

CITY OF  
**Modesto, California**

**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
**Fiscal Year Ended June 30, 2008**

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

**CITY OF MODESTO**  
June 30, 2008  
**TABLE OF CONTENTS**

**INTRODUCTORY SECTION**

Transmittal Letter .....	iii - vi
Certificate of Achievement for Excellence in Financial Reporting .....	vii
Structure of City Government.....	viii

**FINANCIAL SECTION**

Independent Auditor's Report.....	3
Management's Discussion and Analysis (Required Supplementary Information).....	5 – 15
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets.....	19
Statement of Activities.....	20 – 21
Fund Financial Statements:	
Balance Sheet – Governmental Funds .....	22
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets – Governmental Activities.....	23
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds.....	24
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities – Governmental Activities .....	25
Statement of Net Assets – Proprietary Funds.....	26
Statement of Revenues, Expenses, and Changes in Fund Net Assets - Proprietary Funds.....	27
Statement of Cash Flows – Proprietary Funds.....	28 - 29
Statement of Fiduciary Net Assets – Fiduciary Funds .....	30
Notes to Basic Financial Statements .....	31 - 58
Required Supplementary Information:	
Schedule of Revenues – Budget (GAAP Basis) and Actual – General Fund.....	60
Schedule of Expenditures by Function – Budget (GAAP Basis) and Actual – General Fund.....	61
Notes to Required Supplementary Information.....	62
Combining and Individual Fund Statements and Schedules:	
Nonmajor Governmental Funds:	
Combining Balance Sheet.....	66-- 68
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances .....	70- 72

Schedules of Revenues, Expenditures, and Changes in Fund Balances –	
Budget (GAAP Basis) and Actual:	
Operating Grants Special Revenue Fund.....	73
Local Transportation Special Revenue Fund.....	74
Traffic Safety Special Revenue Fund .....	75
Special Gas Tax Street Improvement Special Revenue Fund.....	76
Downtown Improvement District Special Revenue Fund.....	77
Housing and Community Development Special Revenue Fund.....	78
Strategic Planning and Development Special Revenue Fund.....	79
Nonmajor Enterprise Funds:	
Combining Statement of Net Assets .....	82 - 83
Combining Statement of Revenues, Expenses, and Changes in	
Fund Net Assets.....	84 - 85
Combining Statement of Cash Flows.....	86 - 89
Internal Service Funds:	
Combining Statement of Net Assets .....	92 - 93
Combining Statement of Revenues, Expenses, and Changes in	
Fund Net Assets.....	94 - 95
Combining Statement of Cash Flows.....	96 - 99
Agency Funds:	
Statement of Changes in Assets and Liabilities – Agency Funds.....	102

## STATISTICAL SECTION

Financial Trends:	
Net Assets by Component .....	106
Changes in Net Assets .....	107-108
Fund Balances of Governmental Funds .....	109
Changes in Fund Balance of Governmental Funds.....	110
Revenue Capacity:	
Water Utility System .....	111
Debt Capacity:	
Ratio of Outstanding Debt by Type.....	112
Computation of Direct and Overlapping Debt .....	113
Computation of Legal Bonded Debt Margin.....	114
Bonded Debt Pledged Revenue Coverage, Wastewater Revenue Bonds .....	115
Continuing Disclosure Requirements .....	116-127
Demographic and Economic Information:	
Demographic and Economic Statistics .....	128
Principal Employers .....	129
Operating Information:	
Full-Time Equivalent City Government Employees by Function.....	130
Operating Indicators by Function/Program .....	131
Capital Asset Statistics by Function/Program.....	132



## **INTRODUCTORY SECTION**





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December 21, 2008

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

The City of Modesto City Charter and Municipal Code require that a complete financial statement and report on the finances of the City be submitted to the City Council at the end of each fiscal year. This report is being submitted to fulfill that requirement for the fiscal year ended June 30, 2008.

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 Maze & Associates was selected in 2003 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, 2008, 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 209,000. 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 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 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, Personnel 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 strong over the past year. Government sector jobs accounted for 12% of Stanislaus County's wage and salary workers while retail and manufacturing sector jobs each accounted for approximately 10.5% of county-wide employment. 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 remained fairly steady for the last several years and at June, 30 2008 it stood at 10.9%. Just over 10 years ago the unemployment rate was 15%. Since 2004, the Labor Force for the Modesto Metropolitan Statistical Area has increased by approximately 4.5%. 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 and then begun to contract over the last 2 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 2002, the City's population has grown 5.28% to 209,936. This population growth is largely attributable to the relatively low cost of housing compared to the Bay Area and to the growth of employment within the region.

During the past ten years, public safety costs have risen not only in amount, but also as a percentage of total expenditures. Public safety represented 68% of total General Fund expenditures in 2008, compared with 62.4% ten years ago. Expenses for other governmental functions have remained steady or decreased compared to total fund expenses during the same time period. Increased staffing, driven by the growth in the population, as well as higher salaries and charges for retirement, have 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 2008, the General Fund unreserved and undesignated balance was \$10.3 million representing 8.0% 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 City 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-fourth 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, 2006-2007. 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 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 assisted and contributed to its successful completion. In particular, I commend the Accounting Division staff responsible for the preparation of this report.

Respectfully submitted,



M. Wayne Padilla, CPA  
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, 2007

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.



*Charles S. Cox*

President

*Jeffrey R. Emer*

Executive Director

# CITIZENS OF MODESTO

## CITY COUNCIL

Jim Ridenour, Mayor  
Brad Hawn                      Dave Lopez  
Janice Keating                Garrad Marsh  
Kristin Olsen                 Will O'Bryant

*VOTERS ELECT*

City Attorney  
Susana Alcala Wood

City Manager  
Greg Nyhoff

City Clerk  
Stephanie Lopez

*MAYOR AND  
CITY  
COUNCIL  
APPOINTS*

Deputy City Manager  
Judith Ray

*CITY  
MANAGER  
APPOINTS*

Finance  
M. Wayne  
Padilla  
Director

Personnel  
Robin  
Renwick  
Director

Information  
Technology  
Gary Cook  
Director

Public Works  
Nick Pinhey  
Director

Police  
Roy Wasden  
Chief

Parks,  
Recreation &  
Neighborhoods  
Jim Niskanen

Community  
& Economic  
Development  
Brent Sinclair  
Director

Fire  
Jim Miguel  
Chief

## Citizens Advisory Boards, Commissions and Committees

*ALSO  
APPOINTED BY  
THE MAYOR  
AND CITY  
COUNCIL*

Airport Advisory Committee  
Board of Building Appeals  
Board of Zoning Adjustments  
Citizen Housing & Community Development  
Citizens Advisory Committee on Recycling  
Citizen's Districting Commission  
Citizens Redevelopment Advisory Committee  
Citizen's Salary Setting Commission  
Community Qualities Forum  
Culture Commission

Disabled Access Appeals Board  
Downtown Improvement District Advisory Board  
Equal Opportunity/Disability Commission  
Golf Courses Committee  
Housing Rehabilitation Loan Committee  
Human Relations Commission  
Landmark Preservation Commission  
Local Cable Programming Committee  
Planning Commission  
Tuolumne River Regional Park Citizens Advisory Committee  
Youth Commission

## **FINANCIAL SECTION**



## INDEPENDENT AUDITOR'S REPORT ON BASIC FINANCIAL STATEMENTS

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Modesto as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion the basic financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Modesto as of June 30, 2008 and the respective changes in the financial position and cash flows, where applicable, thereof for the year then ended, in conformity with generally accepted accounting principles in the United States of America.

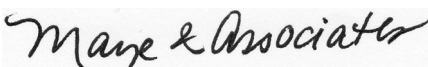
As described in Note IIIG, effective in fiscal 2008, the City implemented the provisions of GASB Statement No. 45 Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions, and as described in Note IIC the City implemented the provisions of GASB Statement No. 48 Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2008 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and the Budget and Actual statement for the General Fund are not a required part of the basic financial statements but are supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit this information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The Combining and Individual Fund Statements and Schedules listed in the Table of Contents are presented for purposes of additional analysis and are not a required part of the basic statements of the City of Modesto. This information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The introductory section and statistical section listed in the Table of Contents have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.



December 18, 2008

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## Management's Discussion and Analysis

This section of the City of Modesto (City) comprehensive annual financial report presents a discussion and analysis of the City's financial performance during the fiscal year ended June 30, 2008. 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 2008 fiscal year by \$804,854,466 (*total net assets*). Of this amount, \$168,420,129 (*unrestricted net assets*) may be used to meet ongoing obligations to citizens and creditors, \$102,602,698 is restricted for a specific purpose (*restricted net assets*), and \$533,831,639 is invested in capital assets, net of related debt.
- The City's total net assets increased by \$80,438,172 compared to the prior year. All of this increase is attributable to business type activities.
- As of June 30, 2008, the City's governmental funds reported combined fund balances of \$139,084,551, an increase of \$321,374 in comparison with the prior year. Approximately 66% of the combined fund balances, \$92,468,862 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 \$15,758,727, or 13% of total General Fund expenditures. Of this, \$3.8 million is reserved for encumbrances and non-current assets. The unreserved/undesignated balance of \$11,942,168 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 \$16,595,771 in comparison with the prior year. Water Revenue Bonds were fully refunded on a current basis in May 2008 and generated \$403,174 of the decrease. 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 31-57 of this report.

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

**Required supplementary information can be found on pages 59-61 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 66 –102 of this report.

### GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$804,854,466 at the close of the most recent fiscal year.

	Net Assets					
	Governmental activities		Business-type activities		Total	
	2008	2007	2008	2007	2008	2007
Current and other assets	\$239,267,288	\$235,977,387	\$181,562,760	\$151,849,527	\$420,830,048	\$387,826,914
Capital assets	390,257,381	376,422,992	315,814,398	294,466,111	706,071,779	670,889,103
Total assets	<u>629,524,669</u>	<u>612,400,379</u>	<u>497,377,158</u>	<u>446,315,638</u>	<u>1,126,901,827</u>	<u>1,058,716,017</u>
Current and other liabilities	20,300,872	21,587,793	15,783,294	10,152,964	36,084,166	31,740,757
Long-term liabilities	162,596,949	176,800,687	123,366,246	125,758,279	285,963,195	302,558,966
Total liabilities	<u>182,897,821</u>	<u>198,388,480</u>	<u>139,149,540</u>	<u>135,911,243</u>	<u>322,047,361</u>	<u>334,299,723</u>
Net assets:						
Invested in capital assets, net of related debt	339,396,266	333,409,532	194,435,373	170,791,021	533,831,639	504,200,553
Restricted net assets	102,602,698	93,168,664			102,602,698	93,168,664
Unrestricted net assets	4,627,884	(12,566,297)	163,792,245	139,613,374	168,420,129	127,047,077
Total net assets	<u>\$446,626,848</u>	<u>\$414,011,899</u>	<u>\$358,227,618</u>	<u>\$310,404,395</u>	<u>\$804,854,466</u>	<u>\$724,416,294</u>

The largest portion of the City's net assets, \$533,831,639 (66 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 \$168,420,129 (21 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 \$102,602,698 (13 percent) represents resources that are subject to external restrictions on how they may be used.

At the end of the 2008 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 \$80,438,172 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	
	2008	2007	2008	2007	2008	2007
Revenues:						
Program revenues:						
Charges for services	\$35,970,213	\$39,977,342	\$95,164,265	\$87,816,684	\$131,134,478	127,794,026
Operating grants and contributions	14,221,390	12,701,177	12,459,707	10,227,331	26,681,097	22,928,508
Capital grants and contributions	17,930,957	4,207,389	9,793,356	7,299,015	27,724,313	11,506,404
General revenues:						
Taxes	60,845,911	56,747,933	201,219	222,776	61,047,130	56,970,709
Intergovernmental revenue not restricted for specific purposes	44,079,437	48,287,468			44,079,437	48,287,468
Unrestricted investment earnings	9,960,367	8,330,079	7,099,765	5,406,639	17,060,132	13,736,718
Settlements and recoveries			14,525,389	1,495,461	14,525,389	1,495,461
Miscellaneous	3,469,916	3,582,325			3,469,916	3,582,325
Total revenues	186,478,191	173,833,713	139,243,701	112,467,903	325,721,892	286,301,616
Expenses:						
General government	15,997,582	17,227,876			15,997,582	17,227,876
Community development	14,619,525	12,025,105			14,619,525	12,025,105
Highways and streets	26,436,475	26,246,306			26,436,475	26,246,306
Public works	11,471,344	12,557,512			11,471,344	12,557,512
Parks and recreation	14,264,334	14,568,192			14,264,334	14,568,192
Public safety	88,651,249	83,793,361			88,651,249	83,793,361
Interest on long-term debt	4,998,482	7,286,026			4,998,482	7,286,026
Parking			1,982,066	1,475,340	1,982,066	1,475,340
Water			36,713,351	35,540,918	36,713,351	35,540,918
Sewer			23,974,989	24,156,577	23,974,989	24,156,577
Storm drain			6,349,113	6,924,335	6,349,113	6,924,335
Compost			1,312,511	1,225,462	1,312,511	1,225,462
Airport			1,444,667	2,039,988	1,444,667	2,039,988
Bus			14,834,612	13,758,421	14,834,612	13,758,421
Golf			2,497,161	2,479,447	2,497,161	2,479,447
Community center			2,465,825	2,543,121	2,465,825	2,543,121
Total expenses	176,438,991	173,704,378	91,574,295	90,143,609	268,013,286	263,847,987
Increase in net assets before transfers	10,039,200	129,335	47,669,406	22,324,294	57,708,606	22,453,629
Transfers	(779,437)	(1,153,632)	779,437	1,153,632		
Special item			(625,620)	(505,498)	(625,620)	(505,498)
Change in net assets	9,259,763	(1,024,297)	47,823,223	22,972,428	57,082,986	21,948,131
Net assets – beginning, as restated	437,367,085	415,036,196	310,404,395	287,431,967	747,771,480	702,468,163
Net assets - ending	\$446,626,848	\$414,011,899	\$358,227,618	\$310,404,395	\$804,854,466	\$724,416,294

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

**Governmental activities.** Governmental activities increased the City's net assets by \$9,259,763. Taxes increased about \$400,000 over 2007, due to rising tax *bases*; tax *rates* remained the same. Intergovernmental revenues reflect an increase of approximately \$5 million, mostly due to increased collections from grant sources. However, sales tax declined by \$1.6 million and Motor Vehicle License revenue increased by approximately \$630,000. Finally, investment earnings grew by \$400,000 due to more favorable investment yields. Charges for services have decreased by \$3.6 million compared to the prior year, due mainly to the halt in new residential construction which slowed the city's collection of Capital Facility Fees.

