436,475
Public works	9,151,786	11,471,344			9,151,786	11,471,344
Parks and recreation	15,070,007	14,264,334			15,070,007	14,264,334
Public safety	84,395,987	88,651,249			84,395,987	88,651,249
Interest on long-term debt	6,114,875	4,998,482			6,114,875	4,998,482
Parking			2,011,386	1,982,066	2,011,386	1,982,066
Water			38,190,214	36,713,351	38,190,214	36,713,351
Sewer			22,416,713	23,974,989	22,416,713	23,974,989
Storm drain			6,140,963	6,349,113	6,140,963	6,349,113
Compost			1,130,816	1,312,511	1,130,816	1,312,511
Airport			1,682,644	1,444,667	1,682,644	1,444,667
Bus			15,210,224	14,834,612	15,210,224	14,834,612
Golf			2,440,599	2,497,161	2,440,599	2,497,161
Community center			2,303,256	2,465,825	2,303,256	2,465,825
Total expenses	<u>165,810,169</u>	<u>176,438,991</u>	<u>91,526,815</u>	<u>91,574,295</u>	<u>257,336,984</u>	<u>268,013,286</u>
Increase in net assets before transfers	(8,288,564)	10,039,200	34,258,670	47,669,406	25,970,105	57,708,606
Transfers	(5,490,881)	(779,437)	5,490,881	779,437		
Special item			(2,211,514)	(625,620)	(2,211,514)	(625,620)
Change in net assets	(13,779,445)	9,259,763	37,538,037	47,823,223	23,758,591	57,082,986
Net assets - beginning, as restated	446,626,848	437,367,085	358,227,618	310,404,395	804,854,466	747,771,480
Prior year adjustments	8,857,460		(7,693,071)		1,164,389	
Net assets - ending	<u>\$441,704,863</u>	<u>\$446,626,848</u>	<u>\$388,072,584</u>	<u>\$358,227,618</u>	<u>\$829,777,447</u>	<u>\$804,854,466</u>

**Governmental activities.** Governmental activities decreased the City's net assets by \$4,921,985. Taxes declined about \$2.3 million compared to 2008 due to the reassessment of property values due to the housing crisis. Intergovernmental revenues reflect a decrease of approximately \$4 million, mostly due to sales tax declined by \$1.5 million and Motor Vehicle License revenue decrease by \$1.6 million due to the economic conditions. Finally, investment earnings drop by \$4.4 million due to absorbing cash flows to cover the reduction in major revenue sources. Charges for services have decreased by \$6 million compared to the prior year, due mainly to the halt in new residential construction due to market conditions which slowed the city's collection of Capital Facility Fees.

## Management's Discussion and Analysis (continued)

Expenses in total were lower compared to the prior year by \$10.6 million, or 6%, due mainly to strategic spending reductions implemented by the City Council in response to lower revenue estimates and a cyclical decline in the value of construction projects undertaken.

**Business-type activities.** Business-type activities increased the City's net assets by \$29,844,966. As detailed in the schedule on page 12, net losses were experienced by Bus, Parking, Airport, 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 \$7.9 million due to a 5% rate increase for water use fees and an average 30% increase in wastewater charges. Finally, expenses across the board were stable, primarily due to economic conditions.

### FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

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

At June 30, 2009, the City's governmental funds reported combined fund balances of \$125,888,535, a decrease of \$13,196,016 from the prior year. Approximately 66% of the combined fund balances (\$82,712,317) constitutes *unreserved fund balance*, which is available to meet the City's current and future needs. The remainder of fund balance is *reserved* to indicate that it is *not* available for new spending because it has been committed: 1) to pay debt service (\$6,967,972); 2) to reflect advances to other funds, loans receivable and property held for resale that are long-term and/or do not represent available spendable resources (\$23,223,923); 3) to liquidate contractual commitments of the period (\$11,906,126); and 4) to meet Redevelopment Agency low and moderate income housing set-aside requirements (\$1,078,197).

The General Fund is the chief operating fund of the City. At June 30, 2009, unreserved fund balance of the General Fund was \$11,185,485 while total fund balance was \$14,753,758. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 10.0% of total fund expenditures, while total fund balance represents 13.2% of that same amount. The prior year ratios were 10.0% and 13.3%, respectively. The use of the fund balance reserves was planned and budgeted during the year.

Revenues of governmental funds totaled \$158,196,334 in fiscal year 2008-09, which represents a decrease of 9.4% from fiscal year 2008-09.

Expenditures of governmental funds totaled \$169,837,343 in fiscal year 2008-2009, representing a decrease of 3.7% 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 2009		FY 2008		Increase (Decrease)	
	Amount	Percent	Amount	Percent	Amount	% Change
Taxes	\$55,345,729	35.0%	\$57,142,392	32.7%	(\$1,796,663)	-3.1%
Licenses and permits	132,459	0.1%	153,545	0.1%	(21,086)	-13.7%
Intergovernmental	63,606,634	40.2%	71,179,504	40.8%	(7,572,870)	-10.6%
Charges for services	27,051,151	17.1%	33,319,642	19.1%	(6,268,491)	-18.8%
Special assessments	37,299	0.0%	35,294	0.0%	2,005	5.7%
Interest and rent	2,909,155	1.8%	5,236,476	3.0%	(2,327,321)	-44.4%
Net increase (decrease) in fair value	860,820	0.5%	1,404,913	0.8%	(544,093)	-38.7%
Fines and forfeits	2,443,506	1.5%	2,614,523	1.5%	(171,017)	-6.5%
Contribution of property owners						100.0%
Miscellaneous	5,809,581	3.6%	3,469,916	1.9%	2,339,665	67.4%
<b>Total</b>	<b>\$158,196,334</b>	<b>100.0%</b>	<b>\$174,556,205</b>	<b>100.0%</b>	<b>(\$16,359,871)</b>	<b>-9.4%</b>

- Taxes –Property taxes and Redevelopment Agency Tax Increment (an allocation of property taxes) decreased by \$2,339,117 and \$241,711 respectively, due mainly to the drop in the sales prices of homes affecting the amount of supplemental tax payments received.
- Intergovernmental – State sales taxes and motor vehicle license fees make up over half of these revenues. Sales tax revenues were lower by \$1.5 million, and vehicle license fees decreased by \$1.6 million due mainly from a decline in consumer spending and an increase in the unemployment rate.
- 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 were down significantly due to the halt in new housing starts.
- Investment revenues decreased due to a reduction of cash balances and interest rates.

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

### Expenditures by Functions Governmental Funds

#### Expenditures by Function - Govtl Funds

Exp by Function	FY 2009		FY 2008		Increase (Decrease)	
	Amount	Percent	Amount	Percent	Amount	% Change
General government	\$13,715,577	8.1%	\$15,107,461	8.6%	(\$1,391,884)	-9.2%
Community development	14,137,095	8.3%	13,820,295	7.8%	316,800	2.3%
Highways and streets	9,721,445	5.7%	12,549,018	7.1%	(2,827,573)	-22.5%
Public works	7,667,125	4.5%	9,719,098	5.5%	(2,051,973)	-21.1%
Parks and recreation	13,307,764	7.8%	12,605,651	7.1%	702,113	5.6%
Public safety	78,103,260	46.0%	82,707,285	46.9%	(4,604,025)	-5.6%
Capital outlay	27,663,037	16.3%	22,745,308	12.9%	4,917,729	21.6%
Debt Service-principal retirement	1,093,000	0.6%	2,265,000	1.3%	(1,172,000)	-51.7%
Debt Service-interest charges	3,033,829	1.8%	3,473,369	2.0%	(439,540)	-12.7%
Debt Service-Advance refunding						100.0%
Debt Service-other	1,395,211	0.8%	1,337,611	0.8%	57,600	4.3%
<b>Total</b>	<b>\$169,837,343</b>	<b>100.0%</b>	<b>\$176,330,096</b>	<b>100.0%</b>	<b>(\$6,492,753)</b>	<b>-3.7%</b>

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

- General government –Expenditures decreased about \$1,391,884 or 9.2% over the prior year, due to aggressive budget reductions put into place due to a reduction in the major revenue sources.

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

- Community development – Expenditures increased \$316,800, or 2.3% over the prior year, due to the funding received from the Neighborhood Stabilization program.
- Public Works – Expenditures decreased about \$2.1 million, or 21.1% over the prior year, due to budget reductions put into place due to a reduction in gas tax revenues and General Fund subsidies.
- Public safety – Expenditures decreased about \$4.6 million, or 5.6% over the prior year, due to budget reductions put into place due to a reduction in the major revenue sources.
- Capital outlay – The increased by \$4.9 million 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 2009	FY 2008	Increase/(Decrease)	
			Amount	Percent
Transfers in	\$19,237,526	\$24,429,880	(\$5,192,354)	-21.3%
Transfers out	(18,149,564)	(22,579,265)	4,429,701	-19.6%
Issuance of loans payable	209,575	244,650	(35,075)	100.0%
Issuance of lease revenue bonds	65,170,000		65,170,000	100.0%
Refunding of lease revenue bonds	(65,210,000)		(65,210,000)	-100.0%
Other debt issuance cost	(2,431,247)		(2,431,247)	-100.0%
Sale of assets	34,900		34,900	100.0%
Net financing sources (uses)	(\$1,138,810)	\$2,095,265	(\$3,234,075)	-154.4%

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 2009 were \$1,087,962 compared to \$1,850,615, in the prior year. This net transfer is *to* various City funds including transferring all of the Fleet reserves that have been accumulated for equipment replacements in the Fleet fund back to the contributing funds except the General Fund.
- The annual totals for both transfers in and out vary, depending on the nature of the activities that are undertaken each year.

Debt transactions – The City received \$209,575 proceeds from a loan from the Stanislaus County Economic Development Bank for business park planning costs. In addition, this schedule reflects the effects of the refunding of the 1998 Lease Revenue bonds and 2007 Lease Revenue Refunding and Capital Improvement bonds in August 2008. Additional information can be found in Note C. Long-term Debt.

## 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	Capital Facility Fees Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	Total
	Revenues	\$111,943,267	\$5,129,279	\$24,904,032	\$11,916,542	\$4,303,214
Expenditures	(111,939,414)	(10,861,697)	(20,448,966)	(21,441,826)	(5,145,440)	(169,837,343)
Other financing sources/(uses), net	(592,625)	(2,222,684)	167,732	525,462	983,305	(1,138,810)
Net change in fund balances	(588,772)	(7,955,102)	4,622,798	(8,999,822)	141,079	(12,779,819)
Fund balance-July 1	15,758,727	47,605,269	26,216,392	42,677,270	6,826,893	139,084,551
Prior year adjustment	(416,197)					(416,197)
Fund balance June 30	<u>\$14,753,758</u>	<u>\$39,650,167</u>	<u>\$30,839,190</u>	<u>\$33,677,448</u>	<u>\$6,967,972</u>	<u>\$125,888,535</u>

The fund balance of the City's General Fund decreased by \$1,004,969 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.

Capital Facility Fee revenues, derived from impact fees on new development, decreased \$6.3 million from the prior year, due to of the overall market conditions in the housing market. Spending on capital projects increased by \$5.7 million for major construction projects. The remaining fund balance is targeted to be spent on large, multi-year capital projects to mitigate the effects of growth on the community.

**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	\$53,218,692	\$35,854,857	\$2,944,108	\$1,256,360	\$5,301,150	\$1,397,708	\$661,524	\$1,984,769	\$492,989	\$103,112,157
Operating expenses	(37,206,969)	(20,863,819)	(15,301,574)	(2,063,880)	(6,273,551)	(1,208,287)	(1,717,179)	(2,167,795)	(2,332,931)	(89,135,985)
Operating income (loss)	16,011,723	14,991,038	(12,357,466)	(807,520)	(972,401)	189,421	(1,055,655)	(183,026)	(1,839,942)	13,976,172
Non-operating revenues (expenses), net	1,987,317	244,869	11,581,131	12,817	9,619	4,559	438,182	(192,619)	492,024	\$14,577,899
Income (loss) before capital contributions, transfers and special items	17,999,040	15,235,907	(776,335)	(794,703)	(962,782)	193,980	(617,473)	(375,645)	(1,347,918)	28,554,071
Contributions, transfers and special items	2,690,540	1,934,403	110,269	61,882	1,765,859	(37,106)	591,031	50,000	640,364	7,807,242
Net income (loss)	<u>\$20,689,580</u>	<u>\$17,170,310</u>	<u>(\$666,066)</u>	<u>(\$732,821)</u>	<u>\$803,077</u>	<u>\$156,874</u>	<u>(\$26,442)</u>	<u>(\$325,645)</u>	<u>(\$707,554)</u>	<u>\$36,361,313</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 expenditures and debt service principal payments incurred during the year are not reflected in the expenditure totals shown above. Net losses were experienced by the other enterprise funds. Golf operations did not receive an operating subsidy again in 2009. While the Community Center operation did 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 funding from the

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

federal government also does not budget revenues at levels sufficient to cover the annual cost of depreciation expense. Revenues in the Water utility fund rose during the year due to an average 5% rate increase, the last in a series of rate increases to fund capital improvements and debt service, as well as normal growth in the customer base.

### GENERAL FUND BUDGETARY HIGHLIGHTS

Budget to actual information for the major governmental funds are presented as Required Supplementary Information, beginning on page 61 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 reduced mainly due to the reduction in property tax, motor vehicle license fees and sales tax revenues. The estimated revenues decreased about \$11.4 million (10%), while total appropriations were decreased \$3.9 million, or about .3%. 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 \$2.2 million more than the final estimates. Variances in Sales tax (\$782,000), Property taxes \$101,000 and construction related revenues (\$134,000) were due to the effects of the sub-prime mortgage market that were being fully realized during the fiscal year.

Expenditures, overall, were \$4.3 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, 2009, amounted to \$738,805,980 (net of accumulated depreciation). The total increase in the City's investment in capital assets for the current period was 4.6 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
	2009	2008	2009	2008	2009	2008	Percent Change	
Land	\$32,082,218	\$26,568,669	\$29,806,353	\$27,065,176	\$61,888,571	\$53,633,845	15.4%	\$8,254,726
Buildings	17,664,826	18,919,640	40,976,318	43,336,097	58,641,144	62,255,737	-5.8%	(3,614,593)
Improvements	24,156,102	24,175,723	69,746,335	57,321,167	93,902,437	81,496,890	15.2%	12,405,547
Furnishings and equipment	9,186,540	8,714,095	2,716,957	2,798,181	11,903,497	11,512,276	3.4%	391,221
Equipment pool	13,198,479	13,904,379			13,198,479	13,904,379	-5.1%	(705,900)
Streets	248,228,636	245,282,855			248,228,636	245,282,855	1.2%	2,945,781
Signalization	5,270,489	5,608,688			5,270,489	5,608,688	-6.0%	(338,199)
Bridges	23,026,849	23,548,058			23,026,849	23,548,058	-2.2%	(521,209)
Buses & fareboxes			7,098,477	8,534,598	7,098,477	8,534,598	-16.8%	(1,436,121)
Pipelines			119,580,720	117,075,303	119,580,720	117,075,303	2.1%	2,505,417
Construction in progress	29,283,421	23,535,274	66,783,260	59,683,876	96,066,681	83,219,150	15.4%	12,847,531
<b>Total</b>	<b>\$402,097,561</b>	<b>\$390,257,381</b>	<b>\$336,708,420</b>	<b>\$315,814,398</b>	<b>\$738,805,981</b>	<b>\$706,071,779</b>	<b>4.6%</b>	<b>\$32,734,202</b>

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

- Construction in progress –Business type increases were in Water and related to both system-wide improvements and those being made in conjunction with the expansion of the surface water treatment plant. The wastewater program also had significant growth related to the Phase 1 & 2 plant improvements at the primary treatment facility that continue from the prior year.

## 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 39-40 of this report.

### Long-term debt

At June 30, 2009, the City had total long-term liabilities outstanding of \$283,932,956, net of unamortized discounts and deferred amounts on refunding, as compared to \$285,963,194 in the prior year. This amount was comprised of \$65,170,000 of lease revenue bonds, \$87,360,014 of certificates of participation, \$48,372,113 of revenue bonds payable, \$11,602,643 of estimated compensated absences, \$41,209,238 of OPEB obligation, \$21,425,553 of claims liability, \$2,446,916 of loans payable, \$1,892,826 of developer advances, \$454,401 of capital leases, and \$3,999,252 of notes payable. During the year, retirement of debt and other reductions amounted to \$60,111,295, and new debt and other additions totaled \$66,870,708. These totals include the effects of refunding the 1998 Lease Revenue bonds and 2007 Lease Revenue Refunding and Capital Improvement bonds in August 2008 (\$3.8 and \$61.5 million, respectively). Additional information on the City's long-term debt can be found in note II.C on pages 39-47 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, 2009, the net OPEB obligation amounts to approximately \$41.2 million. This contributes significantly to the EBF's \$35.0 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, 2009, the CPI-Western Urban Index decreased by 0.3%.
- *Taxable Sales* – With the unemployment rate at over 10%, sales tax revenues continue to decrease going into fiscal year 2010. The City has taken action to implement non-paid furloughs and have eliminated over 100 staffing positions to maintain the affects of the reduction of the City's major revenue sources.
- *Utility Service Charges* - Water utility rates were increased an average of 5% effective July 1, 2008. This is the last in a series of increases adopted by the City Council and is intended to fund major capital improvements to the water system. The City Council approved the implementation of the third scheduled rate increase for wastewater charges, based on a rate study that was adopted in July, 2007. The new sewer rates increase by approximately 30% instead of the original adopted 45% increase. New sewer connection fees were also adopted in July, raising the average fee from \$4,876 per home to \$4,905 per home due to inflation.

All of these factors were considered in preparing the City's budget for fiscal year 2009.

During the current fiscal year, unreserved fund balance in the General Fund decreased by \$8 million, to \$11,185,485 which represents 9% of total General Fund outflows which equals City Council's target value of 8%. The budget adopted for fiscal year 2009-2010 reflects a planned reduction in the reserve level on a permanent basis, from 8% to 7%.

### 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, 2009**

	Governmental Activities	Business-type Activities	Total
<u>ASSETS</u>			
Cash and cash equivalents	\$ 155,674,349	\$ 180,862,503	\$ 336,536,852
Accounts receivable, net	1,670,195	321,341	1,991,536
Interest receivable	453,988	604,734	1,058,722
Utility billings receivable, net	1,411,129	10,950,200	12,361,329
Taxes receivable	8,724,517	6,169	8,730,686
Due from governments, net	5,737,553	6,059,918	11,797,471
Notes receivable, net	20,229,485		20,229,485
Prepaid expenses			
Property held for resale	784,000	630,000	1,414,000
Internal balances	3,603,192	(3,603,192)	-
Inventories	912,062		912,062
Unamortized costs of debt issuance		2,146,216	2,146,216
Investments in joint ventures	16,286,254		16,286,254
Capital assets:			
Land and construction in progress	61,365,639	96,589,613	157,955,252
Other capital assets, net of accumulated depreciation	340,731,922	240,118,807	580,850,729
<b>Total assets</b>	<b>617,584,285</b>	<b>534,686,309</b>	<b>1,152,270,594</b>
<u>LIABILITIES</u>			
Accounts payable	8,836,402	8,893,369	17,729,771
Accrued salaries and benefits	2,056,028	422,110	2,478,138
Approved loans payable	988,698		988,698
Interest payable	255,544	664,258	919,802
Due to other governments	424,389	62,737	487,126
Unearned revenues	5,738,848	5,837,596	11,576,444
Refundable deposits	2,792,586	1,587,626	4,380,212
Long-term liabilities:			
Due within one year	12,500,048	4,422,091	16,922,139
Due in more than one year	142,286,879	124,723,938	267,010,817
<b>Total liabilities</b>	<b>175,879,422</b>	<b>146,613,725</b>	<b>322,493,147</b>
<u>NET ASSETS</u>			
Invested in capital assets, net of related debt	347,357,492	218,432,739	565,790,231
Restricted for:			
Capital projects	31,157,153		31,157,153
Housing and community development	25,837,257		25,837,257
Redevelopment	5,159,503		5,159,503
Other purposes	32,665,860		32,665,860
Unrestricted	(472,402)	169,639,845	169,167,443
<b>Total net assets</b>	<b>\$ 441,704,863</b>	<b>\$ 388,072,584</b>	<b>\$ 829,777,447</b>

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

**CITY OF MODESTO**  
**STATEMENT OF ACTIVITIES**  
Year ended June 30, 2009

	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
<b>FUNCTIONS/PROGRAMS:</b>			
Governmental activities:			
General government	\$ 12,700,264	\$ 6,987,127	\$
Community development	14,694,997	4,788,324	
Highways and streets	23,682,253	8,222,178	3,568,918
Public works	9,151,786	1,349,956	10,623
Parks and recreation	15,070,007	4,006,123	4,925,422
Public safety	84,395,987	4,625,935	2,919,585
Interest on long-term debt	6,114,875		
Total governmental activities	<u>165,810,169</u>	<u>29,979,644</u>	<u>11,424,548</u>
Business-type activities:			
Parking	2,011,386	1,256,360	6,536
Water	38,190,214	53,218,692	2,432,227
Sewer	22,416,713	35,854,857	1,306,941
Storm Drain	6,140,963	5,301,150	147,639
Compost	1,130,816	1,397,708	
Airport	1,682,644	661,524	536,693
Bus	15,210,224	2,944,108	11,462,346
Golf	2,440,599	1,984,769	97,839
Community Center	2,303,256	492,989	
Total business-type activities	<u>91,526,815</u>	<u>103,112,157</u>	<u>11,462,346</u>
<b>Total</b>	<u>\$ 257,336,984</u>	<u>\$ 133,091,801</u>	<u>\$ 22,886,894</u>
			<u>\$ 11,123,088</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

Business license tax, generated by and allocated to the airport

Intergovernmental revenue not restricted to specific programs:

Sales tax

Motor vehicle license fee

Other

Unrestricted investment earnings

Miscellaneous

Settlements

Transfers, net

Special item - PCE legal fees

Total general revenues, transfers and special item

Change in net assets

Net assets, July 1, (as restated)

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
\$ (5,713,137)		\$ (5,713,137)
(9,906,673)		(9,906,673)
(7,649,793)		(7,649,793)
(7,791,207)		(7,791,207)
(3,784,612)		(3,784,612)
(76,850,467)		(76,850,467)
(6,114,875)		(6,114,875)
<u>(117,810,765)</u>		<u>(117,810,765)</u>
	\$ (748,490)	(748,490)
	17,460,705	17,460,705
	14,745,085	14,745,085
	(692,174)	(692,174)
	266,892	266,892
	(484,427)	(484,427)
	(705,931)	(705,931)
	(455,830)	(455,830)
	<u>(1,810,267)</u>	<u>(1,810,267)</u>
	<u>27,575,563</u>	<u>27,575,563</u>
<u>(117,810,765)</u>	<u>27,575,563</u>	<u>(90,235,202)</u>
19,093,222		19,093,222
13,863,471		13,863,471
	202,460	202,460
6,228,634		6,228,634
1,853,732		1,853,732
4,779,854		4,779,854
9,330,563		9,330,563
196,253		196,253
24,578,230		24,578,230
15,255,503		15,255,503
3,285,651		3,285,651
5,247,506	6,227,615	11,475,121
5,809,581		5,809,581
	253,032	253,032
(5,490,881)	5,490,881	
	<u>(2,211,514)</u>	<u>(2,211,514)</u>
<u>104,031,319</u>	<u>9,962,474</u>	<u>113,993,793</u>
(13,779,445)	37,538,037	23,758,591
446,626,848	358,227,618	804,854,466
8,857,460	<u>(7,693,071)</u>	<u>1,164,389</u>
<u>\$ 441,704,863</u>	<u>\$ 388,072,584</u>	<u>\$ 829,777,447</u>

**CITY OF MODESTO**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**June 30, 2009**

	General	Capital Facility Fees	Other Governmental	Total Governmental
<b><u>ASSETS</u></b>				
Cash and cash equivalents	\$ 5,209,180	\$ 41,768,053	\$ 35,980,501	\$ 82,957,734
Cash and cash equivalents with fiscal agent			19,542,990	19,542,990
Receivables:				
Accounts	444,407	32	1,106,579	1,551,018
Interest	40,221	154,907	119,829	314,957
Utilities, net	1,320,283		90,846	1,411,129
Taxes	8,042,827		681,690	8,724,517
Due from governments	1,777,644	680,208	3,279,701	5,737,553
Due from other funds	1,252,695			1,252,695
Notes receivable, net			20,229,485	20,229,485
Property held for resale			784,000	784,000
Restricted assets:				
Cash and cash equivalents	1,880,764		725,845	2,606,609
Advances to other funds	2,751,602			2,751,602
	<u>\$ 22,719,623</u>	<u>\$ 42,603,200</u>	<u>\$ 82,541,466</u>	<u>\$ 147,864,289</u>
<b>Total assets</b>	<b>\$ 22,719,623</b>	<b>\$ 42,603,200</b>	<b>\$ 82,541,466</b>	<b>\$ 147,864,289</b>
 <b><u>LIABILITIES AND FUND BALANCES</u></b>				
Liabilities:				
Accounts payable	\$ 2,872,031	\$ 1,811,188	\$ 1,882,989	\$ 6,566,208
Accrued salaries and benefits	1,723,429		201,131	1,924,560
Accrued interest payable	843			843
Approved loans payable			988,698	988,698
Due to other governments	424,389			424,389
Due to other funds	101,576		1,131,587	1,233,163
Deferred revenues	777,856	10,674	5,829,879	6,618,409
Payable from restricted assets:				
Refundable deposits	2,065,741		726,845	2,792,586
Advances from other funds		1,131,171	295,727	1,426,898
	<u>7,965,865</u>	<u>2,953,033</u>	<u>11,056,856</u>	<u>21,975,754</u>
<b>Total liabilities</b>	<b>7,965,865</b>	<b>2,953,033</b>	<b>11,056,856</b>	<b>21,975,754</b>
Fund balances:				
Reserved	3,568,273	5,042,632	34,565,313	43,176,218
Unreserved:				
Designated, reported in:				
General fund				
Special revenue funds			9,155,746	9,155,746
Capital projects funds		34,607,535	2,850,135	37,457,670
Undesignated, reported in:				
General fund	11,185,485			11,185,485
Special revenue funds			3,653,063	3,653,063
Capital projects funds			21,260,353	21,260,353
	<u>14,753,758</u>	<u>39,650,167</u>	<u>71,484,610</u>	<u>125,888,535</u>
<b>Total fund balances</b>	<b>14,753,758</b>	<b>39,650,167</b>	<b>71,484,610</b>	<b>125,888,535</b>
<b>Total liabilities and fund balances</b>	<b>\$ 22,719,623</b>	<b>\$ 42,603,200</b>	<b>\$ 82,541,466</b>	<b>\$ 147,864,289</b>

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

**CITY OF MODESTO**  
**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS**  
**TO THE STATEMENT OF NET ASSETS - GOVERNMENTAL ACTIVITIES**  
**June 30, 2009**

Total fund balances - total governmental funds \$ 125,888,535

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	\$ 60,544,606	
Depreciable	92,614,426	
Accumulated depreciation on general capital assets	(45,735,497)	

Infrastructure:

Depreciable	515,597,552	
Accumulated depreciation on infrastructure	<u>(239,071,578)</u>	383,949,509

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

Deferred in the governmental funds, or	\$ 879,561	
Investments in joint ventures	<u>16,286,254</u>	17,165,815

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.