Expenses in total were lower compared to the prior year by \$7.9 million, or 4%, 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 \$47,823,223. As detailed in the schedule on page 12, net losses were experienced by Parking, Golf and Community Center operations. Depreciation expense, which is the major cause of these net losses, is not included in these funds' budgets or revenue-setting processes.

Settlements and recoveries revenue increased \$13 million as additional settlements related to the city's on-going PCE litigation were reached during the year (see Note II L). Investment earnings grew by \$1.7 million due to more favorable investment yields and the stability of the portfolio balance. Charges for services increased by approximately \$7.3 million due to a 5% rate increase for water use fees and an average 30% increase in wastewater charges that were implemented at the start of the year. Finally, expenses across the board are up, primarily due to general increases in the outlay for utility system maintenance along with higher costs for power and fuel.

### 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, 2008, the City's governmental funds reported combined fund balances of \$139,084,551, an increase of \$321,374 from the prior year. Approximately 66% of the combined fund balances (\$92,468,862) 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 (\$6,826,893); 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 (\$21,041,328); 3) to liquidate contractual commitments of the period (\$12,694,639); and 4) to meet Redevelopment Agency low and moderate income housing set-aside requirements (\$6,052,829).

The General Fund is the chief operating fund of the City. At June 30, 2008, unreserved fund balance of the General Fund was \$11,942,168 while total fund balance was \$15,758,727. 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 10.1 percent of total fund expenditures, while total fund balance represents 13.3 percent of that same amount. The prior year ratios were 9.2% and 12.4%, respectively. The use of the fund balance reserves was planned and budgeted during the year.

Revenues of governmental funds totaled \$174,556,205 in fiscal year 2007-2008, which represents an increase of 1.7% from fiscal year 2006-2007.

Expenditures of governmental funds totaled \$176,330,096 in fiscal year 2007-2008, representing a decrease of 4.3% over the prior year.

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

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

### Revenues Classified by Source – Governmental Funds

Revenues by Source	FY 2008		FY 2007		Increase (Decrease)	
	Amount	Percent	Amount	Percent	Amount	% Change
Taxes	\$57,142,392	32.7%	\$56,748,017	33.1%	\$394,375	0.7%
Licenses and permits	153,545	0.1%	187,289	0.1%	(33,744)	-18.0%
Intergovernmental	71,179,504	40.8%	66,129,862	38.5%	5,049,642	7.6%
Charges for services	33,319,642	19.1%	36,979,023	21.5%	(3,659,381)	-9.9%
Special assessments	35,294	0.0%	51,634		(16,340)	-31.6%
Interest and rent	5,236,476	3.0%	4,837,419	2.8%	399,057	8.2%
Net increase (decrease) in fair value	1,404,913	0.8%	1,168,857	7.0%	236,056	20.2%
Fines and forfeits	2,614,523	1.5%	2,699,445	1.6%	(84,922)	-3.1%
Miscellaneous	3,469,916	1.9%	2,814,421	1.5%	655,495	23.3%
<b>Total</b>	<b>\$174,556,205</b>	<b>100.0%</b>	<b>\$171,615,967</b>	<b>100.0%</b>	<b>\$2,940,238</b>	<b>1.7%</b>

- Taxes –Utility Users Tax increased \$854,000 on higher utility rates. The overall tax rate remained unchanged. Property taxes and Redevelopment Agency Tax Increment (an allocation of property taxes) decreased by \$254,000 and \$570,301 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 \$1.6 million, and vehicle license fees increased by \$623,000 based on the strong increase in assessed real property values that existed at the beginning of the year. The balance of the overall increase is due to higher grant revenues from more aggressive grant billing during the year.
- 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 increased \$400,000 due to more favorable market conditions.

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

### Expenditures by Functions Governmental Funds

Exp by Function	FY 2008		FY 2007		Increase (Decrease)	
	Amount	Percent	Amount	Percent	Amount	% Change
General government	\$15,107,461	8.6%	\$15,517,544	8.4%	(\$410,083)	-2.6%
Community development	13,820,295	7.8%	11,789,640	6.4%	2,030,655	17.2%
Highways and streets	12,549,018	7.1%	12,553,681	6.8%	(4,663)	0.0%
Public works	9,719,098	5.5%	11,307,307	6.1%	(1,588,209)	-14.0%
Parks and recreation	12,605,651	7.1%	13,348,613	7.2%	(742,962)	-5.6%
Public safety	82,707,285	46.9%	80,988,650	43.9%	1,718,635	2.1%
Capital outlay	22,745,308	12.9%	30,194,778	16.4%	(7,449,470)	-24.7%
Debt Service-principal retirement	2,265,000	1.3%	2,008,538	1.1%	256,462	12.8%
Debt Service-interest charges	3,473,369	2.0%	4,413,300	2.4%	(939,931)	-21.3%
Debt Service-Advance refunding			822,228	0.4%	(822,228)	100.0%
Debt Service-other	1,337,611	0.8%	1,333,129	0.7%	4,482	0.3%
<b>Total</b>	<b>\$176,330,096</b>	<b>100.0%</b>	<b>\$184,277,408</b>	<b>100.0%</b>	<b>(\$7,947,312)</b>	<b>-4.3%</b>

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

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

- General government –Expenditures decreased about \$410,083 or 2.6% over the prior year, due to aggressive budget reductions put into place by the City Council beginning in December 2007.
- Community development – Expenditures increased about \$2 million, or 17.2% over the prior year, due to the consolidation of facility planning functions that had previously been assigned to the Public Works function.
- Public Works – Expenditures decreased about \$1.5 million, or 14% over the prior year, due to the consolidation of the facility planning functions referred to above.
- Public safety –Expenditures increased about \$1.7 million, or 2.1% over the prior year. Scheduled cost of living increases and investment in both equipment and software applications contributed significantly toward this increase.
- Capital outlay –The decrease of \$7.5 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:

	Other Financing sources (Uses)			
	<u>Governmental Funds</u>			
	FY 2008	FY 2007	Increase/(Decrease)	
			Amount	Percent
Transfers in	\$24,429,880	\$23,985,863	\$444,017	1.8%
Transfers out	(22,579,265)	(26,399,280)	3,820,015	-14.5%
Issuance of loans payable	244,650	44,138	200,512	454.3%
Issuance of lease revenue bonds		62,275,000	(62,275,000)	-100.0%
Payments to refunded certificates of participation escrow agent		(58,911,124)	58,911,124	-100.0%
Sale of assets		767,904	(767,904)	-100.0%
Net financing sources (uses)	\$2,095,265	\$1,762,501	\$332,764	18.9%

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 2008 were \$1,850,615 compared to \$2,413,417, in the prior year. This net transfer is *to* the proprietary funds, and consists mainly of the operating subsidy to Community Center operations and funding to the Fleet internal services fund for vehicle and equipment replacement.
- 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 \$244,650 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 2006 Water Revenue Certificates of Participation in May, 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			Non-major Funds		
	General Fund	Capital Facility Fees Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	Total
Revenues	\$116,924,390	\$11,592,065	\$26,376,813	\$15,682,536	\$3,980,401	\$174,556,205
Expenditures	(118,476,439)	(5,118,900)	(24,915,206)	(21,243,917)	(6,575,634)	(176,330,096)
Other financing sources/uses, net	2,861,893	(2,170,886)	(1,921,308)	1,293,865	2,031,701	2,095,265
Net change in fund balances	1,309,844	4,302,279	(459,701)	(4,267,516)	(563,532)	321,374
Fund balance-July 1	14,448,883	43,302,990	26,676,093	46,944,786	7,390,425	138,763,177
Fund balance June 30	\$15,758,727	\$47,605,269	\$26,216,392	\$42,677,270	\$6,826,893	\$139,084,551

The fund balance of the City's General Fund increased by \$1,309,844 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 \$900,000 from the prior year, reflecting the decrease in housing and commercial building starts. Spending on capital projects decreased by \$2.8 million. Still, revenues exceeded expenditures by \$4.3 million. The significant, 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			Non-major Funds						
	Water	Sewer	Bus	Parking	Storm Drain	Compost	Airport	Golf	Community Center	Total
Operating revenues	\$51,679,042	\$29,340,615	\$3,182,762	\$1,297,484	\$5,338,838	\$1,075,032	\$593,349	\$2,124,672	\$532,471	\$95,164,265
Operating expenses	(34,660,359)	(20,994,856)	(14,686,532)	(1,871,463)	(5,974,731)	(1,210,441)	(1,376,099)	(2,201,154)	(2,423,341)	(85,398,976)
Operating income (loss)	17,018,683	8,345,759	(11,503,770)	(573,979)	(635,893)	(135,409)	(782,750)	(76,482)	(1,890,870)	9,765,289
Non-operating revenues (expenses), net	10,203,795	7,194,153	12,342,611	57,065	39,577	18,166	436,393	(184,665)	473,190	\$30,580,285
Income (loss) before capital contributions, transfers and special items	27,222,478	15,539,912	838,841	(516,914)	(596,316)	(117,243)	(346,357)	(261,147)	(1,417,680)	40,345,574
Contributions, transfers and special items	3,550,432	2,926,554	791,202	(80,000)	706,334	528,152	649,936	127,992	746,571	9,947,173
Net income (loss)	\$30,772,910	\$18,466,466	\$1,630,043	(\$596,914)	\$110,018	\$410,909	\$303,579	(\$133,155)	(\$671,109)	\$50,292,747

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

The Water, Sewer, Bus, Storm Drain, Compost and Airport 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 in 2008. 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 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 56 of this report.

While the City Council amended the budget several times, the differences between the original budget and the final amended budget for the General Fund were relatively minor. The estimated revenues decreased about \$4.7 million (4%), while total appropriations were decreased \$.7 million, or about .06%. These amendments, generally, 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 \$1.8 million less than the final estimates. Variances in Sales tax (\$632,000), Property taxes \$102,000 and construction related revenues (\$1,040,000) were due to the effects of the sub-prime mortgage market that were being fully realized during the fourth quarter of fiscal 2008.

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, 2008, amounted to \$706,071,777 (net of accumulated depreciation). The total increase in the City's investment in capital assets for the current period was 9 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) Percent	\$ change
	2008	2007	2008	2007	2008	2007	Change	
	Land	\$26,568,669	\$24,972,386	\$27,065,176	\$26,811,152	\$53,633,845	\$51,783,538	
Buildings	18,919,640	20,090,053	43,336,097	45,833,974	62,255,737	65,924,027	-5.6%	(3,668,290)
Improvements	24,175,723	16,437,093	57,321,167	55,372,253	81,496,890	71,809,346	13.5%	9,687,544
Furnishings and equipment	8,714,095	9,086,379	2,798,181	2,405,596	11,512,276	11,491,975	0.2%	20,301
Equipment pool	13,904,379	15,095,983			13,904,379	15,095,983	-7.9%	(1,191,604)
Streets	245,282,855	231,315,998			245,282,855	231,315,998	6.0%	13,966,857
Signalization	5,608,688	6,202,103			5,608,688	6,202,103	-9.6%	(593,415)
Bridges	23,548,058	23,965,873			23,548,058	23,965,873	-1.7%	(417,815)
Buses & fareboxes			8,534,598	7,533,177	8,534,598	7,533,177	13.3%	1,001,421
Pipelines			117,075,303	112,994,297	117,075,303	112,994,297	3.6%	4,081,006
Construction in progress	23,535,274	29,257,124	59,683,876	43,495,662	83,219,150	72,752,786	14.4%	10,466,364
<b>Total</b>	<b>\$390,257,381</b>	<b>\$376,422,992</b>	<b>\$315,814,398</b>	<b>\$294,446,111</b>	<b>\$706,071,779</b>	<b>\$670,869,103</b>	<b>5.2%</b>	<b>\$35,202,676</b>

## Management's Discussion and Analysis (continued)

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.

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, 2008, the City had total long-term liabilities outstanding of \$285,963,195, net of unamortized discounts and deferred amounts on refunding, as compared to \$302,558,956 in the prior year. This amount was comprised of \$65,210,000 of lease revenue bonds, \$89,538,815 of certificates of participation, \$49,943,425 of revenue bonds payable, \$12,302,763 of estimated compensated absences, \$37,180,914 of OPEB obligation, \$22,949,872 of claims liability, \$2,448,088 of loans payable, \$1,987,221 of developer advances, \$214,877 of capital leases, and \$4,187,220 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 2006 Water Revenue Certificates of Participation (\$47.3 and \$47.6 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, 2008, the net OPEB obligation amounts to approximately \$37.2 million. This contributes significantly to the EBF's \$29.5 million deficit net assets. Additional information on the City's EBF can be found in Notes II-H and III-G.

### Economic Factors and Next Year's Budget and Rates

- *Consumer Price Index* – Growth in the CPI has been relatively stable during the past six 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, 2008, the CPI-Western Urban Index increased 4.2%.
- *Taxable Sales* - Taxable sales trends are now in a negative pattern, beginning in late 2008. During the next two fiscal years, sales tax forecasts based on existing business market participants reflect an average 3% annual decrease. These trends reflect the national economy forecasts for lower sales in all business sectors. The effect on sales tax resulting from the City entering into a series of sales tax rebate agreements with retailers of petroleum products have not been included in the City's revenue forecast.
- *Building Permit Activity* – Residential building permit issuance, which had been extremely robust for several years, stood at 915 for the year ending December 31, 2003. For the calendar year ending December 31, 2007 576 residential permits were issued, with an average construction value of \$149,500.
- *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. A new water utility rate study is underway and will result in rate hearings before the City Council by August 2009. The City Council approved the implementation of the second scheduled rate increase for wastewater charges, based on a rate study that was adopted in July, 2007. The rate increase enacted represented an average increase of 305 for all system users, compared to the 45% increase recommended in the rate study. New sewer connection fees were also adopted in July, raising the average fee from \$500 per home to \$4,876 per home.