4,325,752

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	\$ (89,370,047)	
Accrued interest	<u>(254,701)</u>	<u>(89,624,748)</u>

Net assets of governmental activities \$ 441,704,863

**CITY OF MODESTO**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - GOVERNMENTAL FUNDS**  
**Year ended June 30, 2009**

	<u>General</u>	<u>Capital Facility Fees</u>	<u>Other Governmental</u>	<u>Total Governmental</u>
<b>REVENUES:</b>				
Taxes	\$ 47,977,153		\$ 7,368,576	\$ 55,345,729
Licenses and permits	70,464		61,995	132,459
Intergovernmental	42,555,435	\$ 1,285,466	19,765,733	63,606,634
Charges for services	14,338,877	2,216,380	10,495,894	27,051,151
Special assessments levied			37,299	37,299
Interest and rent	363,818	1,242,169	1,303,168	2,909,155
Net increase in fair value of investments	118,089	385,256	357,475	860,820
Fines and forfeits	1,315,812		1,127,694	2,443,506
Miscellaneous	5,203,619	8	605,954	5,809,581
Total revenues	<u>111,943,267</u>	<u>5,129,279</u>	<u>41,123,788</u>	<u>158,196,334</u>
<b>EXPENDITURES:</b>				
Current:				
General government	13,171,542	195,264	348,771	13,715,577
Community development	6,445,606		7,691,489	14,137,095
Highways and streets		695,322	9,026,123	9,721,445
Public works	3,823,808		3,843,317	7,667,125
Parks and recreation	11,351,499	115,791	1,840,474	13,307,764
Public safety	76,775,421		1,327,839	78,103,260
Capital outlay	371,538	9,855,320	17,436,179	27,663,037
Debt service:				
Principal retirement			1,093,000	1,093,000
Interest			3,033,829	3,033,829
Other			1,395,211	1,395,211
Total expenditures	<u>111,939,414</u>	<u>10,861,697</u>	<u>47,036,232</u>	<u>169,837,343</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>3,853</u>	<u>(5,732,418)</u>	<u>(5,912,444)</u>	<u>(11,641,009)</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	6,214,051		13,023,475	19,237,526
Transfers out	(6,806,676)	(2,222,684)	(9,120,204)	(18,149,564)
Issuance of loans payable			209,575	209,575
Issuance of lease revenue bonds			65,170,000	65,170,000
Refunding of lease revenue bonds			(65,210,000)	(65,210,000)
Other debt issuance cost			(2,431,247)	(2,431,247)
Sale of assets			34,900	34,900
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>(592,625)</u>	<u>(2,222,684)</u>	<u>1,676,499</u>	<u>(1,138,810)</u>
<b>NET CHANGE IN FUND BALANCES</b>	(588,772)	(7,955,102)	(4,235,945)	(12,779,819)
FUND BALANCES, July 1	15,758,727	47,605,269	75,720,555	139,084,551
PRIOR PERIOD ADJUSTMENT	(416,197)			(416,197)
<b>FUND BALANCES, June 30</b>	<u>\$ 14,753,758</u>	<u>\$ 39,650,167</u>	<u>\$ 71,484,610</u>	<u>\$ 125,888,535</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, 2009**

Net change in fund balances - total governmental funds \$ (12,779,819)

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	\$ 27,701,766	
Depreciation expense	<u>(17,009,613)</u>	10,692,153

In the statement of activities, only the gain or loss on the sales of capital assets is reported, whereas in the governmental funds, the proceeds from such sales increase financial resources. Thus, the change in net assets differs from the change in fund balances by the cost of the assets sold. 1,800,977

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

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

Change in deferred revenue	\$ (2,152,261)	
Change in investment in joint venture	<u>(841,716)</u>	(2,993,977)

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

Principal retirement	1,093,000	
Refunding of long term debt	65,210,000	
Proceeds of long term debt	<u>(65,379,575)</u>	923,425

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		759,894
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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. (12,182,098)

Change in net assets of governmental activities \$ (13,779,445)

**CITY OF MODESTO**  
**STATEMENT OF NET ASSETS - PROPRIETARY FUNDS**  
**June 30, 2009**

	Enterprise					Internal Service
	Water	Sewer	Bus	Other Enterprise	Total Enterprise	
<b>ASSETS</b>						
Current assets:						
Cash and cash equivalents	\$ 72,407,496	\$ 49,128,520	\$ 3,632,067	\$ 5,182,911	\$ 130,350,994	\$ 50,567,016
Cash and cash equivalents with fiscal agent	4,596,122	4,211,337		603,193	9,410,652	
Receivables:						
Accounts		17,396	66,747	237,198	321,341	119,177
Interest	398,720	179,221	14,621	12,172	604,734	139,031
Utilities, net	6,531,153	3,873,997		545,050	10,950,200	
Taxes	6,151			18	6,169	
Due from governments			5,776,405	283,513	6,059,918	
Due from other funds						101,576
Prepaid expenses						
Inventories						912,062
Property held for resale				630,000	630,000	
Advances to other funds						
Total current assets	<u>83,939,642</u>	<u>57,410,471</u>	<u>9,489,840</u>	<u>7,494,055</u>	<u>158,334,008</u>	<u>51,838,862</u>
Noncurrent assets:						
Notes receivable, net						
Restricted assets-cash and cash equivalents	39,109,580	1,991,277			41,100,857	
Unamortized costs of issuance	1,345,760	800,456			2,146,216	
Land and construction in progress	33,224,849	45,522,453	5,483,457	12,358,854	96,589,613	821,033
Other capital assets, net of accumulated depreciation	70,811,067	112,221,431	13,990,573	43,095,736	240,118,807	17,327,019
Total noncurrent assets	<u>144,491,256</u>	<u>160,535,617</u>	<u>19,474,030</u>	<u>55,454,590</u>	<u>379,955,493</u>	<u>18,148,052</u>
Total assets	<u>228,430,898</u>	<u>217,946,088</u>	<u>28,963,870</u>	<u>62,948,645</u>	<u>538,289,501</u>	<u>69,986,914</u>
<b>LIABILITIES</b>						
Current liabilities:						
Accounts payable	\$ 5,005,487	\$ 2,712,888	\$ 856,727	\$ 318,267	\$ 8,893,369	\$ 2,270,194
Accrued salaries and benefits	148,045	159,592	29,926	84,547	422,110	131,468
Interest payable	230,454	390,956		42,848	664,258	
Due to other funds				121,108	121,108	
Due to other governments	4,366	12,574	23,399	22,398	62,737	
Current portion - compensated absences						5,769,489
Current portion - claims liability						5,508,101
Current portion - long-term debt	1,402,380	1,710,000		235,000	3,347,380	102,532
Current portion - developer advances	94,395				94,395	
Deferred revenues			5,632,165	205,431	5,837,596	
Total current liabilities	<u>6,885,127</u>	<u>4,986,010</u>	<u>6,542,217</u>	<u>1,029,599</u>	<u>19,442,953</u>	<u>13,781,784</u>
Noncurrent liabilities:						
Payable from restricted assets - refundable deposits	948,421	639,205			1,587,626	
Compensated absences						5,833,154
Net OPEB obligation						41,209,238
Claims liability						15,917,452
Long-term debt:						
Revenue bonds payable		46,662,113			46,662,113	
Loan payable	1,326,174				1,326,174	
Notes payable						54,436
Obligations under capital leases						
Certificates of participation	61,965,014			4,975,000	66,940,014	
Developer advances	1,798,431				1,798,431	
Advances from other funds				1,324,704	1,324,704	
Total noncurrent liabilities	<u>66,038,040</u>	<u>47,301,318</u>	<u>6,542,217</u>	<u>6,299,704</u>	<u>119,639,062</u>	<u>63,014,280</u>
Total liabilities	<u>72,923,167</u>	<u>52,287,328</u>	<u>6,542,217</u>	<u>7,329,303</u>	<u>139,082,015</u>	<u>76,796,064</u>
Invested in capital assets, net of related debt	77,503,507	110,723,843	19,474,030	50,244,590	218,432,739	18,045,520
Unrestricted	78,004,224	54,934,917	2,947,623	5,374,752	180,774,747	(24,854,670)
Total net assets	<u>\$ 155,507,731</u>	<u>\$ 165,658,760</u>	<u>\$ 22,421,653</u>	<u>\$ 55,619,342</u>	<u>399,207,486</u>	<u>\$ (6,809,150)</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.					<u>(11,134,902)</u>	
Net assets of business-type activities					<u>\$ 388,072,584</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, 2009**

	Enterprise					Internal Service
	Water	Sewer	Bus	Other Enterprise	Total Enterprise	
<b>OPERATING REVENUES:</b>						
Charges for services	\$ 53,107,853	\$ 35,852,852	2,799,327	\$ 11,044,672	\$ 102,804,704	\$ 44,636,586
Sales						5,854,261
Cost of sales						(5,229,469)
Miscellaneous	110,839	2,005	144,781	49,828	307,453	
Total operating revenues	<u>53,218,692</u>	<u>35,854,857</u>	<u>2,944,108</u>	<u>11,094,500</u>	<u>103,112,157</u>	<u>45,261,378</u>
<b>OPERATING EXPENSES:</b>						
Salaries and wages	4,890,941	5,300,054	1,080,931	3,167,329	14,439,255	4,701,741
Contractual services	1,679,189	2,384,865	9,285,564	3,909,800	17,259,418	1,724,611
Utilities	2,184,817	1,148,661	88,584	487,562	3,909,624	460,704
Maintenance and supplies	7,323,082	2,600,427	1,852,860	2,446,275	14,222,644	4,393,171
Water purchases	13,642,084				13,642,084	
Insurance	120,765	421,707	30,599	209,140	782,211	15,802,452
Claims expense						7,956,641
Employee benefits	1,957,461	2,346,999	424,432	1,226,270	5,955,162	10,894,621
Administration services	2,480,217	1,575,214	625,337	1,467,197	6,147,965	1,709,835
Allocated indirect administrative costs	528,340	784,284	53,477	234,864	1,600,965	280,761
Other	40,982	74,711	88,115	83,055	286,863	84,795
Depreciation	2,359,091	4,226,897	1,771,675	2,532,130	10,889,793	3,298,410
Total operating expenses	<u>37,206,969</u>	<u>20,863,819</u>	<u>15,301,574</u>	<u>15,763,623</u>	<u>89,135,985</u>	<u>51,307,742</u>
<b>OPERATING INCOME (LOSS)</b>	<u>16,011,723</u>	<u>14,991,038</u>	<u>(12,357,466)</u>	<u>(4,669,123)</u>	<u>13,976,172</u>	<u>(6,046,364)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>						
Operating grants			11,462,346		11,462,346	122,006
Gain (Loss) on disposition of capital assets	(47,023)	(48,519)	(44,446)		(139,988)	(840,028)
Tax revenue				202,460	202,460	
Tax expense	(89,219)	(97,000)		(20,701)	(206,920)	
Interest income	2,243,450	1,371,165	14,346	83,061	3,712,022	1,977,081
Net increase in fair value of investments	991,623	495,868	36,366	26,637	1,550,494	342,166
Rental income	39,300	60,806	112,519	752,474	965,099	
Settlements and recoveries		253,032			253,032	
Interest expense	(1,066,834)	(1,861,616)		(273,749)	(3,202,199)	(14,482)
Trustee fees				(5,600)	(5,600)	
Amortization of costs of issuance	(83,980)	71,133			(12,847)	
Total nonoperating revenues (expenses)	<u>1,987,317</u>	<u>244,869</u>	<u>11,581,131</u>	<u>764,582</u>	<u>14,577,899</u>	<u>1,586,743</u>
<b>INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS</b>	<u>17,999,040</u>	<u>15,235,907</u>	<u>(776,335)</u>	<u>(3,904,541)</u>	<u>28,554,071</u>	<u>(4,459,621)</u>
Capital contributions	2,432,227	1,306,941	97,839	690,868	4,527,875	33,090
Transfers in	2,025,677	2,054,143	21,530	2,463,673	6,565,023	701,268
Transfers out	(569,315)	(413,216)	(9,100)	(82,511)	(1,074,142)	(7,280,110)
Special item	(1,198,049)	(1,013,465)			(2,211,514)	
<b>CHANGE IN NET ASSETS</b>	<u>20,689,580</u>	<u>17,170,310</u>	<u>(666,066)</u>	<u>(832,511)</u>	<u>36,361,313</u>	<u>(11,005,373)</u>
<b>NET ASSETS, July 1 (as restated)</b>	<u>133,486,449</u>	<u>148,501,024</u>	<u>23,111,118</u>	<u>56,474,251</u>		<u>3,888,969</u>
<b>PRIOR YEAR ADJUSTMENTS</b>	<u>1,331,702</u>	<u>(12,574)</u>	<u>(23,399)</u>	<u>(22,398)</u>		<u>307,254</u>
<b>NET ASSETS, June 30</b>	<u>\$ 155,507,731</u>	<u>\$ 165,658,760</u>	<u>\$ 22,421,653</u>	<u>\$ 55,619,342</u>		<u>\$ (6,809,150)</u>
Adjustment to reflect the consolidation of internal service fund					<u>1,176,724</u>	
Change in net assets of business-type activities					<u>\$ 37,538,037</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, 2009

	Enterprise					Internal Service
	Water	Sewer	Bus	Other Enterprise	Total Enterprise	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>						
Receipts from customers and users	\$ 53,169,759	\$ 35,417,409	\$ 2,999,916	\$ 11,693,325	\$ 103,280,409	\$ 6,490,711
Receipts from interfund services provided		70,155		44,458	114,613	39,069,558
Payments to suppliers	(22,506,760)	(5,244,536)	(10,780,519)	(5,370,283)	(43,902,098)	(21,866,515)
Payment of insurance claims						(9,480,960)
Payments to employees	(6,807,943)	(7,612,470)	(1,500,370)	(4,375,091)	(20,295,874)	(12,262,539)
Payments for interfund services used	(4,957,393)	(3,829,672)	(1,261,254)	(3,210,516)	(13,258,834)	(2,470,988)
Net cash provided (used) by operating activities	<u>18,897,663</u>	<u>18,800,886</u>	<u>(10,542,227)</u>	<u>(1,218,107)</u>	<u>25,938,215</u>	<u>(520,733)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>						
Operating grants received			8,845,393		8,845,393	122,006
Taxes received				202,460	202,460	
Settlements and recoveries	1,331,702	253,032			1,584,734	
Transfers in	2,025,677	2,054,143	21,530	2,463,673	6,565,023	641,421
Transfers out	(569,315)	(413,216)	(9,100)	(82,511)	(1,074,142)	(7,280,110)
Due from other funds						(101,576)
Net cash provided (used) by noncapital financing activities	<u>2,788,064</u>	<u>1,893,959</u>	<u>8,857,823</u>	<u>2,583,622</u>	<u>16,123,468</u>	<u>(6,618,259)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>						
Acquisition and construction of capital assets	(16,843,465)	(13,452,017)	(1,054,017)	(511,176)	(31,860,675)	(2,449,570)
Proceeds of sale of capital assets						(559,297)
Proceeds of debt issues						
Payment to bond escrow agent						
Costs of issuance paid						
Bond discount paid						
Principal repayments	(1,323,942)	(1,571,312)		(302,485)	(3,197,739)	(96,644)
Interest paid	(1,173,740)	(1,798,783)		(279,690)	(3,252,213)	(14,482)
Trustee fees				(5,600)		
Capital grants received			97,839	630,032	727,871	
Connection fees for capital purposes	2,432,227	1,306,941			3,739,168	
Net cash used by capital and related financing activities	<u>(16,908,920)</u>	<u>(15,515,171)</u>	<u>(956,178)</u>	<u>(468,919)</u>	<u>(33,843,588)</u>	<u>(3,119,993)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>						
Interest received	2,371,251	1,410,747	26,542	89,773	3,898,313	2,044,223
Net increase in the fair value of investments	991,623	495,868	36,366	26,637	1,550,494	342,166
Net cash provided by investing activities	<u>3,362,874</u>	<u>1,906,615</u>	<u>62,908</u>	<u>116,410</u>	<u>5,448,807</u>	<u>2,386,389</u>
Net increase (decrease) in cash and cash equivalents	8,139,681	7,086,289	(2,577,674)	1,013,006	13,661,302	(7,872,596)
CASH AND CASH EQUIVALENTS, JULY 1	107,973,517	48,244,845	6,209,741	4,773,098	167,201,201	58,132,358
PRIOR PERIOD ADJUSTMENT						307,254
<b>CASH AND CASH EQUIVALENTS, JUNE 30</b>	<u>\$ 116,113,198</u>	<u>\$ 55,331,134</u>	<u>\$ 3,632,067</u>	<u>\$ 5,786,104</u>	<u>\$ 180,862,503</u>	<u>\$ 50,567,016</u>
<b>RECONCILIATION TO STATEMENT OF NET ASSETS:</b>						
Cash and cash equivalents	\$ 72,407,496	\$ 49,128,520	\$ 3,632,067	\$ 5,182,911	\$ 130,350,994	\$ 50,567,016
Cash and cash equivalents with fiscal agent	4,596,122	4,211,337		603,193	9,410,652	
Restricted assets-cash and cash equivalents	39,109,580	1,991,277			41,100,857	
<b>TOTAL CASH AND CASH EQUIVALENTS</b>	<u>\$ 116,113,198</u>	<u>\$ 55,331,134</u>	<u>\$ 3,632,067</u>	<u>\$ 5,786,104</u>	<u>\$ 180,862,503</u>	<u>\$ 50,567,016</u>

(continued)

**CITY OF MODESTO**  
**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS (Continued)**  
Year ended June 30, 2009

	Enterprise				Total Enterprise	Internal Service
	Water	Sewer	Bus	Other Enterprise		
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</b>						
Operating income (loss)	\$ 16,011,723	\$ 14,991,038	\$ (12,357,466)	\$ (4,669,123)	\$ 13,976,172	\$ (6,046,364)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:						
Depreciation	2,359,091	4,226,897	1,771,675	2,532,130	10,889,793	3,298,410
Rental income	39,300	60,806	112,519	752,474	965,099	
Taxes paid	(89,219)	(97,000)		(19,520)	(205,739)	
Special item	(1,198,049)	(1,013,465)			(2,211,514)	
Change in assets and liabilities:						
(Increase) in accounts receivable	20,263	33,432	(56,711)	(71,054)	(74,070)	298,891
(Increase) in utilities receivable	(228,161)	(583,760)		(12,700)	(824,621)	
(Increase) in taxes receivable	(71)				(71)	
Decrease in due from governments						
(Increase) decrease in prepaid expenses	1,068,692				1,068,692	
(Increase) in inventories						(369,438)
(Decrease) in accounts payable and accrued expenses	753,899	1,026,126	(17,237)	156,688	1,919,476	488,264
Increase in accrued salaries and benefits	40,459	34,583	4,993	18,508	98,543	5,619
Increase in compensated absences and OPEB						3,328,204
(Decrease) in claims liability						(1,524,319)
Increase in due to governments	4,366	12,574			16,940	
Increase in due to other funds				121,108	121,108	
Increase in deferred revenues				(26,618)	(26,618)	
Increase (decrease) in refundable deposits	115,370	109,655			225,025	
Total adjustments	<u>2,885,940</u>	<u>3,809,848</u>	<u>1,815,239</u>	<u>3,451,016</u>	<u>11,962,043</u>	<u>5,525,631</u>
Net cash provided (used) by operating activities	<u>\$ 18,897,663</u>	<u>\$ 18,800,886</u>	<u>(10,542,227)</u>	<u>\$ (1,218,107)</u>	<u>\$ 25,938,215</u>	<u>\$ (520,733)</u>

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

Capital assets transferred in	\$ 70,263
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, 2009**

	<u>Agency Funds</u>
<u>ASSETS</u>	
Cash and cash equivalents	\$ 7,132,420
Cash and cash equivalents held with fiscal agent	<u>3,896,016</u>
	<u>\$ 11,028,436</u>
<u>LIABILITIES</u>	
Due to special district bondholders	\$ 7,953,376
Deposits held as agent for others	<u>3,075,060</u>
	<u>\$ 11,028,436</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, 2009**

**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.
1. 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 nine 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. 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. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

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

The City reports the following major governmental funds:

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

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

The City reports the following major proprietary funds:

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

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

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, 2009 is \$14,953,200.

Utility service accounts receivable are reported net of \$1,411,129 allowance for doubtful collections and include unbilled receivables using actual amounts billed in July for June services. Accounts receivable are reported net of \$1,885,061 allowance for doubtful collections, and are based on miscellaneous receivables from the City's invoice system as well as other receivables accrued at year end.

## 4. Inventories

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

## 5. Capital Assets

Capital assets which include property, plant and equipment, and infrastructure assets (e.g., roads, bridges,

sidewalks, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

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, 2009, \$577,499 net interest expense on tax-exempt debt of the City's Sewer Fund, and \$1,146,408 of the 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, 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, 2009, the total estimated liability for all compensated absences, including sick leave, is \$11,602,643.

#### 7. Fund Equity

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

### E. OTHER SIGNIFICANT ACCOUNTING POLICIES

#### 1. Employee Benefits

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

#### 2. Interfund Transactions

The City transfers resources among funds in the course of normal operations. Interfund service provided and used,

such as equipment pool rental, are accounted for as revenues and expenditures or expenses. Transactions to reimburse a fund for expenditures/expenses initially made from it that are applicable to another fund are recorded as expenditures/expenses in the correct fund and as reductions of expenditures/expenses in the original fund. All other interfund transactions are reported as transfers.