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 increased by \$1.2 million, to \$11,942,168 which represents 8% of total General Fund outflows which equals City Council's target value of 8%. The budget adopted for fiscal year 2008-2009 reflects a planned reduction in the reserve level on a temporary basis, from 8% to 7.5%.

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

### **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

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# **BASIC FINANCIAL STATEMENTS**



**CITY OF MODESTO**  
**STATEMENT OF NET ASSETS**  
**June 30, 2008**

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
<u>ASSETS</u>			
Cash and cash equivalents	\$ 175,783,058	\$ 167,201,201	\$ 342,984,259
Accounts receivable, net	928,746	247,271	1,176,017
Interest receivable	723,708	791,025	1,514,733
Utility billings receivable, net	841,549	10,125,579	10,967,128
Taxes receivable	9,839,801	7,279	9,847,080
Due from governments, net	9,429,904	3,946,259	13,376,163
Notes receivable, net	18,596,810		18,596,810
Prepaid expenses	3,190	1,068,692	1,071,882
Property held for resale	780,000	630,000	1,410,000
Internal balances	4,669,928	(4,669,928)	
Inventories	542,624		542,624
Unamortized costs of debt issuance		2,215,382	2,215,382
Investments in joint ventures	17,127,970		17,127,970
Capital assets:			
Land and construction in progress	50,103,943	86,749,052	136,852,995
Other capital assets, net of accumulated depreciation	<u>340,153,438</u>	<u>229,065,346</u>	<u>569,218,784</u>
<b>Total assets</b>	<u>629,524,669</u>	<u>497,377,158</u>	<u>1,126,901,827</u>
<u>LIABILITIES</u>			
Accounts payable	8,251,749	6,973,893	15,225,642
Accrued salaries and benefits	1,734,180	323,567	2,057,747
Approved loans payable	808,999		808,999
Interest payable	1,014,595	701,425	1,716,020
Unearned revenues	5,803,480	6,421,808	12,225,288
Refundable deposits	2,687,869	1,362,601	4,050,470
Long-term liabilities:			
Due within one year	12,813,405	3,412,625	16,226,030
Due in more than one year	<u>149,783,544</u>	<u>119,953,621</u>	<u>269,737,165</u>
<b>Total liabilities</b>	<u>182,897,821</u>	<u>139,149,540</u>	<u>322,047,361</u>
<u>NET ASSETS</u>			
Invested in capital assets, net of related debt	339,396,266	194,435,373	533,831,639
Restricted for:			
Capital projects	39,648,975		39,648,975
Housing and community development	24,346,495		24,346,495
Redevelopment	10,044,177		10,044,177
Other purposes	28,563,051		28,563,051
Unrestricted	<u>4,627,884</u>	<u>163,792,245</u>	<u>168,420,129</u>
<b>Total net assets</b>	<u>\$ 446,626,848</u>	<u>\$ 358,227,618</u>	<u>\$ 804,854,466</u>

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

**CITY OF MODESTO**  
**STATEMENT OF ACTIVITIES**  
**Year ended June 30, 2008**

FUNCTIONS/PROGRAMS:	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities:				
General government	\$ 15,997,582	\$ 6,726,893	\$ 4,525	
Community development	14,619,525	7,869,742		
Highways and streets	26,436,475	5,804,342	3,703,519	\$ 14,456,611
Public works	11,471,344	5,110,428	23,034	
Parks and recreation	14,264,334	5,590,196	6,382,059	3,474,346
Public safety	88,651,249	4,868,612	4,108,253	
Interest on long-term debt	4,998,482			
Total governmental activities	176,438,991	35,970,213	14,221,390	17,930,957
Business-type activities:				
Parking	1,982,066	1,297,484		
Water	36,713,351	51,679,042		3,638,470
Sewer	23,974,989	29,340,615	325,787	3,217,136
Storm Drain	6,349,113	5,338,838		1,338,334
Compost	1,312,511	1,075,032		602,778
Airport	1,444,667	593,349		649,936
Bus	14,834,612	3,182,762	12,133,920	346,702
Golf	2,497,161	2,124,672		
Community Center	2,465,825	532,471		
Total business-type activities	91,574,295	95,164,265	12,459,707	9,793,356
<b>Total</b>	<b>\$ 268,013,286</b>	<b>\$ 131,134,478</b>	<b>\$ 26,681,097</b>	<b>\$ 27,724,313</b>

General revenues:

Taxes:

  Utility users tax

  Property taxes, levied for general purposes

  Property taxes, generated by and allocated to the airport

  Tax increments for redevelopment agency

  Transient occupancy tax

  Franchise tax

  Business license tax, levied for general purposes

  Business license tax, levied for downtown improvement district

  Business license tax, generated by and allocated to the airport

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)

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
\$ (9,266,164)		\$ (9,266,164)
(6,749,783)		(6,749,783)
(2,472,003)		(2,472,003)
(6,337,882)		(6,337,882)
1,182,267		1,182,267
(79,674,384)		(79,674,384)
(4,998,482)		(4,998,482)
<u>(108,316,431)</u>		<u>(108,316,431)</u>
	\$ (684,582)	(684,582)
	18,604,161	18,604,161
	8,908,549	8,908,549
	328,059	328,059
	365,299	365,299
	(201,382)	(201,382)
	828,772	828,772
	(372,489)	(372,489)
	<u>(1,933,354)</u>	<u>(1,933,354)</u>
	<u>25,843,033</u>	<u>25,843,033</u>
<u>(108,316,431)</u>	<u>25,843,033</u>	<u>(82,473,398)</u>
19,173,295		19,173,295
16,202,587		16,202,587
	182,031	182,031
5,813,822		5,813,822
2,038,255		2,038,255
4,031,612		4,031,612
9,680,721		9,680,721
202,100		202,100
	19,188	19,188
26,305,982		26,305,982
16,856,108		16,856,108
4,620,866		4,620,866
9,960,367	7,099,765	17,060,132
3,469,916		3,469,916
	14,525,389	14,525,389
(779,437)	779,437	
	<u>(625,620)</u>	<u>(625,620)</u>
<u>117,576,194</u>	<u>21,980,190</u>	<u>139,556,384</u>
9,259,763	47,823,223	57,082,986
<u>437,367,085</u>	<u>310,404,395</u>	<u>747,771,480</u>
<u>\$ 446,626,848</u>	<u>\$ 358,227,618</u>	<u>\$ 804,854,466</u>

**CITY OF MODESTO**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**June 30, 2008**

	General	Capital Facility Fees	Other Governmental	Total Governmental
<u>ASSETS</u>				
Cash and cash equivalents	\$ 3,498,856	\$ 48,884,398	\$ 38,554,063	\$ 90,937,317
Cash and cash equivalents with fiscal agent			24,026,513	24,026,513
Receivables:				
Accounts	339,572	126	170,980	510,678
Interest	45,664	250,629	221,242	517,535
Utilities, net	793,362		48,187	841,549
Taxes	9,291,837		547,964	9,839,801
Due from governments	1,593,286	114,714	7,721,904	9,429,904
Due from other funds	1,752,000			1,752,000
Notes receivable, net			18,596,810	18,596,810
Prepaid expenses/expenditures			3,190	3,190
Property held for resale			780,000	780,000
Restricted assets:				
Cash and cash equivalents	1,910,363		776,506	2,686,869
Advances to other funds	2,526,316		51,303	2,577,619
<b>Total assets</b>	<b>\$ 21,751,256</b>	<b>\$ 49,249,867</b>	<b>\$ 91,498,662</b>	<b>\$ 162,499,785</b>
 <u>LIABILITIES AND FUND BALANCES</u>				
Liabilities:				
Accounts payable	\$ 2,355,485	\$ 384,141	\$ 3,730,193	\$ 6,469,819
Accrued salaries and benefits	1,431,942		176,388	1,608,330
Approved loans payable			808,999	808,999
Due to other funds			1,752,000	1,752,000
Deferred revenues	294,739	7,542	8,533,021	8,835,302
Payable from restricted assets:				
Refundable deposits	1,910,363		777,506	2,687,869
Advances from other funds		1,252,915		1,252,915
<b>Total liabilities</b>	<b>5,992,529</b>	<b>1,644,598</b>	<b>15,778,107</b>	<b>23,415,234</b>
Fund balances:				
Reserved	3,816,559	2,610,399	40,188,731	46,615,689
Unreserved:				
Designated, reported in:				
General fund	1,166,901			1,166,901
Special revenue funds			7,545,187	7,545,187
Capital projects funds		44,994,870	4,614,464	49,609,334
Undesignated, reported in:				
General fund	10,775,267			10,775,267
Special revenue funds			1,200,924	1,200,924
Capital projects funds			22,171,249	22,171,249
<b>Total fund balances</b>	<b>15,758,727</b>	<b>47,605,269</b>	<b>75,720,555</b>	<b>139,084,551</b>
<b>Total liabilities and fund balances</b>	<b>\$ 21,751,256</b>	<b>\$ 49,249,867</b>	<b>\$ 91,498,662</b>	<b>\$ 162,499,785</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, 2008**

Total fund balances - total governmental funds \$ 139,084,551

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

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

General capital assets:

Nondepreciable	\$ 49,282,910	
Depreciable	90,069,686	
Accumulated depreciation on general capital assets	(42,719,504)	

Infrastructure:

Depreciable	500,147,880	
Accumulated depreciation on infrastructure	<u>(225,708,277)</u>	371,072,695

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

Deferred in the governmental funds, or	\$ 3,031,822	
Investments in joint ventures	<u>17,127,970</u>	20,159,792

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.

7,234,193

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	\$ (89,909,788)	
Accrued interest	<u>(1,014,595)</u>	<u>(90,924,383)</u>

Net assets of governmental activities \$ 446,626,848

**CITY OF MODESTO**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - GOVERNMENTAL FUNDS**  
Year ended June 30, 2008

	General	Capital Facility Fees	Other Governmental	Total Governmental
<b>REVENUES:</b>				
Taxes	\$ 50,249,992		\$ 6,892,400	\$ 57,142,392
Licenses and permits	83,567		69,978	153,545
Intergovernmental	47,521,919	\$ 441,806	23,215,779	71,179,504
Charges for services	14,694,369	8,564,529	10,060,744	33,319,642
Special assessments levied	35,294			35,294
Interest and rent	385,383	1,818,620	3,032,473	5,236,476
Net increase in fair value of investments	95,915	767,110	541,888	1,404,913
Fines and forfeits	1,309,927		1,304,596	2,614,523
Miscellaneous	2,548,024		921,892	3,469,916
Total revenues	<u>116,924,390</u>	<u>11,592,065</u>	<u>46,039,750</u>	<u>174,556,205</u>
<b>EXPENDITURES:</b>				
Current:				
General government	13,207,057	197,781	1,702,623	15,107,461
Community development	6,992,171		6,828,124	13,820,295
Highways and streets		1,005,055	11,543,963	12,549,018
Public works	5,149,777		4,569,321	9,719,098
Parks and recreation	12,337,390	23,922	244,339	12,605,651
Public safety	80,493,766		2,213,519	82,707,285
Capital outlay	296,278	3,892,142	18,556,888	22,745,308
Debt service:				
Principal retirement			2,265,000	2,265,000
Interest			3,473,369	3,473,369
Other			1,337,611	1,337,611
Total expenditures	<u>118,476,439</u>	<u>5,118,900</u>	<u>52,734,757</u>	<u>176,330,096</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(1,552,049)</u>	<u>6,473,165</u>	<u>(6,695,007)</u>	<u>(1,773,891)</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	9,623,364	1,040,100	13,766,416	24,429,880
Transfers out	(6,761,471)	(3,210,986)	(12,606,808)	(22,579,265)
Issuance of loans payable			244,650	244,650
TOTAL OTHER FINANCING SOURCES (USES)	<u>2,861,893</u>	<u>(2,170,886)</u>	<u>1,404,258</u>	<u>2,095,265</u>
NET CHANGE IN FUND BALANCES	1,309,844	4,302,279	(5,290,749)	321,374
FUND BALANCES, July 1	<u>14,448,883</u>	<u>43,302,990</u>	<u>81,011,304</u>	<u>138,763,177</u>
FUND BALANCES, June 30	<u>\$ 15,758,727</u>	<u>\$ 47,605,269</u>	<u>\$ 75,720,555</u>	<u>\$ 139,084,551</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, 2008**

Net change in fund balances - total governmental funds \$ 321,374

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	\$ 22,745,308	
Depreciation expense	<u>(16,726,703)</u>	6,018,605

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. (118,439)

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. 9,080,293

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	\$ (477,285)	
Change in investment in joint venture	<u>491,370</u>	14,085

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

Principal retirement	2,265,000	
Proceeds of long term debt	<u>(244,650)</u>	2,020,350

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		(179,601)
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Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue (expense) of internal service funds is reported with governmental activities. (7,896,904)