## II. DETAILED NOTES

### A. CASH AND INVESTMENTS

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

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

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

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality	Maximum Percentage Of Portfolio	Maximum Investment in One Issuer
City of Modesto Bonds	5 years	N/A	None	None
U.S. Treasury Obligations	5 years	N/A	None	None
State of California Securities	5 years	AAA	None	None
California Municipal Securities	5 years	AAA	None	None
Federal Agency Securities	5 years	N/A	None	None
Bankers' Acceptances	180 days	N/A	40%	10% or \$1 million
Commercial Paper	270 days	Top rating category	25%	10%
Certificates of Deposit	1 year	N/A	20% of surplus	None
Negotiable Certificates of Deposit	5 years	AA	30%	None
Repurchase Agreements	90 days	Top rating category	None	None
Reverse Repurchase Agreements	92 days	N/A	20%	None
Medium Term Corporate Notes	5 years	AA -	30%	None
Money Market Funds	N/A	Top rating category	None	None
California Local Agency Investment Fund	N/A	N/A	\$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, 2009 the fair value approximated the City's Cost. At June 30, 2009, 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:

Investment Type	Total	Remaining Time to Maturity			
		Less Than 1 Year	1 – 2 Years	2 – 3 Years	Over 5 Years
U.S. Treasury Notes	\$67,309,898	\$4,082,968	\$10,508,004	\$52,718,926	
Federal agency securities					
Bonds	33,432,205	5,868,350	20,821,302	6,742,553	
Notes	77,791,687	42,540,379	8,217,020	27,034,288	
U.S. Treasury Bills	6,190,517	6,190,517			
CAMP	124,962,493	124,962,493			
Cash in banks	6,409,130	6,409,130			
Held by trustee:					
Money market funds	17,983,764	17,983,764			
Federal agency discount notes					
Federal agency securities notes	6,828,979	4,836,817	1,992,162		
CAMP	6,656,615	6,656,615			
<b>Total</b>	<b>\$347,565,288</b>	<b>\$219,531,033</b>	<b>\$41,538,488</b>	<b>\$86,495,767</b>	

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, 2009 for each investment type:

Investment Type	Total	Exempt from Disclosure	AAA and A-1+	Not Rated
U.S. Treasury Notes	\$67,309,898	\$67,309,898		
Federal agency securities	111,223,892		\$111,223,892	
U.S. Treasury Bills	6,190,517		6,190,517	
CAMP	124,962,493		124,962,493	
Held by trustee:				
Money market funds	16,657,100		16,657,100	
Federal agency discount notes				
Federal agency securities notes	6,828,979		6,828,979	
CAMP	6,656,615		6,656,615	
Guaranteed investment contracts				
<b>Total</b>	<b>\$339,829,494</b>	<b>\$67,309,898</b>	<b>\$272,519,596</b>	

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, 2009:

<u>Issuer</u>	<u>Investment Type</u>	<u>Reported Amount</u>	<u>Percent of Portfolio</u>
Freddie Mac (FHLMC)	Federal agency securities	\$52,712,941	15.2%
Federal Home Loan Bank	Federal agency securities	32,405,350	9.3%
Fannie Mae (FNMA)	Federal agency securities	28,326,675	8.2%

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, 2009:

<u>Issuer</u>	<u>Investment Type</u>	<u>Reported Amount</u>
Federal Home Loan Bank	Federal agency securities	\$3,396,961

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, 2009 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	26,568,669	5,520,049	6,500	32,082,218
Construction in Progress	23,535,274	5,983,868	235,721	29,283,421
Total capital assets, not being depreciated:	<u>\$ 50,103,943</u>	<u>\$ 11,503,917</u>	<u>\$ 242,221</u>	<u>\$ 61,365,639</u>
Capital assets being depreciated:				
Building	31,690,463	44,446	19,945	31,714,964
Improvements other than buildings	48,132,713	1,321,372	3,190	49,450,895
Furnishings & equipment	20,714,158	2,560,315	2,047,242	21,227,231
Equipment pool	28,459,895	3,010,259	3,098,440	28,371,714
Infrastructure				
Streets	458,641,487	14,396,601	-	473,038,088
Signals	15,555,684	1,031,412	-	16,587,096
Bridges	25,950,707	21,661	-	25,972,368
Total capital assets, being depreciated:	<u>\$ 629,145,107</u>	<u>\$ 22,386,066</u>	<u>\$ 5,168,817</u>	<u>\$ 646,362,356</u>
Less accumulated depreciation for:				
Buildings	(12,770,823)	(1,309,260)	29,945	(14,050,138)
Improvements	(23,956,990)	(1,340,158)	2,355	(25,294,793)
Furnishings & equipment	(12,000,063)	(1,590,568)	1,549,940	(12,040,691)
Equipment pool	(14,555,516)	(2,911,540)	2,293,821	(15,173,235)
Infrastructure				
Streets	(213,358,632)	(11,450,820)		(224,809,452)
Signals	(9,946,996)	(1,369,611)	-	(11,316,607)
Bridges	(2,402,649)	(542,870)	-	(2,945,519)
Total accumulated depreciation	<u>\$ (288,991,669)</u>	<u>\$ (20,514,826)</u>	<u>\$ 3,876,061</u>	<u>\$ (305,630,434)</u>
Total capital assets being depreciated, net	<u>\$ 340,153,438</u>	<u>\$ 1,871,240</u>	<u>\$ 1,292,756</u>	<u>\$ 340,731,922</u>
Governmental activities capital assets, net	<u>\$ 390,257,381</u>	<u>\$ 13,375,157</u>	<u>\$ 1,534,977</u>	<u>\$ 402,097,561</u>

	Beginning <u>Balance</u>	<u>Additions</u>	<u>Deletions</u>	Ending <u>Balance</u>
Business-type activities:				
Capital Assets not being depreciated:				
Land	27,065,176	2,741,177	-	29,806,353
Construction in Progress	59,683,876	22,705,131	15,605,748	66,783,259
Total capital assets, not being depreciated:	<u>\$ 86,749,052</u>	<u>\$ 25,446,308</u>	<u>\$ 15,605,748</u>	<u>\$ 96,589,612</u>
Capital Assets being depreciated:				
Building	82,998,447	162,462	-	83,160,909
Improvements other than buildings	146,375,411	17,139,245	-	163,514,656
Furnishings & equipment	6,085,385	408,201	150,641	6,342,945
Buses and Fareboxes	18,496,423	-	-	18,496,423
Pipelines	142,156,857	4,315,663	-	146,472,520
Total capital assets, being depreciated:	<u>\$ 396,112,523</u>	<u>\$ 22,025,571</u>	<u>\$ 150,641</u>	<u>\$ 417,987,453</u>
Less accumulated depreciation for:				
Buildings	(39,662,350)	(2,522,241)	-	(42,184,591)
Improvements	(89,054,244)	(4,723,478)	9,401	(93,768,321)
Furnishings & equipment	(3,287,204)	(417,987)	58,924	(3,646,267)
Buses and Fareboxes	(9,961,825)	(1,415,841)	-	(11,377,666)
Pipelines	(25,081,554)	(1,810,246)	-	(26,891,800)
Total accumulated depreciation	<u>\$ (167,047,177)</u>	<u>\$ (10,889,793)</u>	<u>\$ 68,325</u>	<u>\$ (177,868,645)</u>
Total capital assets being depreciated, net	<u>\$ 229,065,346</u>	<u>\$ 11,135,778</u>	<u>\$ 218,966</u>	<u>\$ 240,118,808</u>
Business-type activities capital assets, net	<u>\$ 315,814,398</u>	<u>\$ 36,582,086</u>	<u>\$ 15,824,714</u>	<u>\$ 336,708,420</u>

Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
General government	\$107,480
Community development	96,735
Highways and streets, including depreciation of general infrastructure assets	13,414,906
Public works	821,450
Parks and recreation	894,959
Public safety	1,674,083
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	<u>3,505,213</u>
Total depreciation expense – governmental activities	<u><u>\$20,514,826</u></u>
Business-type activities:	
Parking	\$387,047
Water	2,359,091
Sewer	4,226,897
Storm Drain	615,971
Compost	72,525
Airport	378,673
Bus	1,771,675
Golf	314,078
Community center	763,836
Total depreciation expense – business-type activities	<u><u>\$10,889,793</u></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 2015 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. \$1,543,554

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

<u>Year Ending June 30,</u>	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2010			\$ 217,380	\$ 47,339
2011			224,343	40,377
2012			231,463	33,256
2013			238,996	25,723
2014			246,595	18,124
2015-2018	<u>\$903,362</u>		<u>384,777</u>	<u>12,301</u>
Total	<u>\$903,362</u>	<u>\$0</u>	<u>\$1,543,554</u>	<u>\$177,120</u>

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. \$ 19,000,000

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. \$ 5,210,000

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. 18,000,000

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, 2009. 47,335,000

Total principal balances – business-type activities 70,545,000

Less:

Unamortized bond discount – 1997 Water Certificates of Participation (319,026)  
Unamortized bond discount – 2008 Water Refunding Certificates of Participation (148,424)  
Deferred amount on refunding – 1997 Water Certificates of Participation (1,075,163)  
Deferred amount on refunding – 2008 Water Refunding Certificates of Participation (642,373)

Total business-type activities certificates of participation \$68,360,014

The City has pledged future Water Enterprise Fund revenues, net of specified operating expenses, to repay the 1997 and 2008 Certificates of Participation, and the loan from the State of California Department of Water Resources, 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 loan is \$114,336,110. The Water Fund's principal and interest paid on certificates and loan for the current year, along with payments to Modesto Irrigation District under the Treatment and Delivery Agreement, totaled \$11,065,485, and net revenues of the Fund were \$27,472,945, which represented coverage of 248%.

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
2010	\$ 985,000	\$ 962,517	\$ 1,420,000	\$ 3,156,358
2011	1,040,000	906,310	1,480,000	3,085,137
2012	1,090,000	846,670	1,545,000	3,010,706
2013	1,150,000	783,950	1,635,000	2,957,233
2014	1,215,000	717,730	1,705,000	2,847,511
2015-2019	6,215,000	2,597,230	9,985,000	12,826,512
2020-2024	7,305,000	949,625	12,685,000	10,021,744
2025-2029			13,035,000	7,036,132
2030-2034			15,910,000	3,950,332
2035-2037			11,145,000	616,420
<b>Total</b>	<b>\$19,000,000</b>	<b>\$7,764,032</b>	<b>\$70,545,000</b>	<b>\$49,508,085</b>

Lease Revenue Bonds – Governmental activities:

1998 Lease Revenue Bonds (Capital Improvements and Refinancing Project) in the original principal amount of \$61,430,000, issued to provide funding for the City's portion of a City/County government building, parking garage, new police station, and other governmental capital improvements; serial certificates with annual maturities on September 1, in amounts from \$30,000 to \$450,000; interest payments at 4.25% to 5.125%; final maturity in 2034. The bonds are repayable from any source of available funds of the City. These were paid in full in August 2008 by the issuance of the 2008 Lease Revenue Refunding Bonds. \$0

2007 Lease Revenue Refunding and Capital Improvement Bonds in the amount of \$62,275,000, issued to refund 1997 John Thurman Field bonds in full, to provide additional project funds for John Thurman Field, and to partially refund the 1998 Lease Revenue Bonds; variable auction rate securities issued in denominations of \$25,000 maturing on September 1, 2033, bearing interest at 3.7% through September 8, 2008; thereafter, the bonds convert to a variable rate with interest calculated weekly; the rate will fluctuate according to market conditions, but is capped at 12%; annual principal payments in the amount of \$250,000 to \$4,250,000 on September 1. The bonds are repayable from the City's General Fund. These were paid in full in August 2008 by the issuance of the 2008 Lease Revenue Refunding Bonds. \$0

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, 2009. \$65,170,000

Total lease revenue bonds \$ 65,170,000

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>
2010	\$ 895,000	\$ 2,993,010
2011	1,020,000	2,947,130
2012	1,125,000	2,897,330
2013	1,260,000	2,839,194
2014	1,395,000	2,776,079
2015-2019	8,560,000	12,742,520
2020-2024	11,930,000	10,384,814
2025-2029	17,245,000	6,944,639
2030-2034	21,740,000	2,359,671
Total	<u>\$65,170,000</u>	<u>\$46,884,387</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.	\$ 33,225,000
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.	<u>16,535,000</u>
Total principal balances – business-type activities	49,760,000
Plus: Unamortized bond premium - 2005 Bonds	1,789,205
Less:	
Unamortized bond discount – 2006 Bonds	(292,526)
Deferred amount on refunding – 2005 Bonds	<u>(2,884,566)</u>
Total business-type activities revenue bonds	<u>\$ 48,372,113</u>

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 \$78,225,737. The Sewer Fund's principal and interest paid for the current year and total customer net revenues were \$4,030,632 and \$21,048,774, 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>
2010	\$ 1,710,000	\$ 2,320,083
2011	1,765,000	2,250,308
2012	1,855,000	2,159,808
2013	1,955,000	2,064,558
2014	2,050,000	1,964,432
2015-2019	11,925,000	8,179,562
2020-2024	12,845,000	4,807,675
2025-2029	5,025,000	2,811,699
2030-2034	6,215,000	1,620,844
2035-2037	4,415,000	286,768
<b>Total</b>	<b>\$49,760,000</b>	<b>\$28,465,737</b>

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.

\$3,913,000

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.

86,252

Total notes payable

\$3,999,252

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>
2010	\$ 196,816	\$ 216,184
2011	207,778	206,685
2012	202,658	196,417
2013	191,000	186,906
2014	201,000	177,064
2015-2019	1,166,000	709,318
2020-2024	1,489,000	332,432
2025	345,000	10,367
<b>Total</b>	<b>\$3,999,252</b>	<b>\$2,035,373</b>

Interest Rate Swap Agreements

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.

Terms - The terms, including the counterparty credit rating of the outstanding swaps, as of June 30, 2009 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&amp;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	AA+	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	AA+	3.61%	63.7% of 30-day LIBOR, plus .154%	9/1/2033

Based on the swap agreement the City owes interest calculated at a fixed rate to the counterparty (Bank of America). 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.

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, 2009, the fair value of the swaps were in favor of the counter party as shown in the following table:

<u>Bond Issue</u>	<u>Fair Value</u>
2008 Water Refunding Revenue Certificates of Participation	(\$5,142,217)
2008 Lease Revenue Bonds	(\$7,362,928)

Credit risk - As of June 30, 2009, 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, 2009, 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		
2010	\$ 1,180,000	\$1,674,300	\$3,316,827	\$6,171,127
2011	1,305,000	1,655,194	3,277,970	6,238,163
2012	1,410,000	1,634,438	3,237,416	6,281,854
2013	1,570,000	1,611,488	3,188,751	6,370,238
2014	1,705,000	1,586,419	3,137,619	6,429,038
2015-2019	10,365,000	7,485,694	14,776,268	32,626,962
2020-2024	15,895,000	6,554,831	12,876,099	35,325,930
2025-2029	30,280,000	4,728,525	9,252,246	44,260,771
2030-2034	37,650,000	2,153,588	4,156,416	43,960,004
2035-2037	11,145,000	213,469	402,951	11,761,420
Total	<u>\$112,505,000</u>	<u>\$29,297,944</u>	<u>\$57,622,563</u>	<u>\$199,425,506</u>

Refunding of 1998 Lease Revenue Bonds and 2007 Lease Revenue Refunding and Capital Improvement Bonds

In August 2008, the City refunded the balance of the 1998 Lease Revenue Bonds and the 2007 Lease Revenue Refunding and Capital Improvement Bonds using the proceeds of the 2008 Lease Revenue Refunding Bonds. The proceeds were sufficient to pay on August 28, 2008 all principal and accrued interest on the 1998 Lease Revenue Bonds and the 2007 Lease Revenue Refunding and Capital Improvement Bonds, along with costs of issuance on the new issue. Therefore, as of June 30, 2009 the remaining balance of the 1998 Lease Revenue Bonds and the 2007 Lease Revenue Refunding and Capital Improvement Bonds have been paid in full. The refunding lease revenue bonds were issued to reduce the total debt service payments over the next 25 years by an estimated \$77.6 million, resulting in an estimated economic gain of \$55.6 million.

## Changes in Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2009, was as follows:

	Beginning Balance (restated)	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental activities:</b>					
Loans payable	\$ 693,788	\$ 209,574		\$ 903,362	
Certificates of participation	19,935,000		\$ 935,000	19,000,000	\$ 985,000
Lease revenue bonds	65,210,000	65,170,000	65,210,000	65,170,000	895,000
Notes payable	4,187,220		187,968	3,999,252	196,816
Obligations under capital leases	137,392	422,524	105,515	454,401	125,958
Compensated absences	10,211,293	4,207,576	4,788,676	9,630,691	4,789,173
Net OPEB obligation	30,860,159	3,343,509		34,203,668	
Claims liability	22,949,872	2,057,837	3,582,156	21,425,553	5,508,101
Governmental activities long-term liabilities	<u>\$154,184,724</u>	<u>\$75,411,020</u>	<u>\$74,809,315</u>	<u>\$154,786,927</u>	<u>\$12,500,048</u>
<b>Business-type activities:</b>					
Loan payable	\$ 1,754,299		\$210,745	\$ 1,543,554	\$ 217,380
Compensated absences	2,091,470	861,793	980,813	1,971,952	980,316
Net OPEB obligation	6,320,755	684,815		7,005,570	
Certificates of participation	71,915,000		1,370,000	70,545,000	1,420,000
Unamortized discounts	(495,122)		(27,672)	(467,450)	
Deferred amount on refunding	(1,816,063)		(98,527)	(1,717,536)	
Revenue bonds	51,420,000		1,660,000	49,760,000	1,710,000
Unamortized premium	1,917,005		127,800	1,789,205	
Unamortized discount	(302,973)		(10,447)	(292,526)	
Deferred amount on refunding	(3,090,607)		(206,041)	(2,884,566)	
Capital lease	77,485		77,485		
Developer advances	1,987,221		94,395	1,892,826	94,395
Business-type activities long-term liabilities	<u>\$131,778,470</u>	<u>\$1,546,608</u>	<u>\$4,178,551</u>	<u>\$129,146,029</u>	<u>\$4,422,091</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 \$116,220 of internal service funds obligations under notes payable, and \$137,392 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, 2009 \$4,880,000 of 1997 revenue bonds are considered defeased and are not included in the Sewer Fund.

## D. OBLIGATIONS UNDER CAPITAL LEASES

### Enterprise Funds

Two wheel loaders, valued at \$371,458, less \$158,268 accumulated depreciation, were being leased under a capital lease arrangement. The final lease payment was made during current fiscal year.

<u>Year Ending June 30,</u>	
2009 – total minimum lease payments	\$80,972
Less: amount representing interest	(3,487)
Present value of minimum lease payments (Beg 09)	<u>77,485</u>
Less: FY 2009 lease payment	<u>77,485</u>
Present value of minimum lease payments (End 09)	\$0

### Internal Service Funds

A software license valued at \$211,354, less \$141,287 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, 2009:

<u>Year Ending June 30,</u>	
2010	<u>75,000</u>
Total minimum lease payments	75,000
Less: amount representing interest	<u>(4,284)</u>
Present value of minimum lease payments	<u>\$70,716</u>

### Governmental Funds

One Pierce Quantum 1500GPM Fire Apparatus valued at \$422,524 less \$31,532 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, 2009:

<u>Year Ending June 30,</u>	
2010	77,611
2011	77,611
2012	77,611
2013	77,611
2014	77,611
2015	<u>77,611</u>
Total minimum lease payments	465,666
Less: amount representing interest	<u>(81,981)</u>
Present value of minimum lease payments	<u>\$383,685</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, 2009, the total outstanding balance due under the agreements is \$1,892,826. The total annual payments fluctuate depending on the ending date of each agreement. At June 30, 2009, the amount of \$94,395 due during fiscal year 2010 has been reported as "current portion-developer advances" on the Proprietary Funds statement of

net assets. The remaining \$1,798,431 of outstanding principal has been reported under noncurrent liabilities, as “developer advances.”

F. INTERFUND BALANCES

Interfund balances as of June 30, 2009 consist of the following:

<u>Due to General Fund from:</u>	
Other governmental funds – total due to/due from	\$1,131,587
Other enterprise funds – total due to/ due from	121,108
Total Due to from General Fund	<u>\$1,252,695</u>
<u>Due to Internal Service Funds from:</u>	
General Fund – total due to/due from	\$101,576
Total Due to/Due from	<u>\$1,354,271</u>

<u>Advances from General Fund to:</u>	
Capital Facility Fees Fund	\$1,131,171
Redevelopment Agency	295,727
Other enterprise funds	1,324,704
Total advances from General Fund	<u>2,751,602</u>
Total advances from/advances to	<u>\$2,751,602</u>

All balances reported as “due to/due from” are short-term loans to cover temporary fund cash shortages as of June 30, 2009, and were repaid early in fiscal year 2010. 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. \$2,601,602 of advances are not currently scheduled for repayment during 2010.

G. RESERVES AND DESIGNATIONS OF FUND BALANCES

The City’s reserves and designations at June 30, 2009 are comprised of the following:

	<u>General</u>	<u>Capital Facility Fees</u>	<u>Other Governmental</u>
<u>Reserved for:</u>			
Encumbrances	\$ 715,095	\$5,042,632	\$ 6,148,459
Loan programs			19,586,685
Interfund advances	2,853,178		
Set-aside requirement			1,078,197
Property held for resale			784,000
Debt service			6,967,972
Total reserved	<u>\$3,568,273</u>	<u>\$5,042,632</u>	<u>\$34,565,313</u>
<u>Designated for:</u>			
Pending projects		\$34,607,535	\$12,005,881
Total designated	<u>\$0</u>	<u>\$34,607,535</u>	<u>\$12,005,881</u>

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

#### H. DEFICIT FUND EQUITY

The Capital Grants Capital Projects Fund has a deficit fund balance of \$148,815. The future recognition of currently deferred revenue is expected to resolve this deficit.

The Golf Enterprise Fund has a net assets deficit of \$2,073,356, 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 Employee Benefits Management Internal Service Fund has a net assets deficit of \$35,012,189. It exists partially because the total compensated absences balance previously classified as debt of the governmental funds was included in this fund at its inception several years ago, and has never been fully funded. 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 \$3,687,478, due mainly to the recognition of settlements that were reached in the 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 to:	Transfers from:							Total
	General Fund	Other Governmental	Water	Sewer	Bus	Other Enterprise Funds	Internal Service	
General Fund		\$5,262,645	\$264,000	\$228,000	\$1,500	\$1,011,692	\$38,839	\$6,806,676
Capital Facility Fees	881,159	1,341,525						2,222,684
Other Governmental	3,809,067	5,215,435		162		95,540		9,120,204
Water	385,750			287			183,278	569,315
Sewer	316,750						96,466	413,216
Bus	9,100							9,100
Other Enterprise	270			18			82,223	82,511
Internal Service	811,955	1,203,869	1,761,677	1,825,676	20,030	1,356,441	300,462	7,280,110
<b>Grand Total</b>	<b>\$6,214,051</b>	<b>\$13,023,474</b>	<b>\$2,025,677</b>	<b>\$2,054,143</b>	<b>\$21,530</b>	<b>\$2,463,673</b>	<b>\$701,268</b>	<b>\$26,503,816</b>

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

J. NOTES RECEIVABLE

The notes receivable in the Other Governmental Funds of \$20,229,485 net of \$73,182, 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 of \$413,698 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 one year.

L. SPECIAL ITEMS

These expenses in the Water and Sewer Enterprise funds represent legal costs incurred in pursuit of mitigating damages from the manufacturers of perchlorethylene, or PCE, a common chemical used in the dry cleaning industry. This chemical has seeped into the groundwater through sewer lines when improperly disposed, and threatens the City's groundwater supplies. Modesto has been proactive in attempting to recover damages and future cleanup costs from the dry cleaners and their insurers, and has also 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 \$242,586. The previous years' settlements for both the water and sewer funds have been moved to sub funds to restrict use in capital projects that are designed to mitigate the PCE as necessary.

**III. OTHER INFORMATION**

**A. RISK MANAGEMENT**

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to and illnesses of employees; and natural disasters. The City maintains the Insurance Internal Service Fund to account for and finance its risks of loss. Under this program, the City is self-insured for the following risks up to the maximum amount per claim as follows: workers' compensation \$750,000; liability \$1,000,000; and dental care \$1,200. In July 1995, the City dropped its self-insured health plan, and now offers a variety of commercial plans to its employees. The City purchases commercial insurance for employee disability, 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 two excess layers; the first layer of \$10,000,000 and the second layer of \$20,000,000, for additional coverage of \$30,000,000 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, 2009 is \$21,425,553 consisting of \$16,961,000 workers' compensation, \$3,999,000 general liability, \$371,394 dental, and \$94,159 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 \$21,057,000 and \$4,906,000 respectively.

The current portion of the total claims liability is estimated to be \$5,508,101 and the balance of \$15,917,452 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, 2009. Changes in the Insurance Fund claims liability during the fiscal years ended June 30, 2008 and June 30, 2009 were:

	Claims Liability July 1	Current-Year Claims and Changes in Estimates	Current-Year Claim Payments	Claims Liability June 30
2007-08	16,626,237	9,387,961	(3,064,326)	22,949,872
2008-09	22,949,872	2,057,837	(3,582,156)	21,425,553

**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, 2009, the balance of these districts' outstanding debt was as follows:

Issue	Outstanding Amount
Village One #2 Community Facilities District	\$30,950,000
Fairview Village Community Facilities District	4,925,000

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, 2009 there were six series of conduit revenue bonds outstanding. The 1998A series bond was paid off in 2009. The aggregate principal amount payable for these multiple-family housing and health care facility bond issues, issued between 1993 and 2002, was \$37,005,000.

D. COMMITMENTS AND CONTINGENCIES

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

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 postclosure 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, 2009, the future postclosure 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 \$52,436,992 as of June 30, 2009 for contracts awarded but not completed and other outstanding purchase orders. This amount consists of \$715,085 in the General Fund, \$5,042,632 in the Capital Facility Fees Fund, \$6,148,409 in other governmental funds, \$38,970,144 in the enterprise funds, and \$1,560,722 in the internal service funds. Commitments of the governmental funds are recorded as fund balance reserves for encumbrances on the balance sheet. As of June 30, 2009, there are major contracts and other purchase orders

outstanding for water and sewer system improvements, bike trails, GIS mapping for the sewer system, automatic vehicle location system for the bus fund, purchase of airport storage hangars, comprehensive update to the City's general plan, parking garage projects, 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 \$157,557 for the fiscal year ended June 30, 2009. As of June 30, 2009 the City's investment in this joint venture was \$2,597,678, and is included in governmental activities on the statement of net assets. Financial statements for TRRP are prepared by the City of Modesto Finance Department.

##### Stanislaus Drug Enforcement Agency

Stanislaus County (County) and the cities of Modesto, Oakdale, Ceres, Patterson, Turlock, Riverbank and Newman are the participants in the Stanislaus Drug Enforcement Agency (SDEA). The purpose of the SDEA is to maintain a specially trained police unit to assist each of the participating agencies in the enforcement of drug control laws, and to study, plan, and set priorities for effective enforcement of such laws throughout Stanislaus County. The governing board consists of the sheriff of Stanislaus County and the chief of police of each participating city. All participants contribute to the funding of the SDEA budgeted expenditures, based on population and assessed property value. The City's contribution to the SDEA for the fiscal year ended June 30, 2009 was \$673,387. The City's investment in this joint venture was estimated to be \$469,590 as of June 30, 2009, 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. Since then, the City of Modesto has been the fiscal administrator. For the fiscal year ended June 30, 2009, the City's payments to the Agency were \$684,889. The City's equity interest in the Agency is \$13,218,986, 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, 2009, 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 \$6,613,425. 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, 2009 was \$13,642,084 which is reported as "water purchases" expense on the proprietary funds statement of revenues, expenses and changes in net assets.

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, 2009, the total outstanding on the MID bonds is: \$67,435,000 for the 1998 bonds, and \$93,190,000 for the 2007 bonds for a total of \$160,625,000.

### 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, 2009 there were 212 participants receiving these health care benefits.

The OPEB Plan provisions and benefits in effect at June 30, 2009, are summarized as follows:

Benefit Types Provided	Police (including Management)	General Employees	Management	Fire	Fire Management
Duration of Benefits	Medical, dental and vision	Medical, dental and vision	Medical, dental and vision	Medical only	Medical, dental and vision
City Health Allowance per month	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
	\$535.00 for single	\$535.00 for single	\$540.88 for single	\$97.00	\$540.88 for single
	\$957.00 with dependents	\$957.00 with dependents	\$957.00 with dependents		\$957.00 with dependents

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 December 1, 2008 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) 5% investment rate of return, (b) 3% projected annual salary increase, and (c) 4% 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, 2009 was 30 years.

The City has set aside \$18,418,622 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.

This liability is now reflected as part of the Net OPEB Obligation below:

Annual required contribution	\$ 5,627,617
Adjustment to annual required contribution	<u>1,263,290</u>
Annual pension cost	6,890,907
Contributions made	<u>(2,862,583)</u>
(Decrease) increase in net pensions obligations	4,028,324
Net pension obligation (asset) June 30, 2009	<u>37,180,914</u>
Net OPEB obligation (asset) June 30, 2009	<u><u>\$41,209,238</u></u>

The Plan annual required contributions and actual contributions for the year ended June 30, 2009 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	271%	\$37,180,914
6/30/2009	\$5,627,617	\$2,862,583	197%	\$41,209,238

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 Liability (B)	Overfunded (Underfunded) Actuarial 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%

#### 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 9.528% of annual covered payroll for non-safety employees and 23.562% for safety employees. The contribution requirements of plan members and the City are established and may be amended by CalPERS.

Annual Pension Cost

For 2009, the City's annual pension cost of \$12,761,594 for CalPERS was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 2008 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 accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2009 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>
6/30/07	4,010,662	100%	-
6/30/08	4,338,969	100%	-
6/30/09	4,534,013	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>
6/30/07	8,204,191	100%	-
6/30/08	8,333,064	100%	-
6/30/09	8,227,551	100%	-

## SCHEDULE OF FUNDING PROGRESS FOR PERS

Actuarial Valuation Date	Actuarial Value of Assets (A)	Entry Age Actuarial Accrued Liability (B)	Overfunded (Underfunded) Actuarial Accrued Liability (A – B)	Funded Ratio (A/B)	Covered Payroll (C)	Unfunded Actuarial Liability as Percentage of Covered Payroll [(A – B)/C]
<b>6/30/05:</b>						
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%
<b>6/30/06:</b>						
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%
<b>6/30/07:</b>						
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%
<b>6/30/08:</b>						
Misc.	\$273,210,580	\$288,300,448	\$(15,089,868)	95.8%	47,469,554	31.8%
Safety	303,140,879	343,910,847	(40,769,968)	88.1%	34,990,413	116.5%

### I. PRIOR YEAR ADJUSTMENTS

#### Governmental Activities

A reduction of the OPEB liability and compensated absences in the amount of \$8,966,403 was made in the governmental activities and accounted for in the business-type activities based on an allocation of payroll cost which increased the net assets. A reduction was made in prior period net assets in the amount of \$108,943 to record the current fiscal year amounts that were due to the 10<sup>th</sup> Street Place JPA for building services. The total amount of the prior period adjustment for governmental activities was an increase of net assets in the amount of \$8,857,460.

#### Business-type Activities

The creation of the OPEB liability and compensated absences in the amount of \$8,966,403 was accounted for in the business-type activities based on an allocation of payroll cost which reduced the net assets. A reduction was made in prior period net assets in the amount of \$62,736 to record the current fiscal year amounts that were due to the 10<sup>th</sup> Street Place JPA for building services. A trust account for the PCE litigation under a fiscal agent was accounted for in the City's general ledger that was created in December 2004 in the amount of \$1,336,068. The total amount of the prior period adjustment for governmental activities was a reduction of net assets in the amount of \$7,693,071.

### J. SUBSEQUENT EVENTS

#### ARRA (American Recovery and Reinvestment Act) Funding

At October 26, 2009 Finance Committee meeting the ARRA administrator reported the City has received confirmation of over \$19 million in ARRA awards which includes:

1. \$4,474,782 award for Community Oriented Policing Services (COPS) Hiring Recovery program grant for 13 police officer positions over a three year period. This grant allows the City to hire or rehire officers with a guarantee of three years of funding through the grant and requiring the City to fund the fourth year.
2. \$649,343 award for Bryne JAG grant
3. \$631,749 award for Community Development Block Grant
4. \$966,016 award for Homelessness Prevention
5. \$5,586,606 award for Transit Capital Assistance
6. \$3,211,414 award for cape and slurry Seal Projects
7. \$3,269,225 award for street overlay and curb ramps
8. \$400,000 grant and \$400,000 loan for wellhead treatment

## **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]
<b>6/30/03:</b>						
Misc.	\$194,253,457	\$198,259,563	\$(4,006,106)	98.0%	\$39,440,399	10.2%
Safety	208,797,417	237,995,854	(29,198,437)	87.7%	25,316,473	115.3%
<b>6/30/04:</b>						
Misc.	\$204,261,809	\$212,669,957	\$(8,408,148)	96.0%	\$41,083,600	20.5%
Safety	221,621,121	257,554,567	(35,933,446)	86.0%	29,085,514	123.5%
<b>6/30/05:</b>						
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%
<b>6/30/06:</b>						
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%
<b>6/30/07:</b>						
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%
<b>6/30/08:</b>						
Misc.	\$273,210,580	\$288,300,448	\$(15,089,868)	95.8%	47,469,554	31.8%
Safety	303,140,879	343,910,847	(40,769,968)	88.1%	34,990,413	116.5%

\*\* Most recent actuarial dated information is for June 30, 2008.

**SUMMARY ACTUARIAL INFORMATION FOR PENSION PLAN**

Valuation Date	June 30, 2008
Actuarial Cost Method	Entry Age Normal Cost Method
Amortization Method	Level percent of Payroll
Average Remaining Period	32 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%

\*\* The valuation date available is through 2008.

**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	271%
6/30/2009	\$5,627,617	\$2,862,583	197%

**SUMMARY ACTUARIAL INFORMATION FOR OPEB**

Valuation Date	June 30, 2008
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	5.00%
Health Trend Rate	4.00%
Inflation Rate	3.00%
Payroll Growth	3.00%

**CITY OF MODESTO**  
**SCHEDULE OF REVENUES - BUDGET (GAAP BASIS)**  
**AND ACTUAL - GENERAL FUND**  
**Year ended June 30, 2009**

	Budget		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>TAXES:</b>				
Utility users tax	\$ 19,615,000	\$ 19,000,000	19,093,222	\$ 93,222
Property tax	16,115,503	13,762,188	13,863,471	101,283
Transient occupancy tax	2,222,000	2,050,000	1,853,732	(196,268)
Franchise tax	4,273,751	3,732,511	3,836,165	103,654
Business license tax	10,970,111	8,976,130	9,330,563	354,433
<b>Total taxes</b>	<b>53,196,365</b>	<b>47,520,829</b>	<b>47,977,153</b>	<b>456,324</b>
<b>LICENSES AND PERMITS</b>	<b>89,700</b>	<b>71,900</b>	<b>70,464</b>	<b>(1,436)</b>
<b>INTERGOVERNMENTAL:</b>				
Sales tax	19,860,348	19,002,359	18,220,329	(782,030)
In-lieu sales tax	6,866,082	6,357,901	6,357,901	
Motor vehicle license fees	17,217,190	15,350,000	15,255,503	(94,497)
State	1,167,299	1,207,999	1,100,800	(107,199)
County	1,452,000	1,350,809	860,878	(489,931)
Federal	48,000	87,176	91,183	4,007
Other intergovernmental	662,034	663,146	668,841	5,695
<b>Total intergovernmental</b>	<b>47,272,953</b>	<b>44,019,390</b>	<b>42,555,435</b>	<b>(1,463,955)</b>
<b>CHARGES FOR SERVICES:</b>				
General government	3,815,641	3,942,567	3,667,728	(274,839)
Community development	4,488,083	2,657,183	2,523,650	(133,533)
Public works	1,126,515	1,126,515	1,305,362	178,847
Parks and recreation	2,009,760	1,795,888	1,987,381	191,493
Public safety	2,445,077	1,940,385	2,128,429	188,044
Other current charges for services	240,000	132,176	167,078	34,902
Indirect cost recovery	2,543,746	2,543,746	2,559,249	15,503
<b>Total charges for services</b>	<b>16,668,822</b>	<b>14,138,460</b>	<b>14,338,877</b>	<b>200,417</b>
<b>SPECIAL ASSESSMENT</b>	<b>31,000</b>	<b>40,000</b>		<b>(40,000)</b>
<b>INTEREST AND RENT</b>	<b>423,900</b>	<b>419,050</b>	<b>363,818</b>	<b>(55,232)</b>
<b>NET INCREASE (DECREASE) IN FAIR VALUE OF INVESTMENTS</b>	<b>200,000</b>		<b>118,089</b>	<b>118,089</b>
<b>FINES AND FORFEITURES</b>	<b>1,290,000</b>	<b>1,153,900</b>	<b>1,315,812</b>	<b>161,912</b>
<b>MISCELLANEOUS:</b>				
Mandated cost recovery		13,000	133,329	120,329
Other	1,936,914	2,331,884	5,070,290	2,738,406
<b>Total miscellaneous</b>	<b>1,936,914</b>	<b>2,344,884</b>	<b>5,203,619</b>	<b>2,858,735</b>
<b>Total revenues</b>	<b>\$ 121,109,654</b>	<b>\$ 109,708,413</b>	<b>111,943,267</b>	<b>\$ 2,234,854</b>

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

**CITY OF MODESTO**  
**SCHEDULE OF EXPENDITURES BY FUNCTION - BUDGET**  
**(GAAP BASIS) AND ACTUAL - GENERAL FUND**  
**Year ended June 30, 2009**

	Budget		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
General government:				
City council	\$ 482,063	\$ 433,840	\$ 366,302	\$ 67,538
Personnel/training	1,712,260	1,787,709	1,690,896	96,813
City manager	1,189,443	1,136,647	1,098,280	38,367
City attorney	2,131,027	1,986,245	1,864,429	121,816
City clerk/auditor	839,702	682,512	551,844	130,668
Finance	6,623,815	6,673,040	6,106,804	566,236
Other	2,025,859	1,525,919	1,502,417	23,502
Total general government	<u>15,004,169</u>	<u>14,225,912</u>	<u>13,180,972</u>	<u>1,044,940</u>
Community development	<u>7,768,797</u>	<u>7,280,464</u>	<u>6,466,182</u>	<u>814,282</u>
Public works:				
Engineering and Transportation Dept:				
Engineering administration	1,311,526	1,292,894	1,141,424	151,470
Operations and Maintenance Dept:				
Service and maintenance	2,761,201	2,777,013	2,442,275	334,738
Graffiti abatement	301,102	288,576	240,109	48,467
Total public works	<u>4,373,829</u>	<u>4,358,483</u>	<u>3,823,808</u>	<u>534,675</u>
Parks and recreation:				
Operations and Maintenance Dept:				
Service and maintenance	5,723,827	5,446,427	5,123,397	323,030
Community Services & Neighborhood Connection:				
Administration	991,727	1,106,395	1,068,518	37,877
Planning and development	362,180	363,929	291,408	72,521
Culture	1,423,439	1,517,905	1,398,539	119,366
Recreation division	3,024,847	3,142,559	3,038,435	104,124
Facilities	477,399	468,247	450,375	17,872
Total parks and recreation	<u>12,003,419</u>	<u>12,045,462</u>	<u>11,370,672</u>	<u>674,790</u>
Public safety:				
Fire protection	26,996,800	25,672,184	25,378,296	293,888
Police protection	54,072,560	52,705,677	51,719,484	986,193
Total public safety	<u>81,069,360</u>	<u>78,377,861</u>	<u>77,097,780</u>	<u>1,280,081</u>
Total expenditures by department	<u>120,219,574</u>	<u>116,288,182</u>	<u>111,939,414</u>	<u>4,348,768</u>
Total expenditures	<u>\$ 120,219,574</u>	<u>\$ 116,288,182</u>	<u>\$ 111,939,414</u>	<u>\$ 4,348,768</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, 2009**

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

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

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

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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.

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

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

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

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

### **Nonmajor Capital Projects Funds**

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

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

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

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

**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.

**PUBLIC FINANCING AUTHORITY FUND** – To account for the financing of various projects authorized by the Modesto Public Financing Authority.

### **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, 2009**

	Special Revenue				
	Operating Grants	Local Transportation	Traffic Safety	Special Gas Tax Street Improvement	Downtown Improvement District
<b>ASSETS</b>					
Cash and cash equivalents	\$ 3,167,018	\$ 308,811	\$ 286,912	\$ 10,097,046	\$ 47,059
Cash and cash equivalents with fiscal agent					
Receivables:					
Accounts	440,823			83,037	
Interest	8,536	4,888		23,283	191
Utilities, net	90,846				
Taxes	542			235,439	
Due from governments	314,721	198,795		88,016	
Notes receivable, net	229,102				
Prepaid expenses/expenditures					
Property held for resale					
Restricted assets:					
Cash and cash equivalents					
Advances to other funds					
<b>Total assets</b>	<b>\$ 4,251,588</b>	<b>\$ 512,494</b>	<b>\$ 286,912</b>	<b>\$ 10,526,821</b>	<b>\$ 47,250</b>
 <b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Accounts payable	\$ 235,482		\$ 50,025	\$ 113,987	\$ 1,346
Accrued salaries and benefits	98,283			81,826	
Due to other funds					
Approved loans payable					
Deferred revenues	230,581	512,494		3,453,554	
Refundable deposits					
Advances from other funds					
<b>Total liabilities</b>	<b>564,346</b>	<b>512,494</b>	<b>50,025</b>	<b>3,649,367</b>	<b>1,346</b>
Fund balances:					
Reserved for:					
Encumbrances	29,527	4,652		425,515	
Loan programs and prepaids					
Interfund advances					
Property held for resale					
Set-aside requirement					
Debt service					
Unreserved/designated for:					
Pending projects			236,887	6,451,939	45,904
Unreserved/undesignated	3,657,715	(4,652)			
<b>Total fund balances</b>	<b>3,687,242</b>	<b></b>	<b>236,887</b>	<b>6,877,454</b>	<b>45,904</b>
<b>Total liabilities and fund balances</b>	<b>\$ 4,251,588</b>	<b>\$ 512,494</b>	<b>\$ 286,912</b>	<b>\$ 10,526,821</b>	<b>\$ 47,250</b>

Capital Projects								
Housing and Community Development	Strategic Planning and Development	Special Fund for Capital Outlays	Parks	McHenry Mansion Restoration	Capital Grants	Community Facilities Districts	Redevelop- ment Agency	Public Financing Authority
1,210,588 \$	489,509	239,436 \$	\$	7,261 \$	\$	16,770,883 \$	2,539,798 \$	
548,184			2,218,010			9,969,544		
19,289			3,404				498,768	
7,064	2,524	106	295	26		52,269	10,944	
						26,912		
441,333					2,236,836			
17,789,383							2,211,000	
							784,000	
						725,845		
<u>20,015,841 \$</u>	<u>492,033</u>	<u>239,542 \$</u>	<u>2,221,709 \$</u>	<u>7,287 \$</u>	<u>2,236,836 \$</u>	<u>27,545,453 \$</u>	<u>6,044,510 \$</u>	
60,751 \$	25,427	43,980 \$	11,094	\$	226,553 \$	217,105 \$	13,280 \$	
16,295						4,727		
413,698		148,534	192,542		590,510		575,000	
			3,404		1,568,588			
						725,845	1,000	
							295,727	
<u>490,744</u>	<u>25,427</u>	<u>192,514</u>	<u>207,040</u>		<u>2,385,651</u>	<u>947,677</u>	<u>885,007</u>	
17,375,685	195,002	57,099	118,794		4,613,509	565,028	139,333	
							2,211,000	
							784,000	
							1,078,197	
2,149,412	271,604	(10,071)	1,895,875 \$	7,287	(4,762,324)	26,032,748	946,973	
<u>19,525,097</u>	<u>466,606</u>	<u>47,028</u>	<u>2,014,669</u>	<u>7,287</u>	<u>(148,815)</u>	<u>26,597,776</u>	<u>5,159,503</u>	
<u>20,015,841 \$</u>	<u>492,033</u>	<u>239,542 \$</u>	<u>2,221,709 \$</u>	<u>7,287 \$</u>	<u>2,236,836 \$</u>	<u>27,545,453 \$</u>	<u>6,044,510 \$</u>	

(continued)

**CITY OF MODESTO**  
**COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS (Continued)**  
**June 30, 2009**

	Debt Service		Total
	Redevelopment Agency	Public Financing Authority	
<u>ASSETS</u>			
Cash and cash equivalents	\$ 814,555	1,625	\$ 35,980,501
Cash and cash equivalents with fiscal agent	1,992,164	\$ 4,815,088	19,542,990
Receivables:			
Accounts	61,258		1,106,579
Interest	9,703		119,829
Utilities, net			90,846
Taxes	418,797		681,690
Due from governments			3,279,701
Notes receivable, net			20,229,485
Prepaid expenses/expenditures			
Property held for resale			784,000
Restricted assets:			
Cash and cash equivalents			725,845
Advances to other funds			
	<u>\$ 3,296,477</u>	<u>\$ 4,816,713</u>	<u>\$ 82,541,466</u>
 <u>LIABILITIES AND FUND BALANCES</u>			
Liabilities:			
Accounts payable	\$ 706,796	\$ 177,163	\$ 1,882,989
Accrued salaries and benefits			201,131
Due to other funds		200,001	1,131,587
Approved loans payable			988,698
Deferred revenues	61,258		5,829,879
Refundable deposits			726,845
Advances from other funds			295,727
	<u>768,054</u>	<u>377,164</u>	<u>11,056,856</u>
Total liabilities			
Fund balances:			
Reserved for:			
Encumbrances			6,148,459
Loan programs			19,586,685
Interfund advances			
Property held for resale			784,000
Set-aside requirement			1,078,197
Debt service	2,528,423	4,439,549	6,967,972
Unreserved/designated for:			
Pending projects			12,005,881
Unreserved/undesignated			24,913,416
	<u>2,528,423</u>	<u>4,439,549</u>	<u>71,484,610</u>
Total fund balances			
	<u>\$ 3,296,477</u>	<u>\$ 4,816,713</u>	<u>\$ 82,541,466</u>

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**CITY OF MODESTO**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS**  
**Year ended June 30, 2009**

	Special Revenue				
	Operating Grants	Local Transportation	Traffic Safety	Special Gas Tax Street Improvement	Downtown Improvement District
REVENUES:					
Taxes				\$ 943,689	\$ 196,253
Licenses and permits	\$ 53,810			8,185	
Intergovernmental	1,572,528	\$ 2,453,344		4,522,612	
Charges for services	6,339,210		443,058	1,424,307	
Special assessments levied	37,299				
Interest and rent	60,640	78,305		139,407	1,409
Net increase (decrease) in fair value of investments	21,230	12,158		57,905	475
Fines and forfeits	35,084		\$ 1,092,610		
Miscellaneous	410,255			87,515	
Total revenues	<u>8,530,056</u>	<u>2,543,807</u>	<u>1,535,668</u>	<u>7,183,620</u>	<u>198,137</u>
EXPENDITURES:					
Current:					
General government	348,736				
Community development					191,017
Highways and streets		119,389		8,778,517	
Public works	3,843,317				
Parks and recreation	1,672,449				
Public safety	816,560		510,514		
Capital outlay:					
General government					
Community development					
Highways and streets		42,327		173,336	
Public works	18,731				
Parks and recreation					
Public safety	214,478				
Debt service:					
Principal retirement					
Interest					
Advance refunding escrow					
Other					
Total expenditures	<u>6,914,271</u>	<u>161,716</u>	<u>510,514</u>	<u>8,951,853</u>	<u>191,017</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>1,615,785</u>	<u>2,382,091</u>	<u>1,025,154</u>	<u>(1,768,233)</u>	<u>7,120</u>
OTHER FINANCING SOURCES (USES):					
Transfers in	742,267			5,166,580	
Transfers out	(327,983)	(2,382,091)	(1,352,000)	(1,591,344)	
Issuance of loans payable					
Issuance of lease revenue bonds					
Refunding of lease revenue bonds					
Other debt issuance cost					
Sale of assets				34,900	
TOTAL OTHER FINANCING SOURCES (USES)	<u>414,284</u>	<u>(2,382,091)</u>	<u>(1,352,000)</u>	<u>3,610,136</u>	
NET CHANGE IN FUND BALANCES	2,030,069		(326,846)	1,841,903	7,120
FUND BALANCES, July 1	1,657,173		563,733	5,035,551	38,784
FUND BALANCES, June 30	<u>\$ 3,687,242</u>	<u>\$</u>	<u>\$ 236,887</u>	<u>\$ 6,877,454</u>	<u>\$ 45,904</u>

		Capital Projects						
Housing and Community Development	Strategic Planning and Development	Special Fund for Capital Outlays	Parks	McHenry Mansion Restoration	Capital Grants	Community Facilities Districts	Redevelop- ment Agency	Public Financing Authority
							\$ 2,126,796	
\$ 4,393,708			49,857		\$ 5,800,192	\$ 973,492		
243,493	\$ 82,632		\$ 33,219			1,864,736	17,886	
144,276	21,258	\$ (22,941)	32,343	\$ 65	40,191	553,358	149,981	\$
17,569	6,278	264	734	195		166,867	24,653	
3,530			51,904		39,500		13,250	
<u>4,802,576</u>	<u>110,168</u>	<u>(22,677)</u>	<u>168,057</u>	<u>260</u>	<u>5,879,883</u>	<u>3,558,453</u>	<u>2,332,566</u>	
		35				3,153,332	1,531,873	
2,379,006	436,261				128,217			
		4,857 765	163,168					
		2,501						
527,728					4,136,696	5,771,235	4,779,147	
		191,147 232,321	1,346,425		107			
158,000								
218,600								
<u>3,283,334</u>	<u>436,261</u>	<u>431,626</u>	<u>1,509,593</u>		<u>4,265,020</u>	<u>8,924,567</u>	<u>6,311,020</u>	
<u>1,519,242</u>	<u>(326,093)</u>	<u>(454,303)</u>	<u>(1,341,536)</u>	<u>260</u>	<u>1,614,863</u>	<u>(5,366,114)</u>	<u>(3,978,454)</u>	
37,826		292,000			1,516,278	50,234	411,500	
(66,306)	(303,692)	(327,572)				(99,258)	(1,317,720)	
	209,575							
<u>(28,480)</u>	<u>(94,117)</u>	<u>(35,572)</u>			<u>1,516,278</u>	<u>(49,024)</u>	<u>(906,220)</u>	
1,490,762	(420,210)	(489,875)	(1,341,536)	260	3,131,141	(5,415,138)	(4,884,674)	
18,034,335	886,816	536,903	3,356,205	7,027	(3,279,956)	32,012,914	10,044,177	
<u>\$ 19,525,097</u>	<u>\$ 466,606</u>	<u>\$ 47,028</u>	<u>\$ 2,014,669</u>	<u>\$ 7,287</u>	<u>\$ (148,815)</u>	<u>\$ 26,597,776</u>	<u>\$ 5,159,503</u>	

(continued)

**CITY OF MODESTO**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE**  
**IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS**  
Year ended June 30, 2009

	Debt Service		Total
	Redevelopment Agency	Public Financing Authority	
REVENUES:			
Taxes	\$ 4,101,838		\$ 7,368,576
Licenses and permits			61,995
Intergovernmental			19,765,733
Charges for services	47,353		10,495,894
Special assessments levied			37,299
Interest and rent	56,149	\$ 48,727	1,303,168
Net increase (decrease) in fair value of investments	49,147		357,475
Fines and forfeits			1,127,694
Miscellaneous			605,954
Total revenues	4,254,487	48,727	41,123,788
EXPENDITURES:			
Current:			
General government			348,771
Community development			7,691,489
Highways and streets			9,026,123
Public works			3,843,317
Parks and recreation			1,840,474
Public safety			1,327,839
Capital outlay:			
General government			2,501
Community development			5,306,875
Highways and streets			10,123,594
Public works			18,731
Parks and recreation			1,537,679
Public safety			446,799
Debt service:			
Principal retirement	935,000		1,093,000
Interest	1,015,318	1,799,911	3,033,829
Advance refunding escrow			
Other	1,395,211		1,395,211
Total expenditures	3,345,529	1,799,911	47,036,232
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	908,958	(1,751,184)	(5,912,444)
OTHER FINANCING SOURCES (USES):			
Transfers in	905,922	3,900,868	13,023,475
Transfers out	(1,352,238)		(9,120,204)
Issuance of loans payable			209,575
Issuance of lease revenue bonds		65,170,000	65,170,000
Refunding of lease revenue bonds		(65,210,000)	(65,210,000)
Other debt issuance cost		(2,431,247)	(2,431,247)
Sale of assets			34,900
TOTAL OTHER FINANCING SOURCES (USES)	(446,316)	1,429,621	1,676,499
NET CHANGE IN FUND BALANCES	462,642	(321,563)	(4,235,945)
FUND BALANCES, July 1	2,065,781	4,761,112	75,720,555
FUND BALANCES, June 30	\$ 2,528,423	\$ 4,439,549	\$ 71,484,610

**CITY OF MODESTO**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -**  
**BUDGET (GAAP BASIS) AND ACTUAL - OPERATING GRANTS SPECIAL REVENUE FUNG**  
**Year ended June 30, 2009**