Change in net assets of governmental activities \$ 9,259,763

**CITY OF MODESTO**  
**STATEMENT OF NET ASSETS - PROPRIETARY FUNDS**  
**June 30, 2008**

	Enterprise					Internal Service
	Water	Sewer	Bus	Other Enterprise	Total Enterprise	
<b>ASSETS</b>						
Current assets:						
Cash and cash equivalents	\$ 59,284,477	\$ 36,686,434	\$ 6,209,741	\$ 4,167,615	\$ 106,348,267	\$ 58,132,359
Cash and cash equivalents with fiscal agent	2,264,936	4,004,449		605,483	6,874,868	
Receivables:						
Accounts	20,263	50,828	10,036	166,144	247,271	418,068
Interest	526,521	218,803	26,817	18,884	791,025	206,173
Utilities, net	6,302,992	3,290,237		532,350	10,125,579	
Taxes	6,080			1,199	7,279	
Due from governments			3,717,046	229,213	3,946,259	
Prepaid expenses	1,068,692				1,068,692	
Inventories						542,624
Property held for resale				630,000	630,000	
Advances to other funds						
Total current assets	<u>69,473,961</u>	<u>44,250,751</u>	<u>9,963,640</u>	<u>6,350,888</u>	<u>130,039,240</u>	<u>59,299,224</u>
Noncurrent assets:						
Restricted assets-cash and cash equivalents	46,424,104	7,553,962			53,978,066	
Unamortized costs of issuance	1,368,706	846,676			2,215,382	
Land and construction in progress	23,608,298	45,583,359	5,422,416	12,134,979	86,749,052	821,033
Other capital assets, net of accumulated depreciation	65,967,321	102,950,278	14,813,718	45,334,029	229,065,346	18,363,653
Total noncurrent assets	<u>137,368,429</u>	<u>156,934,275</u>	<u>20,236,134</u>	<u>57,469,008</u>	<u>372,007,846</u>	<u>19,184,686</u>
Total assets	<u>206,842,390</u>	<u>201,185,026</u>	<u>30,199,774</u>	<u>63,819,896</u>	<u>502,047,086</u>	<u>78,483,910</u>
<b>LIABILITIES</b>						
Current liabilities:						
Accounts payable	\$ 4,251,588	\$ 1,686,762	\$ 873,964	\$ 161,579	\$ 6,973,893	\$ 1,781,930
Accrued salaries and benefits	107,586	125,009	24,933	66,039	323,567	125,850
Interest payable	253,380	399,256		48,789	701,425	
Current portion - compensated absences						3,259,769
Current portion - claims liability						7,663,992
Current portion - long-term debt	1,355,745	1,660,000		302,485	3,318,230	96,644
Current portion - developer advances	94,395				94,395	
Deferred revenues			6,189,759	232,049	6,421,808	
Total current liabilities	<u>6,062,694</u>	<u>3,871,027</u>	<u>7,088,656</u>	<u>810,941</u>	<u>17,833,318</u>	<u>12,928,185</u>
Noncurrent liabilities:						
Payable from restricted assets - refundable deposits	833,051	529,550			1,362,601	
Compensated absences						9,042,994
Net OPEB obligation						37,180,914
Claims liability						15,285,880
Long-term debt:						
Revenue bonds payable		48,283,425			48,283,425	
Loan payable	1,543,555				1,543,555	
Notes payable						86,252
Obligations under capital leases						70,716
Certificates of participation	63,023,815			5,210,000	68,233,815	
Developer advances	1,892,826				1,892,826	
Advances from other funds				1,324,704	1,324,704	
Total noncurrent liabilities	<u>67,293,247</u>	<u>48,812,975</u>	<u>48,283,425</u>	<u>6,534,704</u>	<u>122,640,926</u>	<u>61,666,756</u>
Total liabilities	<u>73,355,941</u>	<u>52,684,002</u>	<u>7,088,656</u>	<u>7,345,645</u>	<u>140,474,244</u>	<u>74,594,941</u>
Invested in capital assets, net of related debt	69,243,557	105,614,624	20,236,134	51,956,523	194,435,373	19,017,326
Unrestricted	64,242,892	42,886,400	2,874,984	4,517,728	167,137,469	(15,128,357)
Total net assets	<u>\$ 133,486,449</u>	<u>\$ 148,501,024</u>	<u>\$ 23,111,118</u>	<u>\$ 56,474,251</u>	<u>361,572,842</u>	<u>\$ 3,888,969</u>

Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds. (3,345,224)

Net assets of business-type activities \$ 358,227,618

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, 2008**

	Water	Sewer	Bus	Other Enterprise	Total Enterprise	Internal Service
<b>OPERATING REVENUES:</b>						
Charges for services	\$ 51,433,282	\$ 29,202,145	2,531,732	\$ 10,904,759	\$ 94,071,918	\$ 43,786,852
Sales						5,380,938
Cost of sales						(4,763,632)
Miscellaneous	245,760	138,470	651,030	57,087	1,092,347	
Total operating revenues	<u>51,679,042</u>	<u>29,340,615</u>	<u>3,182,762</u>	<u>10,961,846</u>	<u>95,164,265</u>	<u>44,404,158</u>
<b>OPERATING EXPENSES:</b>						
Salaries and wages	4,547,859	5,113,073	1,019,695	3,180,353	13,860,980	4,693,221
Contractual services	4,690,670	2,477,788	8,563,460	3,910,037	19,641,955	1,225,982
Utilities	1,975,894	1,069,690	81,832	446,407	3,573,823	466,937
Maintenance and supplies	5,096,772	2,351,878	2,127,239	2,179,816	11,755,705	4,358,586
Water purchases	11,272,437				11,272,437	
Insurance	155,213	318,954	117,014	166,076	757,257	14,787,502
Claims expense						13,133,433
Employee benefits	1,711,835	2,201,885	383,044	1,216,433	5,513,197	9,936,297
Administration services	2,323,514	1,282,041	643,256	1,007,734	5,256,545	1,685,634
Allocated indirect administrative costs	563,449	744,652	83,131	314,579	1,705,811	281,256
Other	45,961	337,769	111,219	89,742	584,691	133,787
Depreciation	2,276,755	5,097,126	1,556,642	2,546,052	11,476,575	3,538,088
Total operating expenses	<u>34,660,359</u>	<u>20,994,856</u>	<u>14,686,532</u>	<u>15,057,229</u>	<u>85,398,976</u>	<u>54,240,723</u>
<b>OPERATING INCOME (LOSS)</b>	<u>17,018,683</u>	<u>8,345,759</u>	<u>(11,503,770)</u>	<u>(4,095,383)</u>	<u>9,765,289</u>	<u>(9,836,565)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>						
Operating grants		325,787	12,133,920		12,459,707	319,619
Gain (Loss) on disposition of capital assets	(10,300)	(63,800)		(9,116)	(83,216)	(1,050,175)
Tax revenue				201,219	201,219	
Tax expense	(86,733)	(94,151)		(13,088)	(193,972)	
Interest income	2,148,137	1,377,209	55,618	161,508	3,742,472	1,955,032
Net increase in fair value of investments	1,541,101	773,051	74,223	59,201	2,447,576	872,576
Rental income	39,302	59,562	78,850	732,003	909,717	
Settlements and recoveries	7,728,562	6,796,827			14,525,389	
Interest expense	(1,139,937)	(1,934,112)		(292,001)	(3,366,050)	(7,901)
Amortization of costs of issuance	(16,337)	(46,220)			(62,557)	
Total nonoperating revenues (expenses)	<u>10,203,795</u>	<u>7,194,153</u>	<u>12,342,611</u>	<u>839,726</u>	<u>30,580,285</u>	<u>2,089,151</u>
<b>INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS</b>	<u>27,222,478</u>	<u>15,539,912</u>	<u>838,841</u>	<u>(3,255,657)</u>	<u>40,345,574</u>	<u>(7,747,414)</u>
Capital contributions	3,638,470	3,217,136	346,702	2,591,048	9,793,356	11,038
Transfers in	264,000	114,000	462,500	874,563	1,715,063	929,372
Transfers out	(65,000)	(66,000)	(18,000)	(786,626)	(935,626)	(3,559,424)
Special item	(287,038)	(338,582)			(625,620)	
<b>CHANGE IN NET ASSETS</b>	<u>30,772,910</u>	<u>18,466,466</u>	<u>1,630,043</u>	<u>(576,672)</u>	<u>50,292,747</u>	<u>(10,366,428)</u>
<b>NET ASSETS, July 1 (as restated)</b>	<u>102,713,539</u>	<u>130,034,558</u>	<u>21,481,075</u>	<u>57,050,923</u>		<u>14,255,397</u>
<b>NET ASSETS, June 30</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>
Adjustment to reflect the consolidation of internal service fund					(2,469,524)	
Change in net assets of business-type activities					<u>\$ 47,823,223</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, 2008**

	Enterprise					Internal Service
	Water	Sewer	Bus	Other Enterprise	Total Enterprise	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>						
Receipts from customers and users	\$ 51,648,884	\$ 28,796,814	\$ 3,286,420	\$ 11,758,347	\$ 95,490,465	\$ 7,773,082
Receipts from interfund services provided	363,365	52,611		45,098	461,074	37,070,964
Payments to suppliers	(17,297,975)	(5,328,663)	(10,195,583)	(5,311,428)	(38,133,649)	(19,802,715)
Payment of insurance claims						(6,809,798)
Payments to employees	(6,225,335)	(7,289,049)	(1,396,716)	(4,377,774)	(19,288,874)	(9,641,227)
Payments for interfund services used	(5,833,835)	(4,715,721)	(1,410,747)	(3,649,914)	(15,610,217)	(2,535,706)
Net cash provided (used) by operating activities	<u>22,655,104</u>	<u>11,515,992</u>	<u>(9,716,626)</u>	<u>(1,535,671)</u>	<u>22,918,799</u>	<u>6,054,600</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>						
Operating grants received		325,787	13,512,433	(73)	13,838,147	318,581
Taxes received				201,219	201,219	
Settlements and recoveries	7,728,562	6,796,827			14,525,389	
Transfers in	264,000	114,000	462,500	874,563	1,715,063	929,372
Transfers out	(65,000)	(66,000)	(18,000)	(786,626)	(935,626)	(3,559,424)
Advances from other funds				446,000		1,782,462
Net cash provided (used) by noncapital financing activities	<u>7,927,562</u>	<u>7,170,614</u>	<u>13,956,933</u>	<u>735,083</u>	<u>29,344,192</u>	<u>(529,009)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>						
Acquisition and construction of capital assets	(9,856,108)	(13,409,710)	(2,649,963)	(909,315)	(26,825,096)	(3,125,221)
Proceeds of debt issues	47,625,000					
Payment to bond escrow agent	(46,286,841)					
Costs of issuance paid	(1,146,428)					
Bond discount paid	(153,921)					
Principal repayments	(1,114,944)	(1,710,000)		(289,148)	(3,114,092)	(102,188)
Interest paid	(1,054,266)	(1,850,030)		(295,019)	(3,199,315)	(7,901)
Capital grants received			346,702	1,205,673	1,552,375	
Connection fees for capital purposes	1,539,039	1,174,698			2,713,737	
Net cash used by capital and related financing activities	<u>(10,448,469)</u>	<u>(15,795,042)</u>	<u>(2,303,261)</u>	<u>(287,809)</u>	<u>(28,872,391)</u>	<u>(3,235,310)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>						
Interest received	1,958,870	1,325,105	45,809	158,983	3,488,767	1,893,097
Net increase in the fair value of investments	1,541,101	773,051	74,223	59,201	2,447,576	872,576
Net cash provided by investing activities	<u>3,499,971</u>	<u>2,098,156</u>	<u>120,032</u>	<u>218,184</u>	<u>5,936,343</u>	<u>2,765,673</u>
Net increase (decrease) in cash and cash equivalents	23,634,168	4,989,720	2,057,078	(870,213)	29,810,753	4,750,020
CASH AND CASH EQUIVALENTS, JULY 1	<u>84,339,349</u>	<u>43,255,125</u>	<u>4,152,663</u>	<u>5,643,311</u>	<u>137,390,448</u>	<u>53,382,339</u>
CASH AND CASH EQUIVALENTS, JUNE 30	<u>\$ 107,973,517</u>	<u>\$ 48,244,845</u>	<u>\$ 6,209,741</u>	<u>\$ 4,773,098</u>	<u>\$ 167,201,201</u>	<u>\$ 58,132,359</u>
<b>RECONCILIATION TO STATEMENT OF NET ASSETS:</b>						
Cash and cash equivalents	\$ 59,284,477	\$ 36,686,434	\$ 6,209,741	\$ 4,167,615	\$ 106,348,267	\$ 58,132,359
Cash and cash equivalents with fiscal agent	2,264,936	4,004,449		605,483	6,874,868	
Restricted assets-cash and cash equivalents	46,424,104	7,553,962			53,978,066	
TOTAL CASH AND CASH EQUIVALENTS	<u>\$ 107,973,517</u>	<u>\$ 48,244,845</u>	<u>\$ 6,209,741</u>	<u>\$ 4,773,098</u>	<u>\$ 167,201,201</u>	<u>\$ 58,132,359</u>

(continued)

**CITY OF MODESTO**  
**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS (Continued)**  
**Year ended June 30, 2008**

	Enterprise					Internal Service
	Water	Sewer	Bus	Other Enterprise	Total Enterprise	
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</b>						
Operating income (loss)	\$ 17,018,683	\$ 8,345,759	\$ (11,503,770)	\$ (4,095,383)	\$ 9,765,289	\$ (9,836,565)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:						
Depreciation	2,276,755	5,097,126	1,556,642	2,546,052	11,476,575	3,538,088
Rental income	39,302	59,562	78,850	732,003	909,717	
Taxes paid	(86,733)	(94,151)		(13,491)	(194,375)	
Special item	(287,038)	(338,582)			(625,620)	
Change in assets and liabilities:						
(Increase) in accounts receivable	(20,263)	(6,294)	24,808	73,436	71,687	439,888
(Increase) in utilities receivable	138,610	(649,157)		25,572	(484,975)	
(Increase) in taxes receivable	(971)				(971)	
Decrease in due from governments						
(Increase) decrease in prepaid expenses	(362,019)				(362,019)	
(Increase) in inventories						220,868
(Decrease) in accounts payable and accrued expenses	3,727,890	(1,028,879)	120,821	(833,863)	1,985,969	380,395
Increase in accrued salaries and benefits	34,359	25,909	6,023	19,012	85,303	37,940
Increase in compensated absences and OPEB						4,950,351
(Decrease) in claims liability						6,323,635
Increase in deferred revenues				10,991	10,991	
Increase (decrease) in refundable deposits	176,529	104,699			281,228	
Total adjustments	<u>5,636,421</u>	<u>3,170,233</u>	<u>1,787,144</u>	<u>2,559,712</u>	<u>13,153,510</u>	<u>15,891,165</u>
Net cash provided (used) by operating activities	<u>\$ 22,655,104</u>	<u>\$ 11,515,992</u>	<u>\$ (9,716,626)</u>	<u>\$ (1,535,671)</u>	<u>\$ 22,918,799</u>	<u>\$ 6,054,600</u>
<b>NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:</b>						
Capital assets transferred in	\$ 1,498		2,822	\$ 602,778	\$ 607,098	\$ 11,038
Developer infrastructure contributions	2,097,933	2,042,438		1,338,334	5,478,705	
Amortization of bonds discount and deferred amount on refunding	(96,911)	(95,233)				

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, 2008**

	<u>Agency Funds</u>
<u>ASSETS</u>	
Cash and cash equivalents	\$ 5,257,201
Cash and cash equivalents held with fiscal agent	<u>3,955,325</u>
	<u>\$ 9,212,526</u>
<u>LIABILITIES</u>	
Due to special district bondholders	\$ 7,025,003
Deposits held as agent for others	<u>2,187,523</u>
	<u>\$ 9,212,526</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, 2008**

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. THE FINANCIAL REPORTING ENTITY**

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

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

1. The Redevelopment Agency of the City of Modesto (the Agency) was established by the City as a separate legal entity in accordance with state law. The purpose of the Agency is to encourage new investment and reinvestment within legally designated redevelopment areas in partnership with property owners.
2. The Modesto Public Financing Authority was established as a separate legal entity whose sole purpose is to provide financing for various City capital projects.
3. The Modesto Municipal Sewer District is a separate legal entity formed under the Municipal Sewer and Water Facilities Law of 1911. The purpose of the District is to provide financing for needed sewerage facilities in the Modesto urban area.
4. The City of Modesto has established several Community Facilities Districts to provide funding and reimbursement mechanisms for public facilities and services required by each District Specific Plan. These Districts are the vehicles used to ensure that all landowners in the Districts contribute to the cost of public improvements. There are currently 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, 2008 is \$13,376,163.

Utility service accounts receivable are reported net of \$1,493,389 allowance for doubtful collections and include unbilled receivables using actual amounts billed in July for June services. Accounts receivable are reported net of \$1,595,530 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, 2008, \$263,312 net interest expense on tax-exempt debt of the City's Sewer Fund, and \$400,757 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, 2008, the total estimated liability for all compensated absences, including sick leave, is \$12,302,763.

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, 2008 the fair value approximated the City's Cost. At June 30, 2008, these investments have an average maturity of 49 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. In addition some bond indentures authorize investments in a guaranteed investment contract with a maturity date of September 1, 2033 and a repurchase agreement with a maximum maturity of May 27, 2013.

### Interest Rate Risk

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

Investment Type	Total	Remaining Time to Maturity			
		Less Than 1 Year	1 – 2 Years	2 – 3 Years	Over 5 Years
U.S. Treasury Notes	\$44,403,116	\$6,115,066	\$23,609,250	\$14,678,800	
Federal agency securities					
Bonds	48,683,810	14,341,119	27,816,097	6,526,594	
Notes	85,393,178	39,380,772	19,979,094	26,033,312	
Bankers Acceptance	520,143	520,143			
CAMP	135,470,589	135,470,589			
Cash in banks	2,845,582	2,845,582			
Held by trustee:					
Money market funds	15,662,119	15,662,119			
Federal agency discount notes	13,696,489	13,696,489			
Federal agency securities notes	3,201,059	3,201,059			
Repurchase agreements	1,977,050				\$1,977,050
Guaranteed investment contracts	343,650	343,650			
<b>Total</b>	<b>\$352,196,785</b>	<b>\$231,576,588</b>	<b>\$71,404,441</b>	<b>\$47,238,706</b>	<b>\$1,977,050</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, 2008 for each investment type:

Investment Type	Total	Exempt from Disclosure	AAA and A-1+	Not Rated
U.S. Treasury Notes	\$44,403,116	\$44,403,116		
Federal agency securities	134,076,988		\$134,076,988	
Bankers Acceptance	520,143		520,143	
CAMP	135,470,589		135,470,589	
Held by trustee:				
Money market funds	15,662,119		15,662,119	
Federal agency discount notes	13,696,489		13,696,489	
Federal agency securities notes	3,201,059		3,201,059	
Repurchase agreements	1,977,050			\$1,977,050
Guaranteed investment contracts	343,650			343,650
<b>Total</b>	<b>\$319,351,203</b>	<b>\$47,248,698</b>	<b>\$302,627,387</b>	<b>\$2,320,700</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. As of December 18, 2008, Lehman had not responded to the City's request. The City continues to hold the securities which collateralize the Agreement (Federal National Mortgage Association and Federal Home Loan Mortgage Corporation mortgage pass through securities and a U.S. Treasury Bond) delivered to the trustee at the date of the Agreement. The maturity dates for the investments are August 25, 2022, August 15, 2025, and September 25, 2028, respectively.

### 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, 2008:

<u>Issuer</u>	<u>Investment Type</u>	<u>Reported Amount</u>	<u>Percent of Portfolio</u>
Freddie Mae (FHLMC)	Federal agency securities	\$50,998,427	14.5%
Federal Home Loan Bank	Federal agency securities	46,245,571	13.1%
Fannie Mae (FNMA)	Federal agency securities	45,989,194	13.1%

Investments in any one issuer, other than U. S. Treasury securities, mutual funds, and external investment pools that represent 5% or more of governmental fund investments were as follows at June 30, 2008:

<u>Fund/Issuer</u>	<u>Investment Type</u>	<u>Reported Amount</u>
Other Governmental Funds:		
Freddie Mac (FHLMC)	Federal agency securities	\$3,177,718
Federal Home Loan Bank	Federal agency securities	5,303,105

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, 2008:

<u>Issuer</u>	<u>Investment Type</u>	<u>Reported Amount</u>
Federal Home Loan Bank	Federal agency securities	\$3,454,902

Investments in any one issuer, other than U. S. Treasury securities, mutual funds, and external investment pools, that represent 5% or more of Agency Fund investments were as follows at June 30, 2008:

<u>Issuer</u>	<u>Investment Type</u>	<u>Reported Amount</u>
Freddie Mac (FHMLC)	Federal agency securities	\$1,627,897
Federal Home Loan Bank	Federal agency securities	1,573,162

### 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, 2008 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Land	\$24,972,386	\$ 1,596,283		\$26,568,669
Construction in progress	29,257,124	12,178,402	\$17,900,252	23,535,274
Total capital assets, not being depreciated	<u>54,229,510</u>	<u>13,774,685</u>	<u>17,900,252</u>	<u>50,103,943</u>
Capital assets, being depreciated:				
Buildings	31,584,492	115,971	10,000	31,690,463
Improvements other than buildings	39,007,900	9,124,813		48,132,713
Furnishings and equipment	19,663,227	1,493,378	442,447	20,714,158
Equipment pool	28,185,573	2,382,584	2,108,262	28,459,895
Streets	433,376,272	25,265,215		458,641,487
Signalization	14,924,205	631,479		15,555,684
Bridges	25,826,301	124,406		25,950,707
Total capital assets, being depreciated	<u>592,567,970</u>	<u>39,137,846</u>	<u>2,560,709</u>	<u>629,145,107</u>
Less accumulated depreciation for:				
Buildings	(11,494,439)	(1,286,384)	10,000	(12,770,823)
Improvements other than buildings	(22,570,807)	(1,386,183)		(23,956,990)
Furnishings and equipment	(10,576,848)	(1,695,092)	271,877	(12,000,063)
Equipment pool	(13,089,590)	(2,557,873)	1,091,947	(14,555,516)
Streets	(202,060,274)	(11,298,358)		(213,358,632)
Signalization	(8,722,102)	(1,224,894)		(9,946,996)
Bridges	(1,860,428)	(542,221)		(2,402,649)
Total accumulated depreciation	<u>(270,374,488)</u>	<u>(19,991,005)</u>	<u>1,373,824</u>	<u>(288,991,669)</u>
Total capital assets, being depreciated, net	<u>322,193,482</u>	<u>19,146,841</u>	<u>1,186,885</u>	<u>340,153,438</u>
Governmental activities capital assets, net	<u>\$376,422,992</u>	<u>\$32,921,526</u>	<u>\$19,087,137</u>	<u>\$390,257,381</u>
	Beginning Balance	Additions	Deletions	Ending Balance
<b>Business-type activities:</b>				
Capital assets, not being depreciated:				
Land	\$26,811,152	\$ 254,024		\$27,065,176
Construction in progress	43,495,662	21,006,766	\$4,818,552	59,683,876
Total capital assets, not being depreciated	<u>70,306,814</u>	<u>21,260,790</u>	<u>4,818,552</u>	<u>86,749,052</u>
Capital assets, being depreciated:				
Buildings	82,962,298	36,149		82,998,447
Improvements other than buildings	138,841,354	7,534,057		146,375,411
Furnishings and equipment	5,736,631	900,098	551,344	6,085,385
Buses and fare boxes	16,302,269	2,194,154		18,496,423
Pipelines	136,290,323	5,866,534		142,156,857
Total capital assets, being depreciated	<u>380,132,875</u>	<u>16,530,992</u>	<u>551,344</u>	<u>396,112,523</u>
Less accumulated depreciation for:				
Buildings	(37,128,324)	(2,534,026)		(39,662,350)
Improvements other than buildings	(83,469,101)	(5,585,143)		(89,054,244)
Furnishings and equipment	(3,331,035)	(359,145)	402,976	(3,287,204)
Buses and fare boxes	(8,749,092)	(1,212,733)		(9,961,825)
Pipelines	(23,296,026)	(1,785,528)		(25,081,554)
Total accumulated depreciation	<u>(155,973,578)</u>	<u>(11,476,575)</u>	<u>402,976</u>	<u>(167,047,177)</u>
Total capital assets, being depreciated, net	<u>224,159,297</u>	<u>5,054,417</u>	<u>148,368</u>	<u>229,065,346</u>
Business-type activities capital assets, net	<u>\$294,466,111</u>	<u>\$26,315,207</u>	<u>\$4,966,920</u>	<u>\$315,814,398</u>

Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
General government	\$ 143,536
Community development	89,503
Highways and streets, including depreciation of general infrastructure assets	13,131,171
Public works	849,944
Parks and recreation	888,103
Public safety	1,624,446
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	<u>3,264,302</u>
Total depreciation expense – governmental activities	<u>\$19,991,005</u>
Business-type activities:	
Parking	\$ 388,
Water	2,276,
Sewer	5,097,126
Storm Drain	61
Compost	69,711
Airport	37
Bus	1,556,
Golf	31
Community center	<u>78</u>
Total depreciation expense – business-type activities	<u>\$11,476,57</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 \$288,788; outstanding amount will increase as more eligible costs are incurred and more loan proceeds are borrowed. 288,788

Total principal balances – governmental activities \$693,788

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. \$1,754,300

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>
2009			\$ 210,745	\$ 53,974
2010			217,380	47,339
2011			224,343	40,376
2012			231,463	33,256
2013			239,996	25,723
2014-2018	<u>\$693,788</u>		<u>630,373</u>	<u>30,425</u>
Total	<u><u>\$693,788</u></u>	<u><u>\$0</u></u>	<u><u>\$1,754,300</u></u>	<u><u>\$231,093</u></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.

\$ 19,935,000

### 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.

\$ 5,435,000

#### 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.

18,855,000

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, 2008.

47,625,000

Total principal balances – business-type activities

71,915,000

Less:

Unamortized bond discount – 1997 Water Certificates of Participation	(341,201)
Unamortized bond discount – 2008 Water Refunding Certificates of Participation	(153,921)
Deferred amount on refunding – 1997 Water Certificates of Participation	(1,149,899)
Deferred amount on refunding – 2008 Water Refunding Certificates of Participation	(666,164)

Total business-type activities certificates of participation

\$69,603,815

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 \$111,797,298. 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 \$10,720,799, and net revenues of the Fund were \$29,525,184, which represented coverage of 275%.

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
2009	\$ 935,000	\$1,015,318	\$ 1,370,000	\$ 1,852,483
2010	985,000	962,517	1,420,000	1,794,378
2011	1,040,000	906,310	1,480,000	1,731,392
2012	1,090,000	846,670	1,545,000	1,664,625
2013	1,150,000	783,950	1,635,000	1,594,279
2014-2018	6,170,000	2,918,210	9,485,000	6,770,754
2019-2023	6,955,000	1,306,125	12,110,000	4,379,727
2024-2028	1,610,000	40,250	13,005,000	2,421,767
2029-2033			15,290,000	1,464,581
2034-2037			14,575,000	354,156
Total	<u>\$19,935,000</u>	<u>\$8,779,350</u>	<u>\$71,915,000</u>	<u>\$24,028,142</u>

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.

\$3,760,000

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.

The City entered into a 25-year interest rate swap agreement, which will become effective September 3, 2008, in the same amount as the outstanding principal balance of the Bonds on that date. The combination of the variable rate bonds and a floating swap rate will create synthetic fixed-rate debt for the City. Because neither the auction rate nor the swap rates are effective as of June 30, 2008 the initial bond interest rate of 3.7% is used for disclosure purposes. The terms of the swap agreement will be disclosed when it becomes effective.