	Budget		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Licenses and permits	\$ 60,000	\$ 60,000	\$ 53,810	\$ (6,190)
Intergovernmental	10,088,012	12,913,762	1,572,528	(11,341,234)
Charges for services	5,129,018	5,840,036	6,339,210	499,174
Special assessments		36,158	37,299	1,141
Interest and rent - interest	28,710	56,382	60,640	4,258
Net increase in fair value of investments			21,230	21,230
Fines and forfeits	1,500	1,500	35,084	33,584
Miscellaneous	540,759	552,841	410,255	(142,586)
<b>Total revenues</b>	<u>15,847,999</u>	<u>19,460,679</u>	<u>8,530,056</u>	<u>(10,930,623)</u>
<b>EXPENDITURES:</b>				
General government	2,367,209	3,031,860	348,736	2,683,124
Public works	5,126,079	5,935,321	3,862,048	2,073,273
Parks and recreation	1,445,439	1,689,319	1,672,449	16,870
Public safety	4,347,944	5,947,008	1,031,038	4,915,970
<b>Total expenditures</b>	<u>13,286,671</u>	<u>16,603,508</u>	<u>6,914,271</u>	<u>9,689,237</u>
DEFICIENCY OF REVENUES (UNDER) EXPENDITURES	<u>2,561,328</u>	<u>2,857,171</u>	<u>1,615,785</u>	<u>(1,241,386)</u>
<b>OTHER FINANCING SOURCES:</b>				
Transfers in	454,919	696,694	742,267	45,573
Transfers out		(327,983)	(327,983)	
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>454,919</u>	<u>368,711</u>	<u>414,284</u>	<u>45,573</u>
NET CHANGE IN FUND BALANCE	3,016,247	3,225,882	2,030,069	(1,195,813)
FUND BALANCES, JULY 1	<u>1,657,173</u>	<u>1,657,173</u>	<u>1,657,173</u>	
FUND BALANCES, JUNE 30	<u>\$ 4,673,420</u>	<u>\$ 4,883,055</u>	<u>\$ 3,687,242</u>	<u>\$ (1,195,813)</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, 2009**

	Budget		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Intergovernmental	\$	\$ 2,244,822	\$ 2,453,344	\$ 208,522
Interest and rent - interest			78,305	78,305
Net increase in fair value of investments			12,158	12,158
<b>Total revenues</b>		<u>2,244,822</u>	<u>2,543,807</u>	<u>298,985</u>
<b>EXPENDITURES:</b>				
Highways and streets	1,955,092	706,975	161,716	545,259
<b>Total expenditures</b>	<u>1,955,092</u>	<u>706,975</u>	<u>161,716</u>	<u>545,259</u>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	<u>(1,955,092)</u>	<u>1,537,847</u>	<u>2,382,091</u>	<u>844,244</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in				
Transfers out	(368,281)	(2,216,788)	(2,382,091)	(165,303)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>(368,281)</u>	<u>(2,216,788)</u>	<u>(2,382,091)</u>	<u>(165,303)</u>
<b>NET CHANGE IN FUND BALANCE</b>	(2,323,373)	(678,941)		678,941
<b>FUND BALANCES, JULY 1</b>				
<b>FUND BALANCE (DEFICITS), JUNE 30</b>	<u>\$ (2,323,373)</u>	<u>\$ (678,941)</u>	<u>\$</u>	<u>\$ 678,941</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, 2009**

	Budget		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Charges for services	100,000	468,671	443,058	(25,613)
Motor vehicle fines	\$ 1,550,000	\$ 1,550,000	\$ 1,092,610	\$ (457,390)
Total revenues	<u>1,650,000</u>	<u>2,018,671</u>	<u>1,535,668</u>	<u>(483,003)</u>
EXPENDITURES:				
Public safety	<u>1,046,802</u>	<u>1,046,802</u>	<u>510,514</u>	<u>536,288</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>603,198</u>	<u>971,869</u>	<u>1,025,154</u>	<u>(1,019,291)</u>
OTHER FINANCING USES:				
Transfers out	<u>(1,152,000)</u>	<u>(1,352,000)</u>	<u>(1,352,000)</u>	
NET CHANGE IN FUND BALANCE	(548,802)	(380,131)	(326,846)	53,285
FUND BALANCES, JULY 1	<u>563,733</u>	<u>563,733</u>	<u>563,733</u>	
FUND BALANCES, JUNE 30	<u>\$ 14,931</u>	<u>\$ 183,602</u>	<u>\$ 236,887</u>	<u>\$ 53,285</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**  
Year ended June 30, 2009

	Budget		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Intergovernmental:				
Federal grants	\$ 4,706,864	\$ 5,190,433	\$ 4,522,612	\$ (667,821)
Total intergovernmental revenues	<u>4,706,864</u>	<u>5,190,433</u>	<u>4,522,612</u>	<u>(667,821)</u>
Taxes	2,524,949	2,524,949	943,689	(1,581,260)
Licenses and permits	8,200	8,000	8,185	185
Charges for services	963,110	1,168,014	1,424,307	256,293
Interest and rent	40,000	46,600	139,407	92,807
Net increase in fair value of investments			57,905	57,905
Miscellaneous	26,101	59,101	87,515	28,414
Total revenues	<u>8,269,224</u>	<u>8,997,097</u>	<u>7,183,620</u>	<u>(1,813,477)</u>
<b>EXPENDITURES:</b>				
Current:				
Highway and streets	13,490,067	14,791,920	8,951,853	5,840,067
Total expenditures	<u>13,490,067</u>	<u>14,791,920</u>	<u>8,951,853</u>	<u>5,840,067</u>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	<u>(5,220,843)</u>	<u>(5,794,823)</u>	<u>(1,768,233)</u>	<u>4,026,590</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	1,860,456	4,783,283	5,166,580	383,297
Transfers out	(1,246,799)	(1,271,961)	(1,591,344)	(319,383)
Sale of assets		34,900	34,900	
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>613,657</u>	<u>3,546,222</u>	<u>3,610,136</u>	<u>63,914</u>
<b>NET CHANGE IN FUNDS BALANCE</b>	(4,607,186)	(2,248,601)	1,841,903	4,090,504
<b>FUND BALANCES, JULY 1</b>	<u>5,035,551</u>	<u>5,035,551</u>	<u>5,035,551</u>	
<b>FUND BALANCES, JUNE 30</b>	<u>\$ 428,365</u>	<u>\$ 2,786,950</u>	<u>\$ 6,877,454</u>	<u>\$ 4,090,504</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, 2009**

	Budget		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Taxes - business license tax	\$ 226,878	\$ 226,878	\$ 196,253	\$ (30,625)
Interest and rent - interest	600	600	1,409	809
Net increase in fair value of investments			475	475
Total revenues	<u>227,478</u>	<u>227,478</u>	<u>198,137</u>	<u>(29,341)</u>
<b>EXPENDITURES - community development</b>				
Downtown improvement district administration:				
Professional and contractual services	189,030	189,030	167,606	21,424
Materials and supplies	5,740	5,740	4,533	1,207
Other	32,100	32,100	18,878	13,222
Total expenditures	<u>226,870</u>	<u>226,870</u>	<u>191,017</u>	<u>35,853</u>
NET CHANGE IN FUND BALANCE	608	608	7,120	6,512
FUND BALANCES, JULY 1	<u>38,784</u>	<u>38,784</u>	<u>38,784</u>	<u></u>
FUND BALANCES, JUNE 30	<u>\$ 39,392</u>	<u>\$ 39,392</u>	<u>\$ 45,904</u>	<u>\$ 6,512</u>

**CITY OF MODESTO**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN**  
**FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL - HOUSING**  
**AND COMMUNITY DEVELOPMENT SPECIAL REVENUE FUND**  
**Year ended June 30, 2009**

	Budget		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Intergovernmental - federal grants	\$ 4,684,552	\$ 15,309,181	\$ 4,393,708	\$ (10,915,473)
Charges for services	253,458	253,458	243,493	(9,965)
Interest and rent - interest	380,090	380,090	144,276	(235,814)
Net increase in fair value of investments			17,569	17,569
Miscellaneous	50,000	50,000	3,530	(46,470)
<b>Total revenues</b>	<u>5,368,100</u>	<u>15,992,729</u>	<u>4,802,576</u>	<u>(11,190,153)</u>
<b>EXPENDITURES</b>				
Community development	6,833,937	17,146,795	2,906,734	14,240,061
Debt service:				
Principal retirement	158,000	158,000	158,000	
Interest	218,600	218,600	218,600	
<b>Total expenditures</b>	<u>7,210,537</u>	<u>17,523,395</u>	<u>3,283,334</u>	<u>14,240,061</u>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	<u>(1,842,437)</u>	<u>(1,530,666)</u>	<u>1,519,242</u>	<u>3,049,908</u>
<b>OTHER FINANCING USES:</b>				
Transfers in		37,826	37,826	
Transfers out		(510)	(66,306)	(65,796)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>		<u>37,316</u>	<u>(28,480)</u>	<u>(65,796)</u>
<b>NET CHANGE IN FUND BALANCE</b>	(1,842,437)	(1,493,350)	1,490,762	2,984,112
<b>FUND BALANCES, JULY 1</b>	<u>18,034,335</u>	<u>18,034,335</u>	<u>18,034,335</u>	
<b>FUND BALANCES, JUNE 30</b>	<u>\$ 16,191,898</u>	<u>\$ 16,540,985</u>	<u>\$ 19,525,097</u>	<u>\$ 2,984,112</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, 2009**

	Budget		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Charges for services	\$ 330,000	\$ 340,000	\$ 82,632	\$ (257,368)
Interest and rent - interest			21,258	21,258
Net increase in fair value of investments			6,278	6,278
Total revenues	<u>330,000</u>	<u>340,000</u>	<u>110,168</u>	<u>(229,832)</u>
<b>EXPENDITURES:</b>				
Community development	836,114	931,323	436,261	495,062
Public works				
Total expenditures	<u>836,114</u>	<u>931,323</u>	<u>436,261</u>	<u>495,062</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	(506,114)	(591,323)	(326,093)	265,230
<b>OTHER FINANCING USES:</b>				
Transfer out		(303,692)	(303,692)	
Issuance of loan payable	500,000	500,000	209,575	(290,425)
TOTAL OTHER FINANCING SOURCES (USES)	<u>500,000</u>	<u>196,308</u>	<u>(94,117)</u>	<u>(290,425)</u>
<b>NET CHANGE IN FUND BALANCE</b>	(6,114)	(395,015)	(420,210)	(25,195)
<b>FUND BALANCES, JULY 1</b>	<u>886,816</u>	<u>886,816</u>	<u>886,816</u>	
<b>FUND BALANCES, JUNE 30</b>	<u>\$ 880,702</u>	<u>\$ 491,801</u>	<u>\$ 466,606</u>	<u>\$ (25,195)</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.

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**CITY OF MODESTO**  
**COMBINING STATEMENT OF NET ASSETS - NON MAJOR ENTERPRISE FUNDS**  
**June 30, 2009**

	Parking	Storm Drain	Compost
<b><u>ASSETS</u></b>			
Current assets:			
Cash and cash equivalents	\$ 807,391	\$ 1,856,463	\$ 312,271
Cash and cash equivalents with fiscal agent			
Receivables:			
Accounts	7,558	3,461	135,513
Interest	2,793	2,285	902
Utilities, net		545,050	
Taxes			
Due from governments		19,153	
Property held for resale	630,000		
Total current assets	1,447,742	2,426,412	448,686
Capital assets:			
Land and construction in progress	3,142,479	2,040,190	
Other capital assets, net of accumulated depreciation	6,847,018	16,184,526	1,214,094
Total assets	11,437,239	20,651,128	1,662,780
<b><u>LIABILITIES</u></b>			
Current liabilities:			
Accounts payable	30,499	37,085	27,997
Accrued salaries and benefits	11,129	37,784	9,355
Interest payable			
Due to other funds			
Due to other governments	21,340		536
Current portion - long-term debt			
Deferred revenues			
Total current liabilities	62,968	74,869	37,888
Noncurrent liabilities:			
Obligations under capital leases			
Certificates of participation			
Advances from other funds		1,324,704	
Total liabilities	62,968	1,399,573	37,888
<b><u>NET ASSETS</u></b>			
Invested in capital assets, net of related debt	9,989,497	18,224,716	1,214,094
Unrestricted	1,384,774	1,026,839	410,798
Total net assets	\$ 11,374,271	\$ 19,251,555	\$ 1,624,892

<u>Airport</u>	<u>Golf</u>	<u>Community Center</u>	<u>Total</u>
\$ 1,606,063	\$ 1 603,193	\$ 600,722	\$ 5,182,911 603,193
25,187	35,987	29,492	237,198
5,977		215	12,172
			545,050
18			18
264,360			283,513
			630,000
<u>1,901,605</u>	<u>639,181</u>	<u>630,429</u>	<u>7,494,055</u>
2,916,403	494,938	3,764,844	12,358,854
<u>7,048,171</u>	<u>2,375,836</u>	<u>9,426,091</u>	<u>43,095,736</u>
<u>11,866,179</u>	<u>3,509,955</u>	<u>13,821,364</u>	<u>62,948,645</u>
170,513	3,924	48,249	318,267
9,530		16,749	84,547
	42,848		42,848
	121,108		121,108
522			22,398
	235,000		235,000
	<u>205,431</u>		<u>205,431</u>
<u>180,565</u>	<u>608,311</u>	<u>64,998</u>	<u>1,029,599</u>
	4,975,000		4,975,000
			1,324,704
<u>180,565</u>	<u>5,583,311</u>	<u>64,998</u>	<u>7,329,303</u>
9,964,574	(2,339,226)	13,190,935	50,244,590
<u>1,721,040</u>	<u>265,870</u>	<u>565,431</u>	<u>5,374,752</u>
<u>\$ 11,685,614</u>	<u>\$ (2,073,356)</u>	<u>\$ 13,756,366</u>	<u>\$ 55,619,342</u>

**CITY OF MODESTO**  
**COMBINING STATEMENT OF REVENUES, EXPENSES, AND**  
**CHANGES IN FUND NET ASSETS - NON MAJOR ENTERPRISE FUNDS**  
**Year ended June 30, 2009**

	<u>Parking</u>	<u>Storm Drain</u>	<u>Compost</u>
<b>OPERATING REVENUES:</b>			
Charges for services	\$ 1,246,236	\$ 5,282,333	\$ 1,397,708
Miscellaneous	10,124	18,817	
Total operating revenues	<u>1,256,360</u>	<u>5,301,150</u>	<u>1,397,708</u>
<b>OPERATING EXPENSES:</b>			
Salaries and wages	513,195	1,246,933	316,885
Contractual services	482,309	1,400,796	129,365
Utilities	125,987	22,042	9,859
Maintenance and supplies	286,716	1,042,746	450,883
Insurance	28,070	84,380	7,875
Employee benefits	143,725	561,786	131,799
Administration services	29,570	1,252,466	33,510
Allocated indirect administrative costs	51,500	38,355	54,213
Other	15,761	8,076	1,372
Depreciation	387,047	615,971	72,525
Total operating expenses	<u>2,063,880</u>	<u>6,273,551</u>	<u>1,208,287</u>
<b>OPERATING INCOME (LOSS)</b>	<u>(807,520)</u>	<u>(972,401)</u>	<u>189,421</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Tax revenue			
Tax expense	(20,314)		
Interest income	26,185	3,936	4,079
Net increase in fair value of investments	6,946	5,683	2,243
Rental income			
Interest expense			(1,763)
Trustee fees			
Total nonoperating revenues (expenses)	<u>12,817</u>	<u>9,619</u>	<u>4,559</u>
<b>INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS</b>	<u>(794,703)</u>	<u>(962,782)</u>	<u>193,980</u>
Capital contributions	6,536	147,639	
Transfers in	55,516	1,618,238	45,117
Transfers out	(170)	(18)	(82,223)
<b>CHANGE IN NET ASSETS</b>	<u>(732,821)</u>	<u>803,077</u>	<u>156,874</u>
<b>NET ASSETS (DEFICIT), July 1</b>	<u>12,128,432</u>	<u>18,448,478</u>	<u>1,468,554</u>
<b>PRIOR PERIOD ADJUSTMENT</b>	<u>(21,340)</u>		<u>(536)</u>
<b>NET ASSETS (DEFICIT), June 30</b>	<u>\$ 11,374,271</u>	<u>\$ 19,251,555</u>	<u>\$ 1,624,892</u>

<u>Airport</u>	<u>Golf</u>	<u>Community Center</u>	<u>Total</u>
\$ 649,087	\$ 1,984,708	\$ 484,601	\$ 11,044,672
12,438	61	8,388	49,828
<u>661,524</u>	<u>1,984,769</u>	<u>492,989</u>	<u>11,094,500</u>
360,166		730,150	3,167,329
44,163	1,787,155	66,012	3,909,800
120,961	191	208,522	487,562
379,566	12,487	273,878	2,446,275
24,957	13,831	50,027	209,140
163,674		225,285	1,226,270
115,239	25,764	10,648	1,467,197
77,865	12,931		234,864
51,915	1,358	4,573	83,055
<u>378,673</u>	<u>314,078</u>	<u>763,836</u>	<u>2,532,130</u>
<u>1,717,179</u>	<u>2,167,795</u>	<u>2,332,931</u>	<u>15,763,623</u>
<u>(1,055,655)</u>	<u>(183,026)</u>	<u>(1,839,942)</u>	<u>(4,669,123)</u>
202,460			202,460
(387)			(20,701)
43,063	(119)	5,917	83,061
14,864	(2,782)	(317)	26,637
178,182	87,868	486,424	752,474
	(271,986)		(273,749)
	(5,600)		(5,600)
<u>438,182</u>	<u>(192,619)</u>	<u>492,024</u>	<u>764,582</u>
(617,473)	(375,645)	(1,347,918)	(3,904,541)
536,693			690,868
54,438	50,000	640,364	2,463,673
<u>(100)</u>			<u>(82,511)</u>
(26,442)	(325,645)	(707,554)	(832,511)
11,712,578	(1,747,711)	14,463,920	56,474,251
<u>(522)</u>			<u>(22,398)</u>
<u>\$ 11,685,614</u>	<u>\$ (2,073,356)</u>	<u>\$ 13,756,366</u>	<u>\$ 55,619,342</u>

**CITY OF MODESTO**  
**COMBINING STATEMENT OF CASH FLOWS - NONMAJOR ENTERPRISE FUNDS**  
Year ended June 30, 2009

	Parking	Storm Drain	Compost
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Receipts from customers and users	\$ 1,249,061	\$ 5,273,342	\$ 1,331,353
Receipts from interfund services provided		22,229	22,229
Payments to suppliers	(645,554)	(1,859,435)	(550,786)
Payments to employees	(654,001)	(1,799,906)	(446,830)
Payments for interfund services used	(399,505)	(2,005,669)	(142,689)
Net cash provided (used) by operating activities	(449,999)	(369,438)	213,276
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>			
Operating grants received			
Taxes received			
Transfers in	55,516	1,618,238	45,117
Transfers out	(170)	(18)	(82,223)
New advances from other funds			
Net cash provided (used) by noncapital financing activities	55,346	1,618,220	(37,106)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>			
Acquisition and construction of capital assets		(148,116)	(138,947)
Principal repayments			(77,485)
Interest paid			(3,487)
Trustee fees			
Capital grants received		133,097	
Net cash used by capital and related financing activities		(15,019)	(219,919)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Interest received	29,747	5,516	4,695
Net increase in the fair value of investments	6,946	5,683	2,243
Net cash provided by investing activities	36,693	11,199	6,938
Net increase (decrease) in cash and cash equivalents	(357,960)	1,244,962	(36,810)
CASH AND CASH EQUIVALENTS, JULY 1	1,165,351	611,501	349,081
CASH AND CASH EQUIVALENTS, JUNE 30	\$ 807,391	\$ 1,856,463	\$ 312,271
<b>RECONCILIATION TO STATEMENT OF NET ASSETS:</b>			
Cash and cash equivalents	\$ 807,391	\$ 1,856,463	\$ 312,271
Cash and cash equivalents with fiscal agent			
<b>TOTAL CASH AND CASH EQUIVALENTS</b>	<b>\$ 807,391</b>	<b>\$ 1,856,463</b>	<b>\$ 312,271</b>

Airport	Golf	Community Center	Total
\$ 803,733	\$ 2,054,459	\$ 981,377	\$ 11,693,325
			44,458
(356,849)	(1,537,545)	(420,114)	(5,370,283)
(522,783)		(951,571)	(4,375,091)
<u>(288,761)</u>	<u>(205,216)</u>	<u>(168,677)</u>	<u>(3,210,516)</u>
<u>(364,659)</u>	<u>311,698</u>	<u>(558,985)</u>	<u>(1,218,107)</u>
202,460			202,460
54,438	50,000	640,364	2,463,673
(100)			(82,511)
<u>256,798</u>	<u>50,000</u>	<u>640,364</u>	<u>2,583,622</u>
(224,113)	1	(1)	(511,176)
	(225,000)		(302,485)
	(276,203)		(279,690)
	(5,600)		(5,600)
<u>496,935</u>			<u>630,032</u>
<u>272,822</u>	<u>(506,802)</u>	<u>(1)</u>	<u>(468,919)</u>
43,999	(119)	5,935	89,773
14,864	(2,782)	(317)	26,637
<u>58,863</u>	<u>(2,901)</u>	<u>5,618</u>	<u>116,410</u>
223,823	(148,005)	86,996	1,013,006
<u>1,382,240</u>	<u>751,199</u>	<u>513,726</u>	<u>4,773,098</u>
<u>\$ 1,606,063</u>	<u>\$ 603,194</u>	<u>\$ 600,722</u>	<u>\$ 5,786,104</u>
\$ 1,606,063	\$ 1	\$ 600,722	\$ 5,182,911
	603,193		603,193
<u>\$ 1,606,063</u>	<u>\$ 603,194</u>	<u>\$ 600,722</u>	<u>\$ 5,786,104</u>

**CITY OF MODESTO**  
**COMBINING STATEMENT OF CASH FLOWS - NON MAJOR ENTERPRISE FUNDS (Continued)**  
**Year ended June 30, 2009**

	Parking	Storm Drain	Compost
<b>RECONCILIATION OF OPERATING INCOME (LOSS)</b>			
<b>TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</b>			
Operating income (loss)	\$ (807,520)	\$ (972,401)	\$ 189,421
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	387,047	615,971	72,525
Rental income			
Taxes paid	(20,314)		
Change in assets and liabilities:			
(Increase) decrease in accounts receivable	(7,299)	7,121	(44,126)
(Increase) in utilities receivable		(12,700)	
Increase (decrease) in accounts payable and accrued expenses	(4,832)	(16,242)	(6,397)
Increase in accrued salaries and benefits	2,919	8,813	1,854
Increase (decrease) in due to other funds			
Increase in deferred revenues			
Total adjustments	357,521	602,963	23,856
Net cash provided (used) by operating activities	\$ (449,999)	\$ (369,438)	\$ 213,276

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

Capital assets transferred from other funds  
Developer infrastructure contributions

<u>Airport</u>	<u>Golf</u>	<u>Community Center</u>	<u>Total</u>
\$ <u>(1,055,655)</u>	\$ <u>(183,026)</u>	\$ <u>(1,839,942)</u>	\$ <u>(4,669,123)</u>
378,673	314,078	763,836	2,532,130
178,182	87,868	486,424	752,474
794			(19,520)
(10,972)	(17,742)	1,964	(71,054)
			(12,700)
169,442	(10,152)	24,869	156,688
1,058		3,864	18,508
	121,108		121,108
(26,182)	(436)		(26,618)
<u>690,996</u>	<u>494,724</u>	<u>1,280,957</u>	<u>3,451,016</u>
\$ <u><u>(364,659)</u></u>	\$ <u><u>311,698</u></u>	\$ <u><u>(558,985)</u></u>	\$ <u><u>(1,218,107)</u></u>

## 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, 2009**

	<u>Fleet Management</u>	<u>Central Services</u>	<u>Information &amp; Technology Services</u>
<b><u>ASSETS</u></b>			
Current assets:			
Cash and cash equivalents	\$ 9,157,896	\$ 1,081,671	\$ 3,457,541
Receivables:			
Accounts receivable	8,392		
Interest	29,151	2,415	12,303
Inventories		912,062	
Due from governments			
Due from other funds	101,576		
Total current assets	<u>9,297,015</u>	<u>1,996,148</u>	<u>3,469,844</u>
Noncurrent assets:			
Notes receivable, net			
Land and construction in progress	821,033		
Other capital assets, net of accumulated depreciati	14,576,970	57,711	2,565,985
Total assets	<u>24,695,018</u>	<u>2,053,859</u>	<u>6,035,829</u>
<b><u>LIABILITIES</u></b>			
Current liabilities:			
Accounts payable	122,414	616,708	42,843
Accrued salaries and benefits	35,037	8,544	60,426
Interest Payable			
Current portion - compensated absences			
Current portion - claims liability			
Current portion - long-term debt	31,816		70,716
Total current liabilities	<u>189,267</u>	<u>625,252</u>	<u>173,985</u>
Noncurrent liabilities:			
Compensated absences			
Claims liability			
Net OPEB obligation			
Long-term debt:			
Notes payable	54,436		
Obligations under capital leases			
Total liabilities	<u>243,703</u>	<u>625,252</u>	<u>173,985</u>
<b><u>NET ASSETS</u></b>			
Invested in capital assets, net of related debt	15,366,187	57,711	2,495,269
Unrestricted	9,085,128	1,370,896	3,366,575
Total net assets	<u>\$ 24,451,315</u>	<u>\$ 1,428,607</u>	<u>\$ 5,861,844</u>

<u>Insurance</u>	<u>Employee Benefits Management</u>	<u>Building Services</u>	<u>Total</u>
\$ 18,339,685	\$ 18,418,622	\$ 111,601	\$ 50,567,016
110,785			119,177
25,356	69,186	620	139,031
			912,062
			101,576
<u>18,475,826</u>	<u>18,487,808</u>	<u>112,221</u>	<u>51,838,862</u>
			821,033
5,921	2,663	117,769	17,327,019
<u>18,481,747</u>	<u>18,490,471</u>	<u>229,990</u>	<u>69,986,914</u>
730,907	687,962	69,360	2,270,194
12,765	2,817	11,879	131,468
	5,769,489		5,769,489
5,508,101			5,508,101
			102,532
<u>6,251,773</u>	<u>6,460,268</u>	<u>81,239</u>	<u>13,781,784</u>
15,917,452	5,833,154		5,833,154
	41,209,238		15,917,452
			41,209,238
			54,436
<u>22,169,225</u>	<u>53,502,660</u>	<u>81,239</u>	<u>76,796,064</u>
5,921	2,663	117,769	18,045,520
(3,693,399)	(35,014,852)	30,982	(24,854,670)
<u>\$ (3,687,478)</u>	<u>\$ (35,012,189)</u>	<u>\$ 148,751</u>	<u>\$ (6,809,150)</u>

**CITY OF MODESTO**  
**COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES**  
**IN FUND NET ASSETS - INTERNAL SERVICE FUNDS**  
Year ended June 30, 2009

	<u>Fleet Management</u>	<u>Central Services</u>	<u>Information &amp; Technology Services</u>
<b>OPERATING REVENUES:</b>			
Charges for services	\$ 7,392,653	\$ 88,923	\$ 5,899,742
Sales		5,854,261	
Cost of sales		(5,229,469)	
Total operating revenues	<u>7,392,653</u>	<u>713,715</u>	<u>5,899,742</u>
<b>OPERATING EXPENSES:</b>			
Salaries and wages	988,889	260,391	2,193,989
Contractual services	577,565	101,598	417,981
Utilities	7,586	1,110	242,344
Maintenance and supplies	2,468,456	43,965	1,591,778
Insurance	64,564	5,728	43,834
Claims expense			
Employee benefits	503,046	117,945	802,541
Administration services	120,452	7,827	663
Allocated indirect administrative costs	280,761		
Other	34,971	506	16,660
Depreciation	2,875,100	9,392	403,422
Total operating expenses	<u>7,921,390</u>	<u>548,462</u>	<u>5,713,212</u>
<b>OPERATING INCOME (LOSS)</b>	<u>(528,737)</u>	<u>165,253</u>	<u>186,530</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Operating grant			122,006
Loss on disposition of capital assets	(573,174)		(259,239)
Interest income	496,760	15,469	96,520
Net increase (decrease) in fair value of investments	70,403	6,005	30,598
Interest expense	(6,159)		(8,323)
Total nonoperating revenues (expenses)	<u>(12,170)</u>	<u>21,474</u>	<u>(18,438)</u>
<b>INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS</b>	<u>(540,907)</u>	<u>186,727</u>	<u>168,092</u>
Capital contributions	22,674		10,416
Transfers in	217,600	50,030	192,932
Transfers out	(6,027,437)		(968,384)
<b>CHANGE IN NET ASSETS</b>	<u>(6,328,070)</u>	<u>236,757</u>	<u>(596,944)</u>
<b>NET ASSETS (DEFICITS), July 1, (as restated)</b>	<u>30,472,131</u>	<u>1,191,850</u>	<u>6,458,788</u>
<b>PRIOR PERIOD ADJUSTMENTS</b>	<u>307,254</u>		
<b>NET ASSETS (DEFICITS), June 30</b>	<u>\$ 24,451,315</u>	<u>\$ 1,428,607</u>	<u>\$ 5,861,844</u>

<u>Insurance</u>	<u>Employee Benefits Management</u>	<u>Building Services</u>	<u>Total</u>
\$ 26,175,771	\$ 3,002,442	\$ 2,077,055	\$ 44,636,586
			5,854,261
			(5,229,469)
<u>26,175,771</u>	<u>3,002,442</u>	<u>2,077,055</u>	<u>45,261,378</u>
414,150	89,457	754,865	4,701,741
49,345	119,266	458,856	1,724,611
1,000		208,664	460,704
9,702	13,277	265,993	4,393,171
15,658,031	2,235	28,060	15,802,452
7,956,641			7,956,641
172,848	8,928,469	369,772	10,894,621
1,496,924	53,021	30,948	1,709,835
			280,761
22,134	8,859	1,665	84,795
5,189	534	4,773	3,298,410
<u>25,785,964</u>	<u>9,215,118</u>	<u>2,123,596</u>	<u>51,307,742</u>
<u>389,807</u>	<u>(6,212,676)</u>	<u>(46,541)</u>	<u>(6,046,364)</u>
			122,006
		(7,615)	(840,028)
768,757	550,252	49,323	1,977,081
63,066	172,066	28	342,166
			(14,482)
<u>831,823</u>	<u>722,318</u>	<u>41,736</u>	<u>1,586,743</u>
1,221,630	(5,490,358)	(4,805)	(4,459,621)
			33,090
180,859		59,847	701,268
(172,694)	(42,000)	(69,595)	(7,280,110)
1,229,795	(5,532,358)	(14,553)	(11,005,373)
(4,917,273)	(29,479,831)	163,304	3,888,969
			307,254
<u>\$ (3,687,478)</u>	<u>\$ (35,012,189)</u>	<u>\$ 148,751</u>	<u>\$ (6,809,150)</u>

**CITY OF MODESTO**  
**COMBINING STATEMENT OF CASH FLOWS - INTERNAL SERVICE FUNDS**  
**Year ended June 30, 2009**

	<u>Fleet Management</u>	<u>Central Services</u>	<u>Information &amp; Technology Services</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Receipts from customers and users	\$ 2,391,509	\$ 15,590	
Receipts from interfund services provided	4,993,075	698,125	\$ 5,899,742
Payments to suppliers	(3,062,306)	7,295	(2,320,213)
Payment of insurance claims			
Payments to employees	(1,486,425)	(376,451)	(2,990,651)
Payments for interfund services used	(580,579)	(62,204)	(45,878)
Net cash provided (used) by operating activities	<u>2,255,274</u>	<u>282,355</u>	<u>543,000</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>			
Transfers in	217,600	50,030	192,932
Transfers out	(6,027,437)		(968,384)
Due from other funds	(101,576)		
Operating grants received			122,006
Net cash provided (used) by noncapital financing activities	<u>(5,911,413)</u>	<u>50,030</u>	<u>(653,446)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>			
Acquisition and construction of capital assets	(1,964,260)	(1)	(538,304)
Proceeds from sale of capital assets	(573,174)		13,877
Principal repayments	(29,968)		(66,676)
Interest paid	(6,159)		(8,323)
Net cash used by capital and related financing activities	<u>(2,573,561)</u>	<u>(1)</u>	<u>(599,426)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Interest received	513,724	15,736	105,634
Net increase in the fair value of investments	70,403	6,005	30,598
Net cash provided by investing activities	<u>584,127</u>	<u>21,741</u>	<u>136,232</u>
Net increase (decrease) in cash and cash equivalents	(5,645,573)	354,125	(573,640)
PRIOR PERIOD ADJUSTMENTS	307,254		
CASH AND CASH EQUIVALENTS, JULY 1	<u>14,496,215</u>	<u>727,546</u>	<u>4,031,181</u>
CASH AND CASH EQUIVALENTS, JUNE 30	<u>\$ 9,157,896</u>	<u>\$ 1,081,671</u>	<u>\$ 3,457,541</u>



**CITY OF MODESTO**  
**COMBINING STATEMENT OF CASH FLOWS - INTERNAL SERVICE FUNDS (Continued)**  
**Year ended June 30, 2009**

	<u>Fleet Management</u>	<u>Central Services</u>	<u>Information &amp; Technology Services</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
Operating income (loss)	\$ <u>(528,737)</u>	\$ <u>165,253</u>	\$ <u>186,530</u>
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	2,875,100	9,392	403,422
Change in assets and liabilities:			
(Increase) decrease in accounts receivable	(8,069)		
(Increase) decrease in due from governments			
Decrease in inventories		(369,438)	
Increase (decrease) in accounts payable and accrued expenses	(88,530)	475,263	(52,831)
Increase in accrued salaries and benefits payable	5,510	1,885	5,879
Increase in compensated absences and OPEB			
Decrease in claims liability			
Total adjustments	<u>2,784,011</u>	<u>117,102</u>	<u>356,470</u>
Net cash provided (used) by operating activities	<u>\$ 2,255,274</u>	<u>\$ 282,355</u>	<u>\$ 543,000</u>

NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

New capital lease transaction			\$ 10,416
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<u>Insurance</u>	<u>Employee Benefits Management</u>	<u>Building Services</u>	<u>Total</u>
\$ <u>389,807</u>	\$ <u>(6,212,676)</u>	\$ <u>(46,541)</u>	\$ <u>(6,046,364)</u>
5,189	534	4,773	3,298,410
305,632		1,328	298,891
			(369,438)
206,147	(75,590)	23,805	488,264
2,242	367	(10,264)	5,619
	3,328,204		3,328,204
<u>(1,524,319)</u>			<u>(1,524,319)</u>
<u>(1,005,109)</u>	<u>3,253,515</u>	<u>19,642</u>	<u>5,525,631</u>
\$ <u><u>(615,302)</u></u>	\$ <u><u>(2,959,161)</u></u>	\$ <u><u>(26,899)</u></u>	\$ <u><u>(520,733)</u></u>
		\$ 59,847	\$ 70,263

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

**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.

**Ceres-Modesto Fire Protection Agency** - 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, 2009

	Balance June 30, 2008	<u>Additions</u>	<u>Deletions</u>	Balance June 30, 2009
<hr/> <u>Special Districts</u> <hr/>				
<u>ASSETS</u>				
Cash and cash equivalents	\$ 3,069,678	\$ 3,058,101	\$ 2,070,419	\$ 4,057,360
Cash and cash equivalents with fiscal agent	3,955,325	1,921,833	1,981,142	3,896,016
	<u>\$ 7,025,003</u>	<u>\$ 4,979,934</u>	<u>\$ 4,051,561</u>	<u>\$ 7,953,376</u>
<u>LIABILITIES</u>				
Due to special district bondholders	\$ 7,025,003	\$ 4,979,934	\$ 4,051,561	\$ 7,953,376
<hr/> <u>Tuolumne River Regional Park</u> <hr/>				
<u>ASSETS</u>				
Cash and cash equivalents	\$ 39,997	\$ 2,651,625	\$ 2,691,625	\$ (3)
<u>LIABILITIES</u>				
Deposits held as agent for others	\$ 39,997	\$ 2,651,625	\$ 2,691,625	\$ (3)
<hr/> <u>City/County Joint Powers Financing Authority</u> <hr/>				
<u>ASSETS</u>				
Cash and cash equivalents	\$ 221,239	\$ 1,718,310	\$ 1,670,490	\$ 269,059
<u>LIABILITIES</u>				
Deposits held as agent for others	\$ 221,239	\$ 1,718,310	\$ 1,670,490	\$ 269,059
<hr/> <u>Stanislaus Drug Enforcement Agency</u> <hr/>				
<u>ASSETS</u>				
Cash and cash equivalents	\$ 1,863,846	\$ 2,973,971	\$ 2,268,377	\$ 2,569,440
<u>LIABILITIES</u>				
Deposits held as agent for others	\$ 1,863,846	\$ 2,973,971	\$ 2,268,377	\$ 2,569,440
<hr/> <u>Industrial Fire District</u> <hr/>				
<u>ASSETS</u>				
Cash and cash equivalents	\$ 62,441	\$ 1,036,030	\$ 861,907	\$ 236,564
<u>LIABILITIES</u>				
Deposits held as agent for others	\$ 62,441	\$ 1,036,030	\$ 861,907	\$ 236,564
<hr/> <u>Totals - All Agency Funds</u> <hr/>				
<u>ASSETS</u>				
Cash and cash equivalents	\$ 5,257,201	\$ 11,438,037	\$ 9,562,818	\$ 7,132,420
Cash and cash equivalents with fiscal agent	3,955,325	1,921,833	1,981,142	3,896,016
	<u>\$ 9,212,526</u>	<u>\$ 13,359,870</u>	<u>\$ 11,543,960</u>	<u>\$ 11,028,436</u>
<u>LIABILITIES</u>				
Due to special district bondholders	\$ 7,025,003	\$ 4,979,934	\$ 4,051,561	\$ 7,953,376
Deposits held as agent for others	2,187,523	8,379,936	7,492,399	3,075,060
	<u>\$ 9,212,526</u>	<u>\$ 13,359,870</u>	<u>\$ 11,543,960</u>	<u>\$ 11,028,436</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

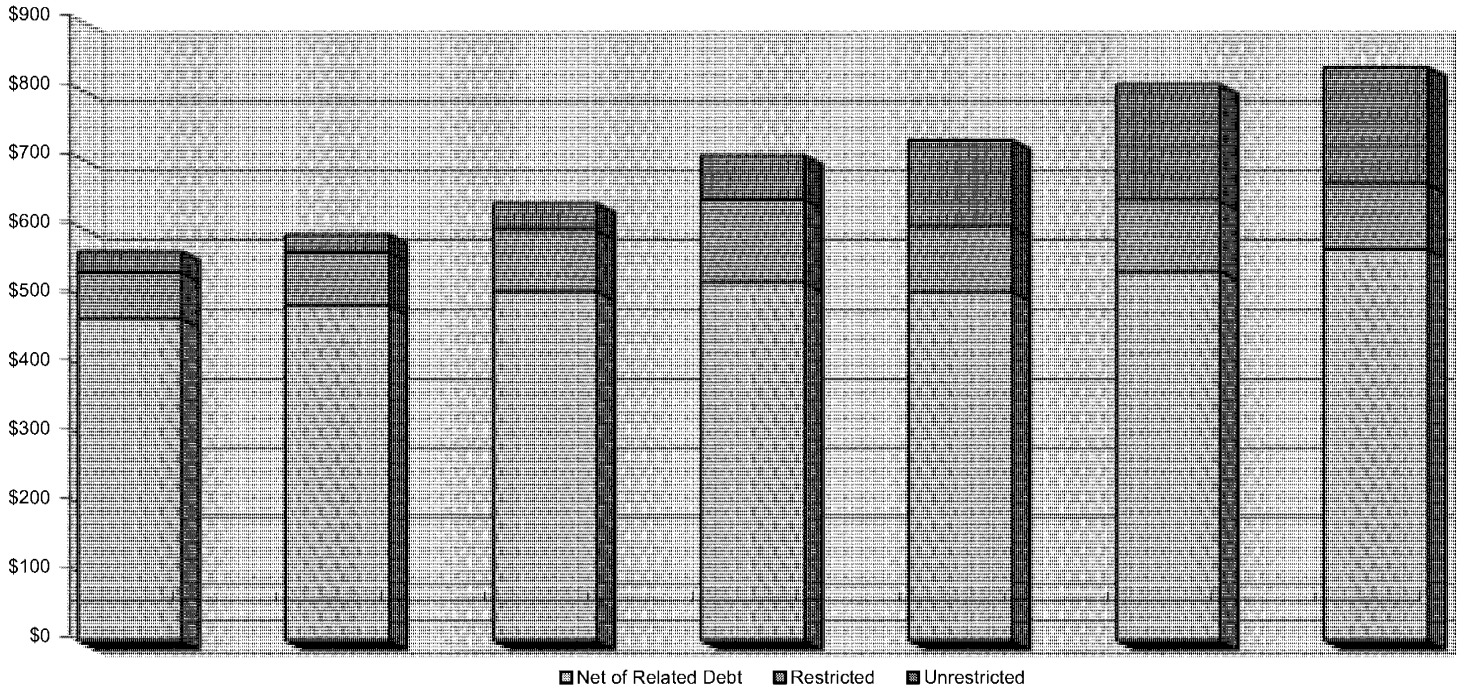
### Operating Information

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)



	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
<b>Governmental activities</b>							
Invested in capital assets, net of related debt	\$259,156,770	\$275,171,096	\$288,391,776	\$296,401,824	\$333,409,532	\$339,396,266	\$347,357,492
Restricted	65,766,576	76,577,126	88,725,341	120,937,678	93,168,664	102,602,698	94,819,773
Unrestricted	2,530,581	(11,382,001)	(6,715,483)	(2,303,306)	(12,566,297)	4,627,884	(472,402)
<b>Total governmental activities net assets</b>	<b><u>\$327,453,927</u></b>	<b><u>\$340,366,221</u></b>	<b><u>\$370,401,634</u></b>	<b><u>\$415,036,196</u></b>	<b><u>\$414,011,899</u></b>	<b><u>\$446,626,848</u></b>	<b><u>441,704,863</u></b>
<b>Business-type activities</b>							
Invested in capital assets, net of related debt	\$206,792,699	\$209,230,461	\$216,558,150	\$220,881,691	\$170,791,021	\$194,435,373	\$218,432,739
Restricted	756,245	763,190	88,725,341	120,937,678	93,168,664	102,602,698	94,819,773
Unrestricted	28,786,201	37,266,369	45,548,813	66,550,276	139,613,374	163,792,245	169,639,845
<b>Total business-type activities net assets</b>	<b><u>\$236,335,145</u></b>	<b><u>\$247,260,020</u></b>	<b><u>\$262,106,963</u></b>	<b><u>\$287,431,967</u></b>	<b><u>\$310,404,395</u></b>	<b><u>\$358,227,618</u></b>	<b><u>\$388,072,584</u></b>
<b>Primary government</b>							
Invested in capital assets, net of related debt	\$465,949,469	\$484,401,557	\$504,949,926	\$517,283,515	\$504,200,553	\$533,831,639	\$565,790,231
Restricted	66,522,821	77,340,316	88,725,341	120,937,678	93,168,664	102,602,698	94,819,773
Unrestricted	31,316,782	25,884,368	38,833,330	64,246,970	127,047,077	168,420,129	169,167,443
<b>Total primary government net assets</b>	<b><u>\$563,789,072</u></b>	<b><u>\$587,626,241</u></b>	<b><u>\$632,508,597</u></b>	<b><u>\$702,468,163</u></b>	<b><u>\$724,416,294</u></b>	<b><u>\$804,854,466</u></b>	<b><u>\$829,777,447</u></b>

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

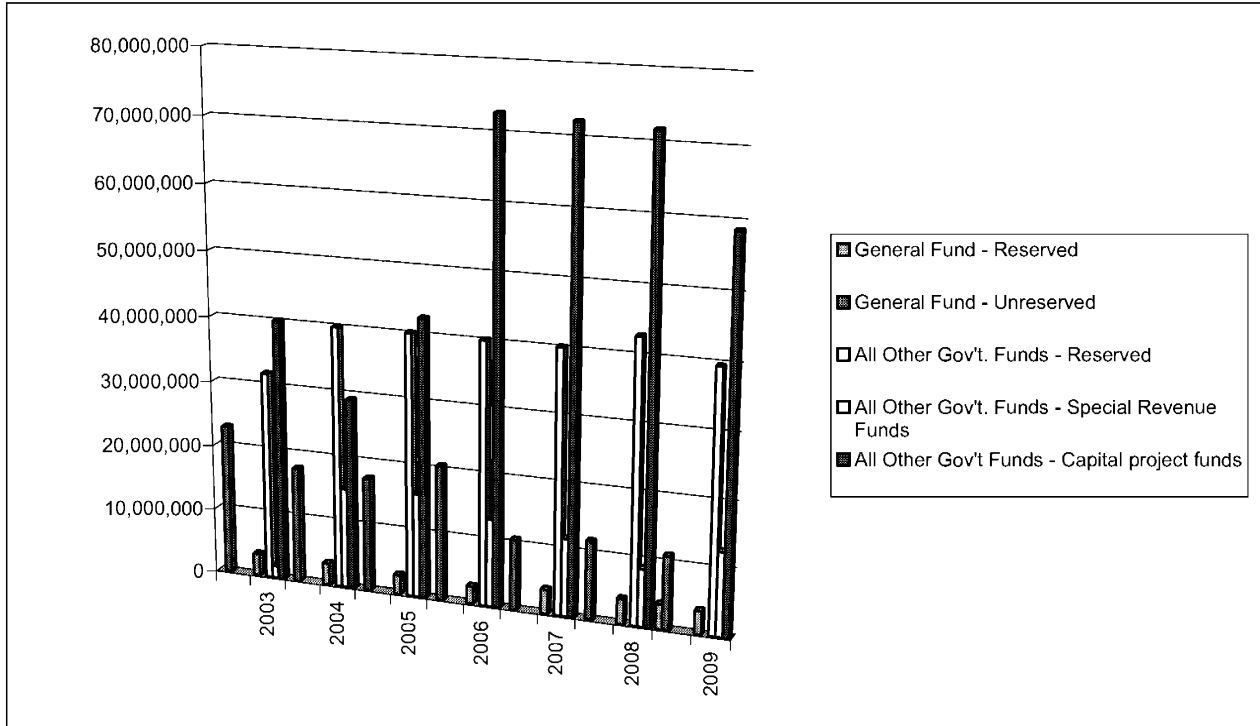
	2003	2004	2005	2006	2007	2008	2009
<b>Expenses</b>							
<b>Governmental Activities:</b>							
General Government	\$12,557,259	\$13,954,909	\$15,273,174	\$15,529,735	\$17,227,876	\$15,997,582	\$12,700,264
Community Development	13,823,955	\$10,517,243	\$14,105,411	\$12,241,213	12,025,105	14,619,525	14,694,997
Highways and streets	19,656,219	23,136,950	23,721,458	26,025,311	26,246,306	26,436,475	23,682,253
Public works	6,843,742	6,458,522	5,263,984	6,491,062	12,557,512	11,471,344	9,151,786
Parks and Recreation	167,234,75	12,682,746	13,334,330	11,733,698	14,568,192	14,264,334	15,070,007
Public safety	64,410,214	68,258,235	71,239,341	74,500,043	83,793,361	88,651,249	84,395,987
Interest on Long Term Debt	4,612,885	4,515,439	4,987,911	5,178,130	7,286,026	4,998,482	6,114,875
<b>Total Governmental Activities Expenses</b>	<b>138,627,749</b>	<b>139,524,044</b>	<b>147,925,609</b>	<b>151,699,192</b>	<b>173,704,378</b>	<b>176,438,991</b>	<b>165,810,169</b>
<b>Business-Type Activities:</b>							
Parking	1,153,145	651,330	1,162,479	1,287,450	1,475,340	1,982,066	2,011,386
Water	30,874,820	27,051,982	30,691,348	29,989,775	35,540,918	36,713,351	38,190,214
Sewer	23,266,170	21,386,084	22,422,268	22,716,100	24,156,577	23,974,989	22,416,713
Storm Drain	5,940,261	5,327,334	6,111,317	5,795,746	6,924,335	6,349,113	6,140,963
Compost				941,919	1,225,462	1,312,511	1,130,816
Airport	971,865	1,120,922	1,131,889	1,342,645	2,039,988	1,444,667	1,682,644
Bus	9,745,477	10,122,176	11,074,907	12,119,311	13,758,421	14,834,612	15,210,224
Golf	2,475,913	2,432,202	2,354,759	2,461,470	2,479,447	2,497,161	2,440,599
Community Center	2,390,517	2,078,752	2,323,169	2,465,644	2,543,121	2,465,825	2,303,256
<b>Total Business-Type Activities Expenses</b>	<b>76,818,168</b>	<b>70,170,782</b>	<b>77,272,136</b>	<b>79,120,060</b>	<b>90,143,609</b>	<b>91,574,295</b>	<b>91,526,815</b>
<b>Total Primary Government Expenses</b>	<b>\$215,445,917</b>	<b>\$209,694,826</b>	<b>\$225,197,745</b>	<b>\$230,819,252</b>	<b>\$263,847,987</b>	<b>\$268,013,286</b>	<b>\$257,336,984</b>
<b>Program Revenues</b>							
<b>Governmental Activities:</b>							
<b>Charges for Services:</b>							
General Government	\$3,453,403	\$3,321,760	\$3,252,732	\$4,179,505	\$3,775,368	\$6,726,893	\$6,987,127
Community Development	11,566,306	9,592,055	11,294,130	9,466,082	10,873,541	7,869,742	4,788,324
Highway and streets	1,303,305	2,005,336	14,081,840	12,104,089	10,719,009	5,804,342	8,222,178
Public Safety	9,173,932	9,267,650	2,024,509	1,986,957	1,757,648	5,110,428	1,349,956
Parks and Recreation	3,835,652	3,992,598	4,821,884	4,928,366	4,437,320	5,590,196	4,006,123
Public Safety	5,925,096	6,794,911	8,011,509	7,124,387	8,414,456	4,868,612	4,625,935
Operating Grants and Contributions	9,413,521	15,975,814	13,736,453	11,892,511	12,701,177	14,221,390	11,424,548
Capital Grants and Contributions	23,297,198	18,368,908	22,799,320	38,484,548	4,207,389	17,930,957	6,595,213
<b>Total Government Activities Program Revenues</b>	<b>67,968,413</b>	<b>69,319,032</b>	<b>80,022,377</b>	<b>90,166,445</b>	<b>56,885,908</b>	<b>68,122,560</b>	<b>\$47,999,404</b>
<b>Business-Type Activities:</b>							
<b>Charges for Services:</b>							
Parking	824,917	890,263	908,920	1,176,061	1,128,755	1,297,484	1,256,360
Water	28,200,885	31,353,046	31,315,920	42,639,348	49,305,033	51,679,042	53,218,692
Sewer	23,556,044	25,292,995	24,419,607	23,083,280	24,833,019	29,340,615	35,854,857
Storm Drain	5,169,831	5,227,844	5,162,217	5,277,304	5,403,474	5,338,838	5,301,150
Compost				1,317,105	1,254,137	1,075,032	1,397,708
Airport	590,960	559,479	559,215	577,688	604,214	593,349	661,524
Bus	2,137,065	2,077,503	2,264,506	2,645,622	2,545,790	3,182,762	2,944,108
Golf	2,120,689	2,160,223	2,115,712	2,222,738	2,189,384	2,124,672	1,984,769
Community Center	467,229	496,680	504,338	543,085	552,878	532,471	492,989
Operating Grants and Contributions	5,119,474	6,217,613	7,525,367	8,317,889	11,059,129	12,459,707	11,462,346
Capital Grants and Contributions	13,603,460	10,145,892	8,498,408	10,467,873	7,962,675	9,793,356	4,527,875
<b>Total Business-Type Activities Program Revenue</b>	<b>81,790,554</b>	<b>84,421,538</b>	<b>83,274,210</b>	<b>98,267,993</b>	<b>106,838,488</b>	<b>117,417,328</b>	<b>119,102,378</b>
<b>Total Primary Government Program Revenues</b>	<b>\$149,758,967</b>	<b>\$153,740,570</b>	<b>\$163,296,587</b>	<b>\$188,434,438</b>	<b>\$163,724,396</b>	<b>\$185,539,888</b>	<b>167,101,782</b>
<b>Net (Expense)/Revenue</b>							
Governmental Activities	(\$70,659,336)	(\$70,205,012)	(\$67,903,232)	(\$61,532,747)	(116,818,470)	(108,316,431)	(117,810,765)
Business-Type Activities	4,972,386	14,250,756	6,002,074	19,147,933	16,694,879	25,843,033	27,575,563
<b>Total Primary Government Net Expense</b>	<b>(\$65,686,950)</b>	<b>(\$55,954,256)</b>	<b>(\$61,901,158)</b>	<b>(\$42,384,814)</b>	<b>(\$100,123,591)</b>	<b>(\$82,473,398)</b>	<b>(\$90,235,202)</b>