61,450,000

Total lease revenue bonds

\$ 65,210,000

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>
2009	\$ 700,000	\$ 2,964,779
2010	955,000	2,351,753
2011	1,085,000	2,313,481
2012	1,190,000	2,271,104
2013	1,320,000	2,224,166
2014-2018	8,335,000	10,253,372
2019-2023	11,075,000	8,477,132
2024-2028	15,960,000	5,966,285
2029-2033	20,070,000	2,582,839
2034	4,520,000	45,328
Total	<u>\$65,210,000</u>	<u>\$39,450,239</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.	\$ 34,885,000
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	51,420,000
Plus: Unamortized bond premium - 2005 Bonds	1,917,005
Less:	
Unamortized bond discount – 2006 Bonds	(302,973)
Deferred amount on refunding – 2005 Bonds	<u>(3,090,607)</u>
Total business-type activities revenue bonds	<u>\$ 49,943,425</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 \$82,256,369. The Sewer Fund's principal and interest paid for the current year and total customer net revenues were \$4,127,837 and \$16,034,354, 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>
2009	\$ 1,660,000	\$ 2,370,633
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
2014-2018	11,350,000	8,747,081
2019-2023	14,590,000	5,517,629
2024-2028	4,810,000	3,023,613
2029-2033	5,960,000	1,879,562
2034-2037	5,765,000	503,094
Total	<u>\$51,420,000</u>	<u>\$30,836,369</u>

Notes Payable – Governmental activities:

Note payable to the Federal Housing and Urban Development Department for the purpose of constructing the Neighborhood Center at Marshall Park and the expansion of the Maddux Youth Center; to be repaid using future Community Development Block Grant revenue; interest rates from 4.0% to 6.01%; semi-annual installments on August 1 and February 1 through August 2024.

\$4,071,000

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.

116,220

Total notes payable

\$4,187,220

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>
2009	\$ 187,968	\$ 224,759
2010	198,816	216,184
2011	207,778	206,685
2012	202,658	196,417
2013	191,000	186,906
2014-2018	1,111,000	770,956
2019-2023	1,417,000	417,333
2024-2025	673,000	40,893
Total	<u>\$4,187,220</u>	<u>\$2,260,133</u>

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. The terms, fair value and credit risk of the swap agreement is disclosed below. For the swap agreement pertaining to the 2007 Lease Revenue Refunding and Capital Improvement Bonds, these disclosures are included below, but the swap agreement does not become effective until September 2008.

Terms - The terms, including the counterparty credit rating of the outstanding swaps, as of June 30, 2008 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	\$46,275,000	5/30/2008	Bank of America	AA+	3.48%	63.7% of 30-day LIBOR, plus .154%	10/1/2036
2007 Lease Revenue Refunding and Capital Improvement	61,200,000	9/30/2008	Bank of America	AA+	3.62%	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, 2008, 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	(\$1,688,703)
2007 Lease Revenue Bonds	(2,770,891)

Credit risk - As of June 30, 2008, 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, 2008, debt service requirements of the 2008 Water Refunding Revenue Certificates of Participation and net swap payments, including 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 table of debt service requirements accompanying the Certificates of Participation disclosure above. The 2007 Lease Revenue Refunding Bonds are not included in the table, because the swap is not effective until September 30, 2008. 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		
2009	\$ 290,000	\$639,023	\$1,196,817	\$2,215,840
2010	285,000	636,137	1,029,642	1,950,779
2011	285,000	632,289	1,023,415	1,940,704
2012	285,000	628,442	1,017,245	1,930,687
2013	310,000	624,341	1,010,498	1,944,839
2014-2018	1,720,000	3,054,443	4,943,931	9,718,374
2019-2023	2,060,000	2,925,788	4,735,753	9,721,541
2024-2028	12,525,000	2,409,767	3,902,180	18,836,947
2029-2033	15,290,000	1,464,581	2,372,724	19,127,305
2034-2037	14,575,000	354,156	575,407	15,504,563
<b>Total</b>	<b>\$47,625,000</b>	<b>\$13,368,967</b>	<b>\$21,870,612</b>	<b>\$82,801,579</b>

#### Refunding of 2006 Water Revenue Certificates of Participation

In May 2008, the City refunded the 2006 Water Revenue Certificates of Participation using the proceeds of the 2008 Refunding Revenue Certificates of Participation. The proceeds were sufficient to pay on May 30, 2008 all principal and accrued interest on the 2006 Water Revenue Certificates of Participation, along with costs of issuance on the new issue. Therefore, as of June 30, 2008 the 2006 Certificates of Participation have been paid in full. The refunding certificates were issued to reduce the total debt service payments over the next 30 years by an estimated \$80 million, resulting in an estimated economic gain of \$52.5 million.

#### Changes in Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2008, was as follows:

	Beginning Balance (restated)	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental activities:</b>					
Loans payable	\$ 449,138	\$ 244,650		\$ 693,788	
Certificates of participation	20,820,000		\$ 885,000	19,935,000	\$ 935,000
Lease revenue bonds	66,440,000		1,230,000	65,210,000	700,000
Notes payable	4,365,446		178,226	4,187,220	187,968
Obligations under capital leases	211,354		73,962	137,392	66,676
Compensated absences	11,890,369	3,769,956	3,357,562	12,302,763	3,259,769
Net OPEB obligation	32,642,957	6,663,226	2,125,269	37,180,914	
Claims liability	16,626,237	9,387,961	3,064,326	22,949,872	7,663,992
Governmental activities long-term liabilities	<u>\$153,445,501</u>	<u>\$20,065,793</u>	<u>\$10,914,345</u>	<u>\$162,596,949</u>	<u>\$12,813,405</u>
<b>Business-type activities:</b>					
Loan payable	\$ 1,958,276		\$203,976	\$ 1,754,300	\$ 210,745
Certificates of participation	71,595,000	\$47,625,000	47,305,000	71,915,000	1,370,000
Unamortized discounts	(363,376)	(153,921)	(22,175)	(495,122)	
Deferred amount on refunding	(1,224,635)	(666,164)	(74,736)	(1,816,063)	
Revenue bonds	53,130,000		1,710,000	51,420,000	1,660,000
Unamortized premium	2,044,805		127,800	1,917,005	
Unamortized discount	(313,420)		(10,447)	(302,973)	
Deferred amount on refunding	(3,303,193)		(212,586)	(3,090,607)	
Capital lease	151,633		74,148	77,485	77,485
Developer advances	2,083,189		95,968	1,987,221	94,395
Business-type activities long-term liabilities	<u>\$125,758,279</u>	<u>\$46,804,915</u>	<u>\$49,196,950</u>	<u>\$123,366,246</u>	<u>\$3,412,625</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, 2008 \$5,930,000 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 \$117,981 accumulated depreciation, are being leased under a capital lease arrangement. The following is a schedule of the future minimum lease payments on this capital lease as of June 30, 2008:

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

Internal Service Funds

A software license valued at \$211,354, less \$ 70,835 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, 2008:

<u>Year Ending June 30,</u>	
2009	\$ 75,000
2010	<u>75,000</u>
Total minimum lease payments	150,000
Less: amount representing interest	<u>(12,608)</u>
Present value of minimum lease payments	<u><u>\$137,392</u></u>

E. DEVELOPER ADVANCES

The Del Este Water Company (Del Este) entered into various agreements with developers under which infrastructure components were either constructed on behalf of Del Este or cash was advanced to the company to construct the infrastructure. Agreements in existence at the time of the City's acquisition of Del Este were assumed by the City. The terms of repayment call for no interest, with principal paid over a 40-year period. As of June 30, 2008, the total outstanding balance due under the agreements is \$1,987,221. The total annual payments fluctuate depending on the ending date of each agreement. At June 30, 2008, the amount of \$94,395 due during fiscal year 2009 has been reported as "current portion-developer advances" on the Proprietary Funds statement of net assets. The remaining \$1,892,826 of outstanding principal has been reported under noncurrent liabilities, as "developer advances."

F. INTERFUND BALANCES

Interfund balances as of June 30, 2008 consist of the following:

<u>Due to General Fund from:</u>	
Other governmental funds – total due to/due from	<u>\$1,752,000</u>
 <u>Advances from General Fund to:</u>	
Capital Facility Fees Fund	\$1,201,612
Other enterprise funds	<u>1,324,704</u>
Total advances from General Fund	2,526,316
Advances from other governmental funds to Capital Facility Fees Fund	<u>51,303</u>
Total advances from/advances to	<u>\$2,577,619</u>

All balances reported as “due to/due from” are short-term loans to cover temporary fund cash shortages as of June 30, 2008, and were repaid early in fiscal year 2009. 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. \$2,471,737 of advances are not currently scheduled for repayment during 2009.

G. RESERVES AND DESIGNATIONS OF FUND BALANCES

The City’s reserves and designations at June 30, 2008 are comprised of the following:

	<u>General</u>	<u>Capital Facility Fees</u>	<u>Other Governmental</u>
<u>Reserved for:</u>			
Encumbrances	\$1,290,243	\$2,610,399	\$ 8,793,997
Loan programs			17,683,709
Interfund advances	2,526,316		51,303
Set-aside requirement			6,052,829
Property held for resale			780,000
Debt service			<u>6,826,893</u>
 Total reserved	 <u>\$3,816,559</u>	 <u>\$2,610,399</u>	 <u>\$40,188,731</u>
 <u>Designated for:</u>			
Pending projects	<u>\$1,166,901</u>	<u>\$44,994,870</u>	<u>\$12,159,651</u>
 Total designated	 <u>\$1,166,901</u>	 <u>\$44,994,870</u>	 <u>\$12,159,651</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.
4. Reserve for Redevelopment Agency set-aside requirement - The portion of fund balance relating to State required low-to-moderate income housing set-aside, has been reserved in the Redevelopment Agency Capital Projects Fund.

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 \$3,279,956. The future recognition of currently deferred revenue is expected to resolve this deficit.

The Golf Enterprise Fund has a net assets deficit of \$1,747,711, 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 \$29,479,831. 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 \$4,917,273, due mainly to the recognition of settlements that were reached in FY 2006-2007 and FY 2007-2008 which have been reported as liabilities of the Liability Insurance Fund. The net amount of these liabilities were \$2.5 million and \$2.6 million respectively. 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:								
	General Fund	Capital Facility Fees	Other Governmental	Water	Sewer	Bus	Other Enterprise Funds	Internal Service	Total
General Fund			\$ 5,507,408	\$264,000	\$114,000	\$ 1,500	874,563		\$6,761,471
Capital Facility Fees	\$ 881,159		1,014,081			461,000		854,746	3,210,986
Other Governmental	4,401,781	1,040,100	7,164,927						12,606,808
Water	65,000								65,000
Sewer	66,000								66,000
Bus	18,000								18,000
Other Enterprise	632,000		80,000					74,626	786,626
Internal Service	3,559,424								3,559,424
<b>Grand Total</b>	<b>\$9,623,364</b>	<b>\$1,040,100</b>	<b>\$13,766,416</b>	<b>\$264,000</b>	<b>\$114,000</b>	<b>\$462,500</b>	<b>\$874,563</b>	<b>\$929,372</b>	<b>\$27,074,315</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 \$18,596,810 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 \$683,999 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 \$125,000 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 several settlements that were reached. In October 2007 the City received \$12.8 million, net of attorney fees. In January 2008 the amount of \$2,850,000 was received from a separate party. A third payment was received on behalf of a number of smaller defendants totaling \$159,461. The amounts received, after settling legal fees, will be restricted for use in capital projects that are designed to mitigate the contaminates that remain.

### 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, 2008 is \$22,949,872 consisting of \$16,523,000 workers' compensation, \$5,932,000 general liability, \$395,234 dental, and \$99,638 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 \$20,314,000 and \$4,775,000 respectively.

The current portion of the total claims liability is estimated to be \$7,663,992 and the balance of \$15,285,880 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, 2008. Changes in the Insurance Fund claims liability during the fiscal years ended June 30, 2007 and June 30, 2008 were:

	Claims Liability July 1	Current-Year Claims and Changes in Estimates	Current-Year Claim Payments	Claims Liability June 30
2006-07	\$16,331,110	\$9,231,869	\$(8,936,742)	\$16,626,237
2007-08	16,626,237	9,387,961	(3,064,326)	22,949,872

#### 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, 2008, the balance of these districts' outstanding debt was as follows:

Issue	Outstanding Amount
Village One #2 Community Facilities District	\$31,035,000
Fairview Village Community Facilities District	4,945,000

#### 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, 2008 there were seven series of conduit revenue bonds outstanding. The aggregate principal amount payable for these multiple-family housing and health care facility bond issues, issued between 1993 and 2002, was \$41,980,000.

#### 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 additional testing performed indicated that the emissions were within the allowable levels. 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, 2008 the future postclosure care cost of monitoring the landfill was calculated to be immaterial for presentation purposes.

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 \$36,130,510 as of June 30, 2008 for contracts awarded but not completed and other outstanding purchase orders. This amount consists of \$1,290,243 in the General Fund, \$2,610,400 in the Capital Facility Fees Fund, \$8,120,972 in other governmental funds, \$19,794,295 in the enterprise funds, and \$3,641,572 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, 2008, 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, technology upgrades, comprehensive update to the City's general plan, parking garage projects, major street improvements, and the purchase of police vehicles and equipment.

#### 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 \$159,728 for the fiscal year ended June 30, 2008. As of June 30, 2008 the City's investment in this joint venture was \$2,820,325, 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, 2008 was \$744,948. The City's investment in this joint venture was estimated to be \$501,326 as of June 30, 2008, 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, 2008, the City's payments to the Agency were \$707,076. The City's equity interest in the Agency is \$13,806,319, 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, 2008, 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 \$6,681,894. 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, 2008 was \$11,634,456, which is reported as "water purchases" expense on the proprietary funds statement of revenues, expenses and changes in net assets in the amount of \$11,272,437, and as prepaid expense of \$1,068,692. Prior year prepaid expense of \$760,673 reduced the amount of cash paid during the current fiscal year.

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, 2008, the total outstanding on the MID bonds is: \$70,690,000 for the 1998 bonds, and \$93,190,000 for the 2007 bonds for a total of \$163,880,000.

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, 2008 there were 253 participants receiving these health care benefits.

The OPEB Plan provisions and benefits in effect at June 30, 2008, are summarized as follows:

Benefit Types Provided	Police (including Management)	General Employees	Management	Fire	Fire Management
	Medical, dental and vision	Medical, dental and vision	Medical, dental and vision	Medical only	Medical, dental and vision
Duration of Benefits	One month per eight hours of converted sick leave	One month per eight hours of converted sick leave	One month per eight hours of converted sick leave	Lifetime	One month per eight hours of converted sick leave
City Health Allowance per month	\$410.41 for single \$812 with dependents	\$410.41 for single \$812 with dependents	\$410.41 for single \$812 with dependents	\$64.60	\$410.41 for single \$812 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.