(continued)

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

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
General Revenues and Other Changes in Net Assets							
Governmental Activities:							
Taxes:							
Utility Users Tax	\$13,732,571	\$14,659,986	\$15,621,566	\$17,583,690	\$18,319,573	\$19,173,295	19,093,222
Property taxes, levied for general purposes	10,169,004	11,294,599	11,316,694	14,318,747	16,456,379	16,202,587	13,863,471
Tax increments for redevelopment agency	2,631,695	3,183,871	3,909,452	4,450,836	5,303,521	5,813,822	6,228,634
Transient occupancy tax	2,097,901	2,110,909	2,098,303	2,181,467	2,264,699	2,038,255	1,853,732
Franchise tax	3,360,976	3,455,535	3,420,453	3,693,307	3,823,216	7,735,131	4,779,854
Business license tax - for general purposes	9,238,797	9,231,136	9,726,816	10,374,157	10,359,058	9,680,721	9,330,563
Business license tax - for downtown improvement district	172,847	190,644	201,308	214,022	221,487	202,100	196,253
Grants and contributions not restricted to specific programs:							
Sales tax	25,887,064	27,151,779	26,589,449	29,627,835	27,884,852	26,305,982	24,578,230
Motor vehicle license fee	11,746,283	9,052,449	16,403,864	14,986,883	16,233,262	16,856,108	15,255,503
Other	922,237	1,204,485	1,702,234	4,070,593	4,169,354	917,347	3,285,651
Unrestricted investment earnings	3,645,205	1,004,974	4,463,080	3,255,401	8,330,079	9,960,367	5,247,506
Miscellaneous	2,220,976	2,479,871	3,792,340	2,827,161	3,582,325	3,469,916	5,809,581
Transfers	(1,824,890)	(1,902,932)	(1,306,914)	(1,416,790)	(1,153,632)	(779,437)	(5,490,881)
Special Item - PCE legal fees							
Total Government Activities	<u>84,000,666</u>	<u>83,117,306</u>	<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>
Business-Type Activities:							
Taxes:							
Property taxes, generated by and allocated to the airport	166,043	204,091	239,518	166,641	209,722	182,031	202,460
Business license tax, generated by and allocated to the airport	21,816	7,870	20,546	41,108	13,054	19,188	
Unrestricted investment earnings	2,003,214	857,751	1,819,870	2,504,291	5,406,639	7,099,765	6,227,615
Miscellaneous			1,306,914				253,032
Transfers	1,824,890	1,902,932	7,396,627	1,416,790	1,153,632	779,437	5,490,881
Settlements and Recoveries				3,784,295		14,525,389	
Special item	(4,753,884)	(6,298,525)	(1,938,606)	(1,736,054)	(505,498)	(625,620)	(2,211,514)
Total Business-Type Activities	<u>(737,921)</u>	<u>(3,325,881)</u>	<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>
Total Primary Government	<u>\$83,262,745</u>	<u>\$79,791,425</u>	<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>
Change in Net Assets							
Governmental Activities	\$13,341,330	\$12,912,294	\$30,035,413	\$44,634,562	(\$1,024,297)	\$9,259,763	(\$13,779,446)
Business-Type Activities	4,234,465	10,924,875	14,846,943	25,325,004	22,972,428	47,823,223	37,538,037
Total Primary Government	<u>\$17,575,795</u>	<u>\$23,837,169</u>	<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>

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



	2003	2004	2005	2006	2007	2008	2009
<b>General Fund</b>							
Reserved	\$3,393,560	\$3,327,569	\$2,955,054	\$2,702,381	\$3,734,973	\$3,816,559	\$3,568,273
Unreserved	23,008,629	17,651,800	17,460,005	20,607,134	10,713,910	11,942,168	11,185,485
<b>Total General Fund</b>	<b>\$26,402,189</b>	<b>\$20,979,369</b>	<b>\$20,415,059</b>	<b>\$23,309,515</b>	<b>\$14,448,883</b>	<b>\$15,758,727</b>	<b>\$14,753,758</b>
<b>All Other Governmental Funds</b>							
Reserved	\$31,889,387	\$40,013,124	\$40,160,539	\$40,168,886	\$40,174,920	\$42,799,130	39,607,945
Unreserved, reported in:							
Special revenue funds	1,844,576	15,398,402	15,931,290	13,431,304	11,885,910	8,746,111	12,808,809
Capital project funds	40,102,394	29,172,787	42,534,688	72,752,412	72,253,464	71,780,583	58,718,023
<b>Total all other governmental funds</b>	<b>\$73,836,357</b>	<b>\$84,584,313</b>	<b>\$98,626,517</b>	<b>\$126,352,602</b>	<b>\$124,314,294</b>	<b>\$123,325,824</b>	<b>\$111,134,777</b>

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.

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

	2003	2004	2005	2006	2007	2008	2009
<b>Revenues</b>							
Taxes	\$41,405,014	\$44,185,552	\$46,295,678	\$52,816,596	\$56,748,017	\$57,142,392	\$55,345,729
Licenses, permits and fees	169,108	250,129	128,754	146,854	187,289	153,545	132,459
Intergovernmental	66,228,880	70,583,373	73,889,063	64,759,658	66,129,862	71,179,504	63,606,634
Charges for services	31,789,634	33,203,507	41,660,016	37,802,149	36,979,023	33,319,642	27,051,151
Special assessments levied	2,015,090	386,368	107,696	65,909	51,634	35,294	37,299
Interest and rent	3,712,219	2,911,392	3,146,452	3,755,169	4,837,419	5,236,476	2,909,155
Net increase in fair value of investments	(339,331)	(1,458,065)	186,515	103,036	1,168,857	1,404,913	860,820
Fines and forfeits	1,030,389	1,294,193	1,646,472	1,675,926	2,699,445	2,614,523	2,443,506
Contribution from property owners				30,473,773			
Miscellaneous	2,220,976	2,479,871	2,991,745	2,821,161	2,814,421	3,469,916	5,809,581
<b>Total Revenues</b>	<b>148,231,979</b>	<b>153,836,320</b>	<b>170,052,391</b>	<b>194,420,231</b>	<b>171,615,967</b>	<b>174,556,205</b>	<b>158,196,334</b>
<b>Expenditures</b>							
Current:							
General government	11,352,860	11,878,443	11,819,603	14,111,535	15,517,544	15,107,461	13,715,577
Community development	13,123,011	10,113,628	12,832,640	12,296,072	11,789,640	13,820,295	14,137,095
Highways and streets	8,559,729	11,568,810	12,152,087	14,357,041	12,553,681	12,549,018	9,721,445
Public works	5,420,867	4,876,115	5,053,030	5,647,023	11,307,307	9,719,098	7,667,125
Parks and recreation	14,848,478	11,374,052	12,021,937	11,662,263	13,348,613	12,605,651	13,307,764
Public safety	56,576,055	62,747,623	70,882,176	74,527,875	80,988,650	82,707,285	78,103,260
Capital outlay	19,031,609	33,092,718	24,412,735	21,563,774	30,194,778	22,745,308	27,663,037
Debt service:							
Principal retirement	3,111,203	1,563,472	1,666,764	1,901,827	2,008,538	2,265,000	1,093,000
Interest	4,580,409	4,502,666	4,425,980	4,576,780	4,413,300	3,473,369	3,033,829
Advance refunding escrow					822,228		
Other	57,038	18,355	553,645	618,742	1,333,129	1,337,611	1,395,211
<b>Total Expenditures</b>	<b>136,661,259</b>	<b>151,735,882</b>	<b>155,820,597</b>	<b>161,262,932</b>	<b>184,277,408</b>	<b>176,330,096</b>	<b>169,837,343</b>
Excess of revenues over (under) expenditures	11,570,720	2,100,438	14,231,794	33,157,299	(12,661,441)	(1,773,891)	(11,641,009)
<b>Other Financing Sources (Uses)</b>							
Transfers in	14,601,556	19,332,436	17,962,442	17,724,718	23,985,863	24,429,880	19,237,526
Transfers out	(15,441,935)	(20,819,979)	(19,644,937)	(20,267,476)	(26,399,280)	(22,579,265)	(18,149,564)
Proceeds of capital lease							
Proceeds of loan payable	192,759	212,241			44,138	244,650	209,575
Proceeds of notes payable		4,500,000					
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)
<b>Total other financing sources (uses)</b>	<b>(647,620)</b>	<b>3,224,698</b>	<b>(753,900)</b>	<b>(2,536,758)</b>	<b>1,762,501</b>	<b>2,095,265</b>	<b>(1,138,810)</b>
Net Change in fund balances	10,923,100	5,325,136	13,477,894	30,620,541	(10,898,940)	321,374	(\$12,779,819)
FUND BALANCES, July 1	89,315,446	100,238,546	105,563,682	119,041,576	149,662,117	138,763,177	\$139,084,551
PRIOR PERIOD ADJUSTMENT							(\$416,197)
<b>FUND BALANCES, June 30</b>	<b>\$100,238,546</b>	<b>\$105,563,682</b>	<b>\$119,041,576</b>	<b>\$149,662,117</b>	<b>\$138,763,177</b>	<b>\$139,084,551</b>	<b>125,888,535</b>
Debt service as a percentage of noncapital expenditures	0.07000	0.05389	0.04884	0.04886	0.04979	0.03917	0.03020

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, 2009)**

Ten Largest Customers of Water Utility System, Year Ended 06/30/09

<u>Customer</u>	<u>Business Type</u>	<u>Usage (ccf) (1)</u>	<u>% of Total Usage</u>	<u>Water Sales Revenue (\$)</u>	<u>% of Total Water Sales Revenue</u>
1) Grover Landscaping	Landscape Maintenance	580,904	1.82%	\$919,989	1.80%
2) Seneca	Cannery	567,084	1.78%	735,913	1.44%
3) Modesto City Schools	Education	486,389	1.53%	689,837	1.35%
4) Stanislaus Food Products	Cannery	387,001	1.22%	515,112	1.01%
5) Foster Farms	Dairy Processor	324,131	1.02%	421,860	0.83%
6) Stanislaus Housing Authority	Housing Authority	183,237	0.58%	286,902	0.56%
7) Stanislaus County	Government	171,462	0.54%	282,140	0.55%
8) Modesto Irrigation District	Power Company	191,257	0.60%	273,529	0.54%
9) Yosemite Comm Coll Dist	Education	167,452	0.53%	253,880	0.50%
9) E & J Gallo	Winery	164,862	0.52%	235,667	0.46%
Total Top Ten		3,223,779	10.13%	\$4,614,828	9.04%

Total Flat/Metered Revenues (Water Sales)

\$51,030,843

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

Water Sales Revenue, Year Ended 06/30/09

Residential - flat rates	\$30,585,450
Commercial, Industrial and municipal - metered rates	<u>20,445,393</u>
Total Water Sales	<u>\$51,030,843</u>

Water Rates and Charges as of 07/01/08

The average monthly flat rate service charge for residential customers is: \$42.31

Commercial Accounts:

<u>Meter Size</u>	
3/4"	\$13.71
1"	19.45
1 1/2"	33.66
2"	50.79
3"	96.51
4"	147.88
6"	290.51
8"	461.75
10"	661.58
12"	1,232.31

In addition to these minimum charges, commercial accounts are charged \$1.28 per 100 cubic feet of water used.

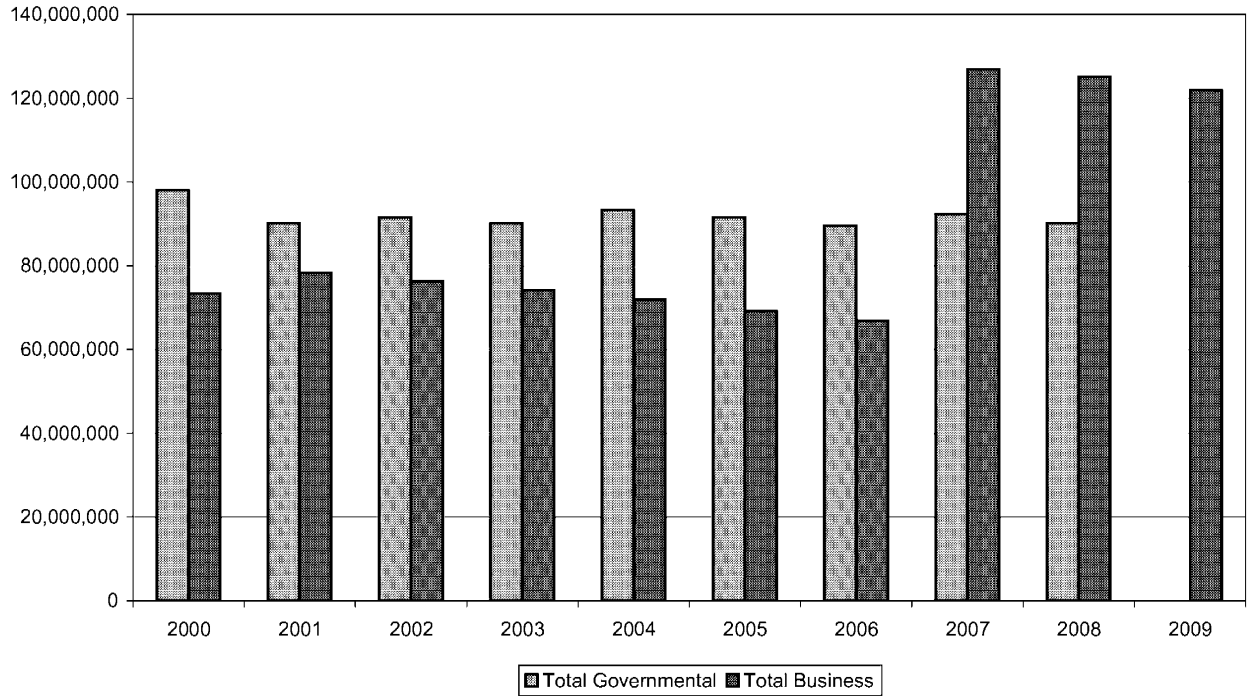
Water rates for both metered and flat rate services were increased on July 1, 2008.

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	Loans Payable	Certificates of Participation	Lease Revenue Bonds	Notes Payable	Obligations Under Capital Leases	Total
2000		32,800,000	64,730,000		514,333	98,044,333
2001		25,280,000	64,615,000		329,594	90,224,594
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

**Business-Type Activities**

Fiscal Year	Loans Payable	Certificates of Participation	Revenue Bonds	Capital Leases	Total	Total Primary Government	Percentage of Personal Income (a)	Per Capita (a)
2000	3,220,042	24,355,000	45,780,000		73,355,042	171,399,375	3.87%	910.31
2001	3,056,210	30,525,000	44,735,000		78,316,210	168,540,804	3.82%	895.13
2002	2,887,342	29,765,000	43,640,000		76,292,342	167,775,334	3.55%	844.79
2003	2,713,066	28,965,000	42,490,000		74,168,066	164,311,904	3.33%	808.22
2004	2,533,380	28,125,000	41,285,000		71,943,380	165,191,588	3.09%	801.12
2005	2,347,602	27,240,000	39,235,000	\$290,487	69,113,089	160,646,075	2.87%	773.70
2006	2,156,040	26,305,000	38,245,000	222,588	66,928,628	156,515,200	2.81%	752.09
2007	1,958,276	71,595,000	53,130,000	151,633	126,834,909	219,120,847	3.76%	1,047.55
2008	1,754,300	71,915,000	51,420,000	77,485	125,166,785	215,330,185	3.69%	1,025.69
2009	1,543,554	70,545,000	49,760,000	0	121,848,554	211,375,569	3.47%	1,006.13

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.

**CITY OF MODESTO**  
**COMPUTATION OF DIRECT AND OVERLAPPING DEBT**  
**June 30, 2009**

<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	23,064,806	5.71	1,317,000
Hart-Ransom Union School District	3,899,767	34.75	1,355,169
Modesto Elementary School District	16,998,337	79.23	13,467,782
Modesto High School District	63,140,583	67.18	42,417,844
Paradise Elementary School District	400,000	0.00	0
Salida Union Elementary District	1,130,000	28.99	327,587
Stanislaus Union School District	2,465,000	27.09	667,769
Sylvan School District	28,625,000	77.27	22,118,538
Yosemite Community College District	<u>229,095,000</u>	35.62	81,603,639
Total overlapping debt	<u>368,818,493</u>		<u>163,275,328</u>
Total direct and overlapping debt	\$ <u><u>368,818,493</u></u>		\$ <u><u>163,275,328</u></u>

NOTES:

source of data for School Districts: Stanislaus County Auditor.

- (1) Gross debt outstanding less applicable amounts in debt service funds.  
(2) Determined by ratio of assessed valuation of property subject to taxation in overlapping portion to valuation of all property subject to taxation in the jurisdiction.

**CITY OF MODESTO**  
**COMPUTATION OF LEGAL DEBT MARGIN**  
**June 30, 2009**

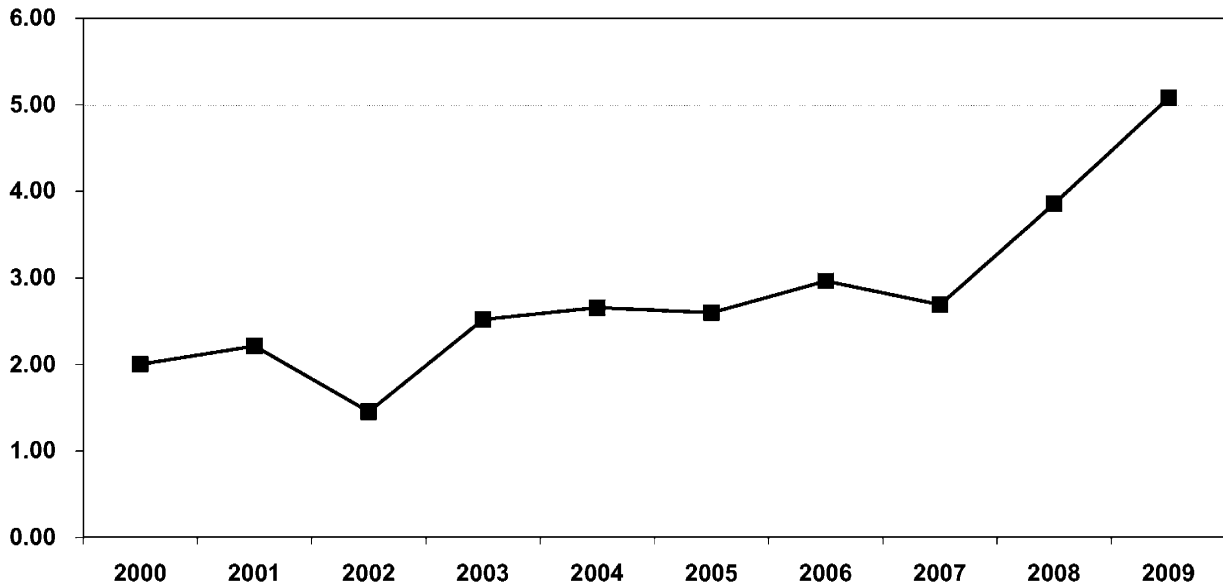
Net assessed value (1)		\$	14,022,986,709
Plus homeowners' exemption (1)			<u>234,179,394</u>
Gross assessed value (1)		\$	14,257,166,103
Debt limit - 15% of gross assessed value (2)		\$	2,138,574,915
Amount of debt applicable to debt limit:			
Total general bonded debt, including special assessment 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>2,138,574,915</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
2006	\$ 1,911,402,504	\$ 0	\$ 1,911,402,504	0%
2007	\$ 2,160,683,976	\$ 0	\$ 2,160,683,976	0%
2008	\$ 2,138,574,915	\$ 0	\$ 2,138,574,915	0%
2009	\$ 2,138,574,915	\$ 0	\$ 2,138,574,915	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 three years 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>
2000	19,490,824	12,380,840	7,109,984	3,549,445	2.00
2001	21,102,892	13,244,750	7,858,142	3,549,180	2.21
2002	22,288,061	17,117,917	5,170,144	3,550,017	1.46
2003	24,623,786	15,664,660	8,959,126	3,551,958	2.52
2004	26,123,771	16,687,958	9,435,813	3,550,120	2.66
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

- 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, 2009**

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 Accounts</u>	<u>% of Total Accounts</u>	<u>% of Sewer Fee Operating Revenue</u>
Residential	57,811	95.47%	56.21%
Commercial	2,691	4.44%	12.48%
Industrial	49	0.08%	31.31%
Total	<u>60,551</u>	<u>100.00%</u>	<u>100.00%</u>

Ten Largest Users of Sewer Facilities, Year Ended 6/30/09

<u>User</u>	<u>Sewer Fee Revenue</u>	<u>% of Sewer Fee Operating Revenue</u>
1) Stanislaus Foods	\$ 1,968,210	5.65%
2) Del Monte Foods	1,850,381	5.31%
3) Signature Fruit	1,651,982	4.74%
4) E & J Gallo Winery	1,201,694	3.45%
5) Foster Farms	1,168,758	3.35%
6) Frito-Lay, Inc.	1,022,262	2.93%
7) City of Ceres	500,027	1.43%
8) Nestle Food Company	388,412	1.11%
9) Modesto City Schools	196,905	0.56%
10) Stan CO Housing Authority	158,142	0.45%
Total (Top Ten Customers)	<u>\$ 10,106,773</u>	<u>29.00%</u>
Total (All Customers)	<u>\$ 34,853,168</u>	

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

<u>Commercial Group</u>	<u>Charge Per 1,000 Gallons</u>	<u>Fixed Charge</u>
Group 1 (no food, just toilets or working facilities)	\$1.76	\$3.33
Group 2 (commercial laundromats, service stations, hotels without food)	\$2.17	\$3.33
Group 3 (industrial laundromats, hotels with food)	\$2.58	\$3.33
Group 4 (restaurants, bakeries, auto steam, markets)	\$3.07	\$3.33

Industrial users pay a minimum account charge of \$3.33 with additional charges of: \$1,918.51 per million gallons of flow, \$95.25 per 1,000 pounds of excess biochemical oxygen demand (BOD), and \$166.57 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, 2009**

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>
2003/04	4.0%
2004/05	3.0
2005/06	0.0
2006/07	0.0
2007/08	30.0
2008/09	30.0

**Comparative Monthly Wastewater Service Charges.** The City's residential charges as of July 1, 2008 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, 2008**

<u>City</u>	<u>Monthly Residential Charge</u>
<b>Modesto</b>	<b>\$24.11</b>
Stockton	22.75
Fresno(1)	21.01
Lodi(2)	34.68
Turlock	38.55
Tracy	31.00

(1) Minimum charge.

(2) Based upon a three-bedroom residence.

**CITY OF MODESTO**  
**CONTINUING DISCLOSURE REQUIREMENTS**  
Year Ending June 30, 2009

**CITY OF MODESTO**  
**WASTEWATER SYSTEM**  
**Wastewater Connection Fees Comparison**  
As of January 1, 2009

<u>City</u>	<u>Connection Fee</u>
<b>Modesto</b>	<b>\$4,905</b>
Turlock (1)	1,843
Fresno	2,119
Stockton-South of the Calaveras River (2)	4,096
Tracy	13,549
Stockton-North of the Calaveras River (3)	4,911
Lodi (4)	5,520

(1) Based on local street rate.

(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, 2009**

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 <sup>(1)</sup>  
Modesto Irrigation District Financing Authority Domestic Water Project Revenue Bonds, Series 2007F <sup>(1)</sup>

Reserve Account Requirement as of 6/30/09	\$5,942,250
Surety Policy Value:	(4,018,368) Provided by FGIC
Balance in Parity Reserve Account as of 6/30/09	(1,851,062)
Shortfall/(Excess) Reserve Coverage:	<u>72,820</u>

Balance in Rate Stabilization Account as of 6/30/09: 3,000,000

<u>Ten Largest Customers of Water Utility System, Year Ended 6/30/09</u>					
<u>Customer</u>	<u>Business Type</u>	<u>Usage (ccf) (2)</u>	<u>% of Total Usage</u>	<u>Water Sales Revenue (\$)</u>	<u>% of Total Water Sales Revenue</u>
1) Grover Landscaping	Landscape Maintenance	580,904	1.82%	\$919,989	1.80%
2) Seneca	Cannery	567,084	1.78%	735,913	1.44%
3) Modesto City Schools	Education	486,389	1.53%	689,837	1.35%
4) Stanislaus Foods	Cannery	387,001	1.22%	515,112	1.01%
5) Foster Farms	Dairy Processor	324,131	1.02%	421,860	0.83%
7) Stanislaus Housing Authority	Housing Authority	183,237	0.58%	286,902	0.56%
6) Stanislaus County	Government	171,462	0.54%	282,140	0.55%
8) Modesto Irrigation District	Power Company	191,257	0.60%	273,529	0.54%
09) Yosemite Comm Coll Dist.	Education	167,452	0.53%	253,880	0.50%
10) E&J Gallo	Winery	164,862	0.52%	235,667	0.46%
Total Top Ten		<u>2,642,875</u>	<u>10.13%</u>	<u>\$3,694,840</u>	<u>9.04%</u>

Total Flat/Metered Revenues (Water Sales) \$51,030,843

(1) Grover Landscaping maintains City parks

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

Water Sales Revenue, Year Ended 6/30/09

Residential - flat rates	\$30,585,450
Commercial, industrial and municipal - metered rates	20,445,393
Total Water Sales	<u>\$51,030,843</u>

The average monthly flat rate service charge for residential customers is \$42.31

Current Water Rates as of 07/01/08- Commercial Accounts

<u>Meter Size</u>	
3/4"	\$13.71
1"	19.45
1 1/2"	33.66
2"	50.79
3"	96.51
4"	147.88
6"	290.51
8"	461.75
10"	661.58
12"	1,232.31

In addition to these minimum charges, commercial accounts are charged \$1.28 per 100 cubic feet of water used.

Water rates for both metered and flat rate services were increased on July 1, 2008.

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 6/30/09, the balance of the 1998 Bonds was \$67,435,000 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**

	<u>Fiscal Year 2004</u>	<u>Fiscal Year 2005</u>
<b>GROSS OPERATING REVENUES</b>		
Charges for Services	\$ 31,353,046	\$ 31,315,920
DBCP Settlement	210,834	2,960,781
Connection Charges	1,159,296	1,371,958
Interest and Rental Income	316,688	279,616
Gain/(Loss) on Disposition of Capital Assets		
Draw from (Deposit to) Rate Stab, Fund	0	0
<b>GROSS OPERATING REVENUES</b>	<u>33,039,864</u>	<u>35,928,275</u>
<b>OPERATING EXPENSES:</b>		
Total operating expenses	26,757,108	29,227,465
Less: Depreciation	(2,173,845)	(2,305,953)
T&DA debt service paid to MID(1)	(6,700,881)	(6,705,344)
Property taxes	89,921	82,673
Plus: Operating Transfers	0	218,902
<b>TOTAL OPERATING EXPENSES</b>	<u>17,972,303</u>	<u>20,517,743</u>
<b>NET OPERATING REVENUES</b>	15,067,561	15,410,532
<b>TOTAL DEBT SERVICE</b>		
Revenue obligations:		
1997 Certificates of Participation	1,780,288	1,784,908
2008 Revenue Certificates of Participation		
Treatment & Delivery Agreement	6,700,881	6,705,344
CDWR Loan	264,656	264,654
<b>TOTAL DEBT SERVICE</b>	<u>\$ 8,745,825</u>	<u>\$ 8,754,906</u>
<b>DEBT SERVICE COVERAGE</b>		
(Net Operating Revenues/ Total Debt Service)	1.72	1.76

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

Fiscal Year 2006	Fiscal Year 2007	Fiscal Year 2008	Fiscal Year 2009
\$ 42,639,348	\$ 49,289,417	\$ 51,433,282	\$ 53,107,853
1,334,259			
1,728,873	2,023,224	1,539,039	852,532
534,234	2,279,905	2,187,439	2,282,750
		(10,300)	(47,023)
(153,200)	15,616	245,760	110,839
<u>46,083,514</u>	<u>53,608,162</u>	<u>55,395,220</u>	<u>56,306,951</u>
28,672,955	32,466,468	34,676,952	37,206,969
(2,383,566)	(2,396,440)	(2,276,755)	(2,359,091)
(6,690,994)	(6,687,444)	(6,681,894)	(6,672,406)
84,556	85,487	86,733	89,219
95,385	65,000	65,000	569,315
<u>19,778,336</u>	<u>23,533,071</u>	<u>25,870,036</u>	<u>28,834,006</u>
26,305,178	30,075,091	29,525,184	27,472,945
1,790,658	1,794,120	1,791,930	1,867,883
	1,082,432	1,982,256	2,262,117
6,690,994	6,687,444	6,681,894	6,672,406
264,654	264,719	264,719	263,079
<u>\$ 8,746,306</u>	<u>\$ 9,828,715</u>	<u>\$ 10,720,799</u>	<u>11,065,485</u>
3.01	3.06	2.75	2.48

**CITY OF MODESTO  
CITY WATER UTILITY SYSTEM  
PROJECTED OPERATING RESULTS  
CONTINUING DISCLOSURE REQUIREMENTS  
Next Five Fiscal Years**

	<u>2010</u>	<u>2011</u>
GROSS OPERATING REVENUES	\$	\$
Charges for Services	\$52,423,370	\$53,471,837
DBCP Settlement		
Interest and Rental Income	524,200	539,500
Gain/(Loss) on Disposition of Capital Assets		
Draw from (Deposit to) Rate Stab, Fund		
FUND 6101 Development fees & interest	322,500	322,500
Service Credits	2,099,644	1,991,111
Misc Revenue	<u>37,502</u>	<u>38,252</u>
GROSS OPERATING REVENUES	<u>55,407,216</u>	<u>56,363,200</u>
OPERATING EXPENSES:		
Total operating expenses	40,413,802	47,332,041
Less: Depreciation		
Less: Litigation Costs	-677,704	-600,000
T&DA debt service paid to MID(1)	-7,170,942	-10,569,411
Property taxes		
Plus: Operating Transfers	<u>765,000</u>	<u>765,000</u>
TOTAL OPERATING EXPENSES	<u>33,330,156</u>	<u>36,927,630</u>
NET OPERATING REVENUES	22,077,060	19,435,570
TOTAL DEBT SERVICE		
Revenue obligations:		
1997 Certificates of Participation	1,794,688	1,794,013
2008 Revenue Certificates of Participation	2,091,096	2,080,156
2007 Treatment & Delivery Agreement COP's	403,048	3,898,642
1998 Treatment & Delivery Agreement	6,681,894	6,670,769
CDWR Loan	<u>264,719</u>	<u>264,719</u>
TOTAL DEBT SERVICE	\$ <u>11,235,445</u>	\$ <u>14,708,299</u>
DEBT SERVICE COVERAGE		
(Net Operating Revenues/ Total Debt Service)	1.96	1.32

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

NOTE: Additional financial information is available at the City of Modesto webpage [www.modestogov.com](http://www.modestogov.com)

	<u>2012</u>	<u>2013</u>	<u>2014</u>
\$	\$54,541,274	\$55,632,100	56,744,742
	539,500	539,500	539,500
	322,500	322,500	322,500
	1,991,111	1,991,111	1,991,111
	39,017	39,797	40,593
	<u>57,433,402</u>	<u>58,525,008</u>	<u>59,638,446</u>
	48,871,209	50,151,953	51,473,527
	-600,000	-600,000	-600,000
	-10,794,041	-10,789,791	-10,778,307
	765,000	765,000	765,000
	<u>38,242,168</u>	<u>39,527,162</u>	<u>40,860,220</u>
	19,191,234	18,997,846	18,778,226
	1,795,513	1,799,388	1,799,822
	2,069,216	2,082,316	2,070,416
	4,123,147	4,123,147	4,123,147
	6,670,894	6,666,644	6,655,160
	264,719	264,719	264,719
\$	<u>14,923,489</u>	<u>14,936,214</u>	<u>14,913,264</u>
	1.29	1.27	1.26

**CITY OF MODESTO  
CITY WATER UTILITY SYSTEM STATISTICS  
CONTINUING DISCLOSURE REQUIREMENTS  
Year Ended June 30, 2009**

**CITY WATER UTILITY SYSTEM STATISTICS  
(Calendar Years 2004 through 2009)**

	2004	2005	2006	2007	2008
Number of Service Accounts	73,916.0	74,779.0	75,227.0	76,661.0	76,852.0
Total Water Production (MG)(1)	26,580.0	25,720.0	25,660.0	25,886.0	25,182.0
Capacity (MGD)(2)	166.0	166.0	166.0	166.0	166.0
Peak Daily Distribution (MGD)	124.9	129.8	125.0	115.4	116.5
Average Daily Distribution (MGD)	72.4	70.4	69.8	70.9	68.8

(1) "MG" means million gallons.

(2) "MGD" means million gallons daily.

**CITY WATER UTILITY SYSTEM  
Service Area Total Production (Billion Gallons)  
(Calendar Years 2004 through 2009)**

Year Ending December 31	Well Water	Treated Water	Total
2004	15.15	11.43	26.58
2005	15.13	10.59	25.72
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

**CITY WATER UTILITY SYSTEM  
Comparison of  
Average Monthly, Water Rates  
Flat Rate (1" Service)  
As of July 1,2008**

<u>City</u>	<u>Flat Rate Typical Home</u>
<b>Modesto</b>	<b>\$37.23-\$42.31</b>
Stockton(1)	44.25
Tracy(2)	56.65
Turlock(3)	31.50
Sacramento	27.14
Merced	31.63

- (1) All water is metered. A monthly base rate of \$22.75 plus an estimated monthly consumption of 25 units (CCF) (consumption charges is \$0.82 per ccf), are used to calculate the average monthly water charges.
- (2) Rates change depending on season; summer rates (May-October) and winter rates (November-April).
- (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.

**CITY OF MODESTO**  
**CONTINUING DISCLOSURE REQUIREMENTS**  
**Year Ended June 30, 2009**

The following table sets forth connection fees for all users except multi-family units by meter size for year 2008-09.

**CITY WATER UTILITY SYSTEM**  
**Connection Fees for All users**  
**Except Multiple Family Units**  
**(Fiscal Year 2008-2009)**

<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, 2009

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

	2004	2005	2006	2007	2008	2009
Revenues (\$000)						
Residential (Flat Rates)	\$16,849	\$19,117	\$26,591	\$30,716	\$31,495	\$30,585,450
Commercial, Industrial and Municipal (Metered)	10,524	10,847	14,516	17,006	17,890	20,445,393
Total Water Sales	<u>\$27,373</u>	<u>\$29,964</u>	<u>\$41,107</u>	<u>\$47,722</u>	<u>\$49,385</u>	<u>\$51,030,843</u>

The table below sets forth the adopted single family residential flat rates approved through fiscal year 2008-09.

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

Lot Size	Effective January 1,2005	Effective July1,2005	Effective July 1, 2006	Effective July 1,2007	Effective July 1, 2008
0-5,000 sq. ft. lot	\$24.47	\$29.36	\$33.77	\$35.45	\$37.23
5,001-7,000 sq. ft. lot	27.81	33.37	38.38	40.30	42.31
7,001-11,000 sq. ft. lot	33.00	39.60	45.54	47.82	50.21
11,001-17,000 sq. ft. lot	35.03	42.40	48.34	50.76	53.30
over 17,000 sq. ft. lot	41.19	49.42	56.84	59.68	62.66

(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](http://www.modestogov.com)

**CITY OF MODESTO**  
**CONTINUING DISCLOSURE REQUIREMENTS INFORMATION**  
**Year Ended June 30, 2009**

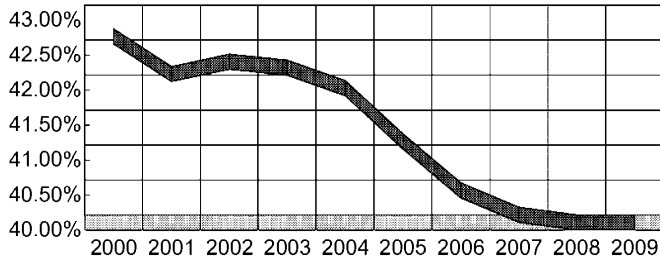
The following table sets forth the adopted monthly service charge and volume charge commercial accounts through fiscal year 2008/09.

**CITY WATER UTILITY SYSTEM**  
**Water Rates and Charges**  
**Commercial Accounts**

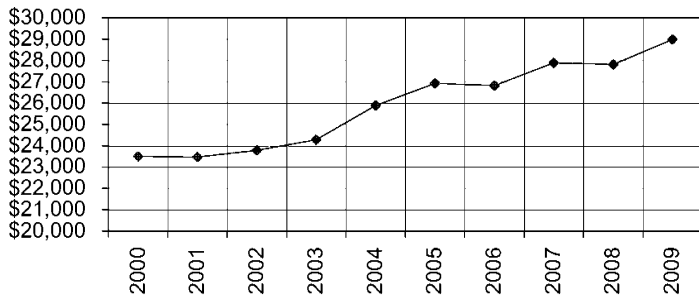
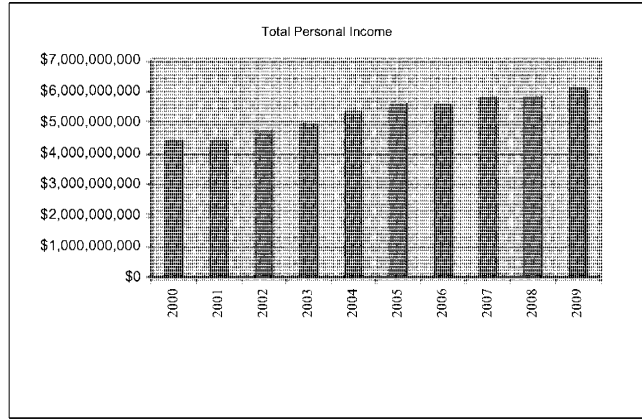
	<b>Effective January 1,2005</b>	<b>Effective July 1, 2005</b>	<b>Effective July 1, 2006</b>	<b>Effective July 1, 2007</b>	<b>Effective July 1, 2008</b>
<b>Volume-based Rate (\$/hcf)</b>	\$0.84	\$1.01	\$1.16	\$1.22	\$1.28
<b>Fixed Monthly Meter Charge (in addition to volume-based charges)</b>					
5/8"-3/4" meter	\$9.01	\$10.82	\$12.44	\$13.06	\$13.71
1" meter	12.78	15.34	17.64	18.52	\$19.45
1-1/2" meter	22.13	26.55	30.53	32.06	\$33.66
2" meter	33.38	40.06	46.06	48.37	\$50.79
3" meter	63.43	76.12	87.53	91.91	\$96.51
4" meter	97.19	116.63	134.13	140.83	\$147.88
6" meter	190.95	229.14	263.51	276.68	\$290.51
8" meter	303.49	364.19	418.82	439.76	\$461.75
10" meter	434.84	521.8	600.07	630.08	\$661.58
12" meter	809.95	971.95	1,117.74	1,173.62	1,232.31

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](http://www.modestogov.com)

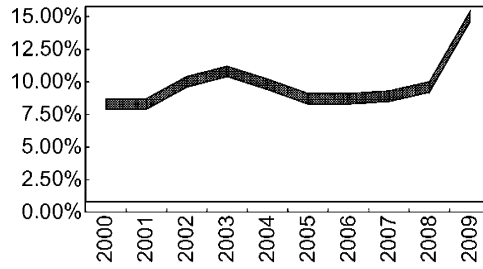
**CITY OF MODESTO  
DEMOGRAPHIC AND ECONOMIC STATISTICS  
Last ten fiscal years**



■ City Population as a % of County Population



◆ Per Capita Personal Income



■ Unemployment Rate (%)

Fiscal Year	City Population	Total Personal Income	Per Capita Personal Income	Unemployment Rate (%)	Stanislaus County Population	City Population % of County
2000	188,286	\$4,425,097,572	23,502	7.9%	441,364	42.66%
2001	188,286	\$4,417,566,132	23,462	7.9%	446,997	42.12%
2002	198,600	\$4,722,310,800	23,778	9.6%	469,512	42.30%
2003	203,300	\$4,935,310,800	24,276	10.4%	481,604	42.21%
2004	206,200	\$5,337,487,000	25,885	9.4%	491,900	41.92%
2005	207,634	\$5,588,469,110	26,915	8.3%	504,482	41.16%
2006	208,107	\$5,579,346,670	26,810	8.3%	514,370	40.46%
2007	209,174	\$5,833,026,164	27,886	8.5%	521,497	40.11%
2008	209,936	\$5,838,530,096	27,811	9.20%	525,903	40.00%
2009	210,088	\$6,089,400,680	28,985	14.60%	526,383	39.91%

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)

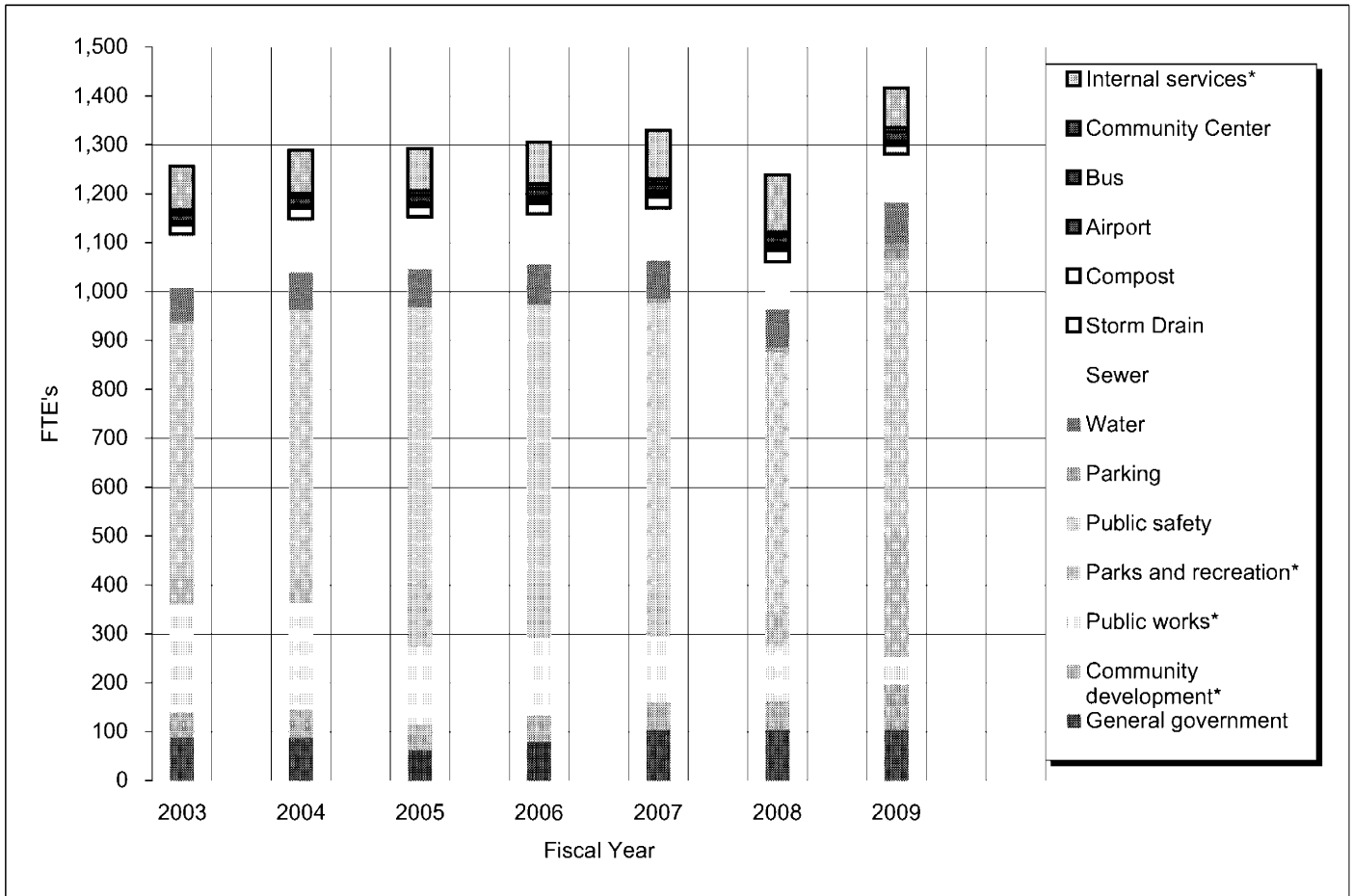
**CITY OF MODESTO  
Principal Employers**

Employer	<b>2008/09</b>		
	Number of Employees	Rank	Percentage of Total City Employment
E&J Gallo Winery	3,250	1	3.2%
Modesto City Schools	3,231	2	3.2%
Memorial Medical Center	2,071	3	2.0%
Seneca	2,100	4	2.1%
Del Monte Foods	2,000	5	2.0%
Doctors Medical Center	2,000	6	2.0%
Modesto Junior College	1,746	7	1.7%
Stanislaus Food Products	1,600	8	1.6%
Kaiser Permanente Modesto	1,500	9	1.5%
City of Modesto	1,239	10	1.2%
Subtotal	20,737		20.3%
Total City Employment	102,100		
Total City Population	210,088		

Source: Stanislaus Economic Development & Workforce Alliance

Note: Information about Principal Employers was not available for the fiscal year 1998-99.

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



	2003	2004	2005	2006	2007	2008	2009
<b>Function</b>							
General government	88.25	88.25	62.25	79.00	104.10	105.00	104.00
Community development*	51.00	56.00	53.00	54.00	56.00	57.00	93.00
Public works*	221.80	219.00	159.00	159.50	136.50	114.00	57.00
Parks and recreation*	56.25	52.50	130.50	112.50	93.25	70.00	255.00
Public safety	519.00	546.00	563.00	567.75	588.75	532.00	558.00
Parking	2.00	2.00	2.00	2.00	7.00	8.00	31.00
Water	70.00	76.00	76.00	81.00	78.00	77.00	85.00
Sewer	108.00	108.00	107.00	103.00	107.00	97.00	98.00
Storm Drain	20.00	22.00	22.00	22.00	22.00	24.00	19.00
Compost				7.00	7.00	6.00	20.00
Airport	7.00	6.00	6.00	6.00	6.00	7.00	7.00
Bus	14.00	15.00	16.00	16.00	15.00	15.00	19.00
Community Center	9.75	9.25	9.50	9.50	9.50	9.50	9.00
Internal services*	88.75	89.00	87.00	86.00	99.60	117.00	81.00
<b>Total</b>	<b>1,255.80</b>	<b>1,289.00</b>	<b>1,206.25</b>	<b>1,305.25</b>	<b>1,329.70</b>	<b>1,238.50</b>	<b>1,436</b>

Source: City of Modesto

\* During FY 08/09 various employment positions were moved to different funds as part of a City wide restructuring process.

**CITY OF MODESTO**  
**OPERATING INDICATORS BY FUNCTION**

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
<b>Function/Program</b>				
Public safety:				
Fire:				
Fire calls for service	20,200	21,526	23,246	22,911
Primary fire inspections conducted	1,006	936	976	1,069
Police:				
Police calls for Service	129,225	92,971	121,434	116,383
Law violations:				
Part I and Part II crimes	63,954	46,401	60,595	57,844
Physical arrests (adult and juvenile)	13,054	15,374	14,185	12,471
Traffic violations	23,104	27,111	25,739	26,914
Parking violations	20,308	21,600	16,079	21,391
Public works				
Street resurfacing (miles)	9.98	10.06	9.32	1
Potholes repaired (square miles)	30,252	31,055	40,411	39,473
Water Utility Cust repaired				58,737
Airport:				
Number of passengers enplaned	23,969	50,782	49,525	28,470
Number of tenant aircraft	201	202	195	184
Number of hangars	109	109	109	109
Number of runways	2	2	2	2
Annual fuel consumption in gallons	998,978	1,102,439	1,140,426	672,406
Bus Service:				
Number of buses	43	51	56	56
Number of routes	19	19	20	20
Total route miles	305	356	362	362
Average weekday number of passengers	11,206	12,295	12,599	12,599
Total number of passengers carried	3,629,191	3,629,128	3,699,846	3,699,846
Community Development				
Permits issued	5,968	5,174	4,182	3,242
Estimated cost of construction	\$298,025,900	\$228,814,464	\$157,006,451	\$96,127,131
Building Inspections made	49,852	44,542	39,172	32,362
Traffic Electrical:				
Street lights		13,358	13,595	13,764
Traffic Signals		140	140	146
Lighted Ped Walks*				28
Beacons*				1
Four Way Flashers*				9
School Flashers*				22
CCTV*				38
Hubs*				5
Culture and recreation:				
Recreation class participants	5,291	5,175	4,255	3,271
Solid Waste:				
Recyclables Processed (tons per year)	61,080	74,645	106,664	74,288
Yard waste			38,889	41,235
Commercial food waste			280	597
Waste tires			7,120	5,214

\* Counts prior to 2009 are not available.

Source: City of Modesto - Various Departments

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

**CITY OF MODESTO**  
**CAPITAL ASSET STATISTICS BY FUNCTION/PROGRAM**

<b>Function/Program</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>
<b>Public safety:</b>				
Fire stations	11	11	11	11
Police stations	1	1	1	1
Police patrol units	98	102	102	70
<b>Public works</b>				
Streets:				
Miles of streets (1)	672	674	675	675
Water:				
Miles of water mains	N/A	990	994	1,007
Fire hydrants	7,060	7,200	7,301	7,412
Storage capacity (thousands of gallons)	N/A	9,400,000	9,400,000	9,400,000
Wastewater:				
Miles of sanitary sewers	481	641.0	656.7	642
Miles of storm sewers	130	132.9	133.6	183
Number of treatment plants (2)	2	2	2	2
Treatment capacity (millions of gallons)	70	70	70	72
<b>Community services:</b>				
City parks	75	75	76	76
City parks acreage	1,088	1,088	1,088	1,088
Playgrounds	55	55	55	55
City trails	4	4	4	4
City trails miles	11	11	12	12
Regional park acreage	324	324	324	324
Regional park facilities:				
Golf courses (18 holes)	2	2	2	2
Golf courses (9 holes)	1	1	1	1
Clubhouse and banquet facility	8	8	8	8
Historic house	4	4	4	4
Community gardens	2	2	2	2
Community centers	6	6	6	7
Senior centers	1	1	1	1
Sports centers	1	1	1	1
Performing arts centers	1	1	1	1
Swimming pools	16	16	13	13
Tennis courts	37	37	37	37
Baseball/softball diamonds	24	24	24	24
Soccer/football fields	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 four years of data for this schedule