During the fiscal year 2008, the City implemented the provisions of Governmental Accounting Standards Board Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions. This Statement establishes uniform financial reporting standards for employers providing postemployment benefits (OPEB).

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, 2006 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) 8% health inflation increases for the first three years and 4% thereafter. 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, 2008 was 30 years.

The City has set aside \$20,666,309 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. As a result, the City estimated its liability at transition using this consistent methodology to be \$32,642,957, which was less than the prior year estimated liability by \$23,355,186. Therefore, this estimated liability has been recorded and beginning net assets of the Employees Benefit Internal Service Fund have been increased to reflect this restatement. This liability is now reflected as part of the Net OPEB Obligation below:

Annual required contribution	\$ 5,752,966
Adjustment to annual required contribution	<u>910,260</u>
Annual pension cost	6,663,226
Contributions made	<u>(2,125,269)</u>
(Decrease) increase in net pensions obligations	4,537,957
Net pension obligation (asset) June 30, 2007	<u>32,642,957</u>
Net OPEB obligation (asset) June 30, 2008	<u>\$37,180,914</u>

The Plan annual required contributions and actual contributions for the year ended June 30, 2008 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

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

Actuarial Valuation Date	Actuarial Value of Assets (A)	Entry Age Actuarial Accrued Liability (B)	Overfunded (Underfunded) Actuarial Accrued Liability (A-B)	Funded Ratio (A/B)	Covered Payroll (C)	Overfunded (Underfunded) Actuarial Liability as Percentage of Covered Payroll [(A-B)/C]
12/1/2006	\$0	\$58,780,482	(\$58,780,482)	0.00%	\$75,994,853	-77.35%

#### 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

employees. The contribution requirements of plan members and the City are established and may be amended by CalPERS.

### Annual Pension Cost

For 2008, the City's annual pension cost of \$12,672,033 for CalPERS was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 2007 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, 2007 was 32 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>
6/30/06	\$3,804,076	100%	-
6/30/07	4,010,662	100%	-
6/30/08	4,338,969	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>
6/30/06	\$7,944,623	100%	-
6/30/07	8,204,191	100%	-
6/30/08	8,333,064	100%	-

### **SCHEDULE OF FUNDING PROGRESS FOR PERS**

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (A)</u>	<u>Entry Age Actuarial Accrued Liability (B)</u>	<u>Overfunded (Underfunded) Actuarial Liability (A – B)</u>	<u>Funded Ratio (A/B)</u>	<u>Covered Payroll (C)</u>	<u>Unfunded Actuarial Liability as Percentage of Covered Payroll [(A – B)/C]</u>
<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%

## I. SUBSEQUENT EVENTS

### Refinancing of 2007 Lease Revenue Bonds

On August 28, 2008 the City refinanced the entire outstanding balance of the 2007 Lease Revenue Refunding Bonds and the remaining balance of the 1998 Lease Revenue Bonds. This action was taken in response to the credit downgrade of the bond insurer CIG and the negative effect that the downgrade was having on other bond issues that were in weekly auction mode. The total par amount of the new debt issue is \$65,170,000. The new debt is structured as variable rate demand bonds with a Letter of Credit liquidity facility issued by Bank of America.

## **REQUIRED SUPPLEMENTARY INFORMATION**

**CITY OF MODESTO**  
**SCHEDULE OF REVENUES - BUDGET (GAAP BASIS)**  
**AND ACTUAL - GENERAL FUND**  
**Year ended June 30, 2008**

	Budget		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>TAXES:</b>				
Utility users tax	\$ 20,238,990	\$ 19,418,836	\$ 19,173,295	\$ (245,541)
Property tax	18,056,367	16,100,367	16,202,587	102,220
Transient occupancy tax	2,301,737	2,200,000	2,038,255	(161,745)
Franchise tax	3,216,342	3,301,401	3,155,134	(146,267)
Business license tax	11,155,380	10,800,000	9,680,721	(1,119,279)
<b>Total taxes</b>	<b>54,968,816</b>	<b>51,820,604</b>	<b>50,249,992</b>	<b>(1,570,612)</b>
<b>LICENSES AND PERMITS</b>	<b>91,761</b>	<b>90,061</b>	<b>83,567</b>	<b>(6,494)</b>
<b>INTERGOVERNMENTAL:</b>				
Sales tax	22,013,994	20,380,941	19,748,861	(632,080)
In-lieu sales tax	7,406,532	6,557,121	6,557,121	
Motor vehicle license fees	17,361,695	16,961,000	16,856,108	(104,892)
State	2,471,876	2,257,289	3,322,549	1,065,260
County	101,000	191,000	181,000	(10,000)
Federal	52,000	52,000	69,276	17,276
Other intergovernmental	740,146	766,089	787,004	20,915
<b>Total intergovernmental</b>	<b>50,147,243</b>	<b>47,165,440</b>	<b>47,521,919</b>	<b>356,479</b>
<b>CHARGES FOR SERVICES:</b>				
General government	3,024,104	3,218,507	3,234,136	15,629
Community development	4,317,255	4,068,867	3,028,743	(1,040,124)
Public works	827,158	978,170	1,036,672	58,502
Parks and recreation	1,820,191	1,852,554	2,063,145	210,591
Public safety	2,356,224	2,567,245	2,151,361	(415,884)
Other current charges for services	276,307	390,000	326,959	(63,041)
Indirect cost recovery	3,036,753	2,843,093	2,853,353	10,260
<b>Total charges for services</b>	<b>15,657,992</b>	<b>15,918,436</b>	<b>14,694,369</b>	<b>(1,224,067)</b>
<b>SPECIAL ASSESSMENT</b>	<b>158,500</b>	<b>158,500</b>	<b>35,294</b>	<b>(123,206)</b>
<b>INTEREST AND RENT</b>	<b>606,300</b>	<b>525,500</b>	<b>385,383</b>	<b>(140,117)</b>
<b>NET INCREASE (DECREASE) IN FAIR VALUE OF INVESTMENTS</b>			<b>95,915</b>	<b>95,915</b>
<b>FINES AND FORFEITURES</b>	<b>985,017</b>	<b>1,408,000</b>	<b>1,309,927</b>	<b>(98,073)</b>
<b>MISCELLANEOUS:</b>				
Mandated cost recovery		89,069	198,800	109,731
Other	901,413	1,567,437	2,349,224	781,787
<b>Total miscellaneous</b>	<b>901,413</b>	<b>1,656,506</b>	<b>2,548,024</b>	<b>891,518</b>
<b>Total revenues</b>	<b>\$ 123,517,042</b>	<b>\$ 118,743,047</b>	<b>\$ 116,924,390</b>	<b>\$ (1,818,657)</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, 2008**

	Budget		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
General government:				
City council	\$ 208,136	\$ 251,580	\$ 233,449	\$ 18,131
Personnel/training	1,801,796	1,809,071	1,661,220	147,851
City manager	1,386,494	1,474,840	1,369,960	104,880
City attorney	2,099,775	2,192,019	1,916,459	275,560
City clerk/auditor	715,184	681,292	552,865	128,427
Finance	6,563,346	6,304,968	6,077,957	227,011
Other	658,320	1,326,432	1,477,559	(151,127)
Total general government	<u>13,433,051</u>	<u>14,040,202</u>	<u>13,289,469</u>	<u>750,733</u>
Community development	<u>7,992,486</u>	<u>8,010,160</u>	<u>7,034,647</u>	<u>975,513</u>
Public works:				
Engineering and Transportation Dept:				
Engineering administration	1,173,249	1,244,024	1,183,874	60,150
Operations and Maintenance Dept:				
Service and maintenance	3,698,394	3,972,629	3,664,013	308,616
Graffiti abatement	345,996	319,035	301,890	17,145
Total public works	<u>5,217,639</u>	<u>5,535,688</u>	<u>5,149,777</u>	<u>385,911</u>
Parks and recreation:				
Operations and Maintenance Dept:				
Service and maintenance	6,101,341	5,778,658	5,328,090	450,568
Community Services & Neighborhood Connection:				
Administration	999,670	1,233,961	1,163,863	70,098
Planning and development	573,168	450,697	420,154	30,543
Culture	1,538,367	1,475,020	1,432,159	42,861
Recreation division	3,435,698	3,493,859	3,484,078	9,781
Facilities	533,510	518,819	509,046	9,773
Total parks and recreation	<u>13,181,754</u>	<u>12,951,014</u>	<u>12,337,390</u>	<u>613,624</u>
Public safety:				
Fire protection	27,663,900	27,856,281	27,815,854	40,427
Police protection	55,989,148	54,388,050	52,849,302	1,538,748
Total public safety	<u>83,653,048</u>	<u>82,244,331</u>	<u>80,665,156</u>	<u>1,579,175</u>
Total expenditures by department	<u>123,477,978</u>	<u>122,781,395</u>	<u>118,476,439</u>	<u>4,304,956</u>
Total expenditures	<u>\$ 123,477,978</u>	<u>\$ 122,781,395</u>	<u>\$ 118,476,439</u>	<u>\$ 4,304,956</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, 2008**

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

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

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

**COMBINING AND INDIVIDUAL FUND  
STATEMENTS AND SCHEDULES**

## Nonmajor Governmental Funds

### Nonmajor Special Revenue Funds

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

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

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

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

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

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

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

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

### Nonmajor Capital Projects Funds

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

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

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

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

**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.

**CITY OF MODESTO**  
**COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS**  
**June 30, 2008**

	Special Revenue				
	Operating Grants	Local Transportation	Traffic Safety	Special Gas Tax Street Improvement	Downtown Improvement District
<u>ASSETS</u>					
Cash and cash equivalents	\$ 1,078,608	\$ 614,783	\$ 589,438	\$ 7,128,145	\$ 46,751
Cash and cash equivalents with fiscal agent					
Receivables:					
Accounts	59,800			26,440	
Interest	5,005	15,627		30,585	235
Utilities, net	48,187				
Taxes				218,050	
Due from governments	836,628	367,748		934,723	
Notes receivable, net	229,102				
Prepaid expenses/expenditures	3,190				
Property held for resale					
Restricted assets:					
Cash and cash equivalents					
Advances to other funds					
Total assets	\$ 2,260,520	\$ 998,158	\$ 589,438	\$ 8,337,943	\$ 46,986
 <u>LIABILITIES AND FUND BALANCES</u>					
Liabilities:					
Accounts payable	\$ 176,343		\$ 25,705	\$ 329,497	\$ 8,202
Accrued salaries and benefits	78,152			71,488	
Due to other funds					
Approved loans payable					
Deferred revenues	348,852	\$ 998,158		2,901,407	
Refundable deposits					
Advances from other funds					
Total liabilities	603,347	998,158	25,705	3,302,392	8,202
Fund balances:					
Reserved for:					
Encumbrances	425,161			200,990	
Loan programs and prepaids					
Interfund advances					
Property held for resale					
Set-aside requirement					
Debt service					
Unreserved/designated for:					
Pending projects			563,733	4,834,561	38,784
Unreserved/undesignated	1,232,012				
Total fund balances	1,657,173		563,733	5,035,551	38,784
Total liabilities and fund balances	\$ 2,260,520	\$ 998,158	\$ 589,438	\$ 8,337,943	\$ 46,986

Housing and Community Development	Strategic Planning and Development	Capital Projects						
		Special Fund for Capital Outlays	Parks	McHenry Mansion Restoration	Capital Grants	Community Facilities Districts	Redevelop- ment Agency	Public Financing Authority
\$ 282	\$ 1,057,720	\$ 498,244	\$ 1,015,436	\$ 6,992	\$ 400	\$ 17,697,583	\$ 8,343,616	\$
548,184			2,381,843			14,354,912		
11,954					72,786			
10,810	5,245		4,863	35		96,962	34,980	
2,148,105			36,276		3,378,605	83,585		
16,610,225						19,819	1,757,483	
							780,000	
						776,506		
		51,303						
<u>\$ 19,329,560</u>	<u>\$ 1,062,965</u>	<u>\$ 549,547</u>	<u>\$ 3,438,418</u>	<u>\$ 7,027</u>	<u>\$ 3,451,791</u>	<u>\$ 33,029,367</u>	<u>\$ 10,916,079</u>	<u>\$</u>
\$ 85,421	\$ 176,149	\$ 12,644	\$ 45,937		\$ 1,236,419	\$ 234,004	\$ 745,902	\$
20,805						5,943		
505,000					1,247,000		125,000	
683,999			36,276		4,248,328		1,000	
						776,506		
<u>1,295,225</u>	<u>176,149</u>	<u>12,644</u>	<u>82,213</u>		<u>6,731,747</u>	<u>1,016,453</u>	<u>871,902</u>	
15,926,226	917,904	252,594	51,306		3,329,456	3,465,259	151,327	
		51,303					1,757,483	
							780,000	
							6,052,829	
2,108,109			3,304,899	\$ 7,027			1,302,538	
	(31,088)	233,006			(6,609,412)	28,547,655		
<u>18,034,335</u>	<u>886,816</u>	<u>536,903</u>	<u>3,356,205</u>	<u>7,027</u>	<u>(3,279,956)</u>	<u>32,012,914</u>	<u>10,044,177</u>	
<u>\$ 19,329,560</u>	<u>\$ 1,062,965</u>	<u>\$ 549,547</u>	<u>\$ 3,438,418</u>	<u>\$ 7,027</u>	<u>\$ 3,451,791</u>	<u>\$ 33,029,367</u>	<u>\$ 10,916,079</u>	<u>\$</u>

(continued)

**CITY OF MODESTO**  
**COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS (Continued)**  
**June 30, 2008**

	Debt Service		
	Redevelopment Agency	Public Financing Authority	Total
<u>ASSETS</u>			
Cash and cash equivalents	\$ 474,441	1,624	\$ 38,554,063
Cash and cash equivalents with fiscal agent	1,982,086	\$ 4,759,488	24,026,513
Receivables:			
Accounts			170,980
Interest	16,895		221,242
Utilities, net			48,187
Taxes	246,329		547,964
Due from governments			7,721,904
Notes receivable, net			18,596,810
Prepaid expenses/expenditures			3,190
Property held for resale			780,000
Restricted assets:			
Cash and cash equivalents			776,506
Advances to other funds			51,303
Total assets	<u>\$ 2,719,751</u>	<u>\$ 4,761,112</u>	<u>\$ 91,498,662</u>
<u>LIABILITIES AND FUND BALANCES</u>			
Liabilities:			
Accounts payable	\$ 653,970	\$	\$ 3,730,193
Accrued salaries and benefits			176,388
Due to other funds			1,752,000
Approved loans payable			808,999
Deferred revenues			8,533,021
Refundable deposits			777,506
Advances from other funds			
Total liabilities	<u>653,970</u>	<u></u>	<u>15,778,107</u>
Fund balances:			
Reserved for:			
Encumbrances			8,793,997
Loan programs			17,683,709
Interfund advances			51,303
Property held for resale			780,000
Set-aside requirement			6,052,829
Debt service	2,065,781	4,761,112	6,826,893
Unreserved/designated for:			
Pending projects			12,159,651
Unreserved/undesignated			23,372,173
Total fund balances	<u>2,065,781</u>	<u>4,761,112</u>	<u>75,720,555</u>
Total liabilities and fund balances	<u>\$ 2,719,751</u>	<u>\$ 4,761,112</u>	<u>\$ 91,498,662</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, 2008**

	Special Revenue				
	Operating Grants	Local Transportation	Traffic Safety	Special Gas Tax Street Improvement	Downtown Improvement District
REVENUES:					
Taxes				\$ 876,478	\$ 202,100
Licenses and permits	\$ 56,035			13,943	
Intergovernmental	3,428,652	\$ 2,395,326		4,500,656	
Charges for services	3,434,423		427,200	1,278,583	
Special assessments levied					
Interest and rent	34,485	96,556		206,806	1,584
Net increase (decrease) in fair value of investments	14,281	37,537		89,895	709
Fines and forfeits	12,998		\$ 1,291,598		
Miscellaneous	543,086			269,222	
Total revenues	<u>7,523,960</u>	<u>2,529,419</u>	<u>1,718,798</u>	<u>7,235,583</u>	<u>204,393</u>
EXPENDITURES:					
Current:					
General government	1,698,718				
Community development					226,810
Highways and streets		96,458		11,149,335	
Public works	4,299,412				
Parks and recreation	66,707				
Public safety	1,863,958		346,709		
Capital outlay:					
General government					
Community development					
Highways and streets		54,055		719,035	
Public works					
Parks and recreation					
Public safety	378,652				
Debt service:					
Principal retirement					
Interest					
Advance refunding escrow					
Other					
Total expenditures	<u>8,307,447</u>	<u>150,513</u>	<u>346,709</u>	<u>11,868,370</u>	<u>226,810</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(783,487)</u>	<u>2,378,906</u>	<u>1,372,089</u>	<u>(4,632,787)</u>	<u>(22,417)</u>
OTHER FINANCING SOURCES (USES):					
Transfers in	1,541,306			3,580,830	
Transfers out	(35,526)	(2,477,029)	(1,152,000)	(1,455,805)	
Issuance of loans payable					
TOTAL OTHER FINANCING SOURCES (USES)	<u>1,505,780</u>	<u>(2,477,029)</u>	<u>(1,152,000)</u>	<u>2,125,025</u>	
NET CHANGE IN FUND BALANCES	722,293	(98,123)	220,089	(2,507,762)	(22,417)
FUND BALANCES, July 1	934,880	98,123	343,644	7,543,313	61,201
FUND BALANCES, June 30	<u>\$ 1,657,173</u>	<u>\$</u>	<u>\$ 563,733</u>	<u>\$ 5,035,551</u>	<u>\$ 38,784</u>

Housing and Community Development	Strategic Planning and Development	Capital Projects							
		Special Fund for Capital Outlays	Parks	McHenry Mansion Restoration	Capital Grants	Community Facilities Districts	Redevelop- ment Agency	Public Financing Authority	
								\$ 2,368,507	
\$ 6,461,911			16,000		\$ 6,290,711	\$ 122,523			
139,236	\$ 300,083	\$	7,650			4,335,419	138,150		
165,552	41,708	\$ (20,032)	110,438	\$ 258	1,462	1,632,402	264,474	\$ 1,225	
29,133	17,676	(10,703)	18,947	109		197,971	106,802		
9,361			86,973				13,250		
<u>6,805,193</u>	<u>359,467</u>	<u>(30,735)</u>	<u>240,008</u>	<u>367</u>	<u>6,292,173</u>	<u>6,288,315</u>	<u>2,891,183</u>	<u>1,225</u>	
		3,905				1,606,828	1,744,774		
1,786,034	1,463,678	3,931			294,239				
		269,909							
		27,194	132,559		17,879				
		2,852							
391,170						8,189,674	4,755,551		
		2,360,399	742,757		776,615				
		188,980							
150,000									
224,475									
<u>2,551,679</u>	<u>1,463,678</u>	<u>2,857,170</u>	<u>875,316</u>	<u>367</u>	<u>9,278,407</u>	<u>6,362,379</u>	<u>1,744,774</u>	<u>125,871</u>	<u>125,871</u>
4,253,514	(1,104,211)	(2,887,905)	(635,308)	367	(2,986,234)	(74,064)	1,146,409	(124,646)	
(2,129,314)	11,520	2,503,372	298,155		1,609,362	(1,420,100)	(920,433)	(23,660)	
	(49,940)	(750,579)	(2,252)						
	244,650								
<u>(2,129,314)</u>	<u>206,230</u>	<u>1,752,793</u>	<u>295,903</u>	<u>367</u>	<u>1,609,362</u>	<u>(1,420,100)</u>	<u>(920,433)</u>	<u>(23,660)</u>	
2,124,200	(897,981)	(1,135,112)	(339,405)	367	(1,376,872)	(1,494,164)	225,976	(148,306)	
15,910,135	1,784,797	1,672,015	3,695,610	6,660	(1,903,084)	33,507,078	9,818,201	148,306	
<u>\$ 18,034,335</u>	<u>\$ 886,816</u>	<u>\$ 536,903</u>	<u>\$ 3,356,205</u>	<u>\$ 7,027</u>	<u>\$ (3,279,956)</u>	<u>\$ 32,012,914</u>	<u>\$ 10,044,177</u>	<u>\$</u>	<u>(continued)</u>

**CITY OF MODESTO**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS**  
**Year ended June 30, 2008**

	Debt Service		
	Redevelopment Agency	Public Financing Authority	Total
REVENUES:			
Taxes	\$ 3,445,315		\$ 6,892,400
Licenses and permits			69,978
Intergovernmental			23,215,779
Charges for services			10,060,744
Special assessments levied			
Interest and rent	307,039	\$ 188,516	3,032,473
Net increase (decrease) in fair value of investments	39,531		541,888
Fines and forfeits			1,304,596
Miscellaneous			921,892
Total revenues	3,791,885	188,516	46,039,750
EXPENDITURES:			
Current:			
General government			1,702,623
Community development			6,828,124
Highways and streets			11,543,963
Public works			4,569,321
Parks and recreation			244,339
Public safety			2,213,519
Capital outlay:			
General government			
Community development			391,170
Highways and streets			13,718,315
Public works			
Parks and recreation			3,879,771
Public safety			567,632
Debt service:			
Principal retirement	885,000	1,230,000	2,265,000
Interest	1,064,925	2,183,969	3,473,369
Advance refunding escrow			
Other	1,207,590	4,150	1,337,611
Total expenditures	3,157,515	3,418,119	52,734,757
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	634,370	(3,229,603)	(6,695,007)
OTHER FINANCING SOURCES (USES):			
Transfers in	920,433	3,301,438	13,766,416
Transfers out	(2,190,170)		(12,606,808)
Issuance of loans payable			244,650
TOTAL OTHER FINANCING SOURCES (USES)	(1,269,737)	3,301,438	1,404,258
NET CHANGE IN FUND BALANCES	(635,367)	71,835	(5,290,749)
FUND BALANCES, July 1	2,701,148	4,689,277	81,011,304
FUND BALANCES, June 30	\$ 2,065,781	\$ 4,761,112	\$ 75,720,555

**CITY OF MODESTO**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -**  
**BUDGET (GAAP BASIS) AND ACTUAL - OPERATING GRANTS SPECIAL REVENUE FUND**  
**Year ended June 30, 2008**

	Budget		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Licenses and permits	\$ 55,000	\$ 55,000	\$ 56,035	\$ 1,035
Intergovernmental	4,758,142	6,034,364	3,428,652	(2,605,712)
Charges for services	3,786,614	4,229,847	3,434,423	(795,424)
Special assessments				
Interest and rent - interest		5,953	34,485	28,532
Net increase in fair value of investments			14,281	14,281
Fines and forfeits	1,500	1,500	12,998	11,498
Miscellaneous	237,463	237,463	543,086	305,623
Total revenues	<u>8,838,719</u>	<u>10,564,127</u>	<u>7,523,960</u>	<u>(3,040,167)</u>
<b>EXPENDITURES:</b>				
General government	2,906,966	2,926,180	1,698,718	1,227,462
Public works	4,917,124	5,828,286	4,299,412	1,528,874
Parks and recreation	615,858	769,053	66,707	702,346
Public safety	3,832,018	4,378,609	2,242,610	2,135,999
Total expenditures	<u>12,271,966</u>	<u>13,902,128</u>	<u>8,307,447</u>	<u>5,594,681</u>
DEFICIENCY OF REVENUES (UNDER) EXPENDITURES	<u>(3,433,247)</u>	<u>(3,338,001)</u>	<u>(783,487)</u>	<u>2,554,514</u>
<b>OTHER FINANCING SOURCES:</b>				
Transfers in	3,141,943	3,242,731	1,541,306	(1,701,425)
Transfers out			(35,526)	(35,526)
TOTAL OTHER FINANCING SOURCES (USES)	<u>3,141,943</u>	<u>3,242,731</u>	<u>1,505,780</u>	<u>(1,736,951)</u>
NET CHANGE IN FUND BALANCE	(291,304)	(95,270)	722,293	817,563
FUND BALANCES, JULY 1	<u>934,880</u>	<u>934,880</u>	<u>934,880</u>	
FUND BALANCES, JUNE 30	<u>\$ 643,576</u>	<u>\$ 839,610</u>	<u>\$ 1,657,173</u>	<u>\$ 817,563</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, 2008**

	Budget		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Intergovernmental	\$ 2,841,000	\$ 707,000	\$ 2,395,326	\$ 1,688,326
Interest and rent - interest		50,000	96,556	46,556
Net increase in fair value of investments			37,537	37,537
Total revenues	<u>2,841,000</u>	<u>757,000</u>	<u>2,529,419</u>	<u>1,772,419</u>
<b>EXPENDITURES:</b>				
Highways and streets	1,051,765	1,125,297	150,513	974,784
Total expenditures	<u>1,051,765</u>	<u>1,125,297</u>	<u>150,513</u>	<u>974,784</u>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	<u>1,789,235</u>	<u>(368,297)</u>	<u>2,378,906</u>	<u>2,747,203</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	49,000	49,000		(49,000)
Transfers out	(2,918,927)	(2,683,088)	(2,477,029)	206,059
TOTAL OTHER FINANCING SOURCES (USES)	<u>(2,869,927)</u>	<u>(2,634,088)</u>	<u>(2,477,029)</u>	<u>157,059</u>
<b>NET CHANGE IN FUND BALANCE</b>	(1,080,692)	(3,002,385)	(98,123)	2,904,262
<b>FUND BALANCES, JULY 1</b>	<u>98,123</u>	<u>98,123</u>	<u>98,123</u>	
<b>FUND BALANCE (DEFICITS), JUNE 30</b>	<u>\$ (982,569)</u>	<u>\$ (2,904,262)</u>	<u>\$</u>	<u>\$ 2,904,262</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, 2008**

	Budget		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Charges for services	80,000	80,000	427,200	347,200
Motor vehicle fines	\$ 1,300,000	\$ 1,300,000	\$ 1,291,598	\$ (8,402)
Total revenues	<u>1,380,000</u>	<u>1,380,000</u>	<u>1,718,798</u>	<u>338,798</u>
EXPENDITURES:				
Public safety	<u>724,800</u>	<u>724,800</u>	<u>346,709</u>	<u>378,091</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>655,200</u>	<u>655,200</u>	<u>1,372,089</u>	<u>(39,293)</u>
OTHER FINANCING USES:				
Transfers out	<u>(1,152,000)</u>	<u>(1,152,000)</u>	<u>(1,152,000)</u>	
NET CHANGE IN FUND BALANCE	(496,800)	(496,800)	220,089	716,889
FUND BALANCES, JULY 1	<u>343,644</u>	<u>343,644</u>	<u>343,644</u>	
FUND BALANCES, JUNE 30	<u>\$ (153,156)</u>	<u>\$ (153,156)</u>	<u>\$ 563,733</u>	<u>\$ 716,889</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, 2008

	<u>Budget</u>			Variance with
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	Final Budget - Positive (Negative)
<b>REVENUES:</b>				
Intergovernmental:				
Federal grants	\$ 4,080,878	\$ 4,524,666	\$ 4,500,656	\$ (24,010)
Total intergovernmental revenues	<u>4,080,878</u>	<u>4,524,666</u>	<u>4,500,656</u>	<u>(24,010)</u>
Taxes	878,506	878,506	876,478	(2,028)
Licenses and permits	8,200	10,200	13,943	3,743
Charges for services	980,504	1,100,169	1,278,583	178,414
Interest and rent	40,000	167,000	206,806	39,806
Net increase in fair value of investments			89,895	89,895
Miscellaneous	16,378	255,903	269,222	13,319
Total revenues	<u>6,004,466</u>	<u>6,936,444</u>	<u>7,235,583</u>	<u>299,139</u>
<b>EXPENDITURES:</b>				
Current:				
Highway and streets	<u>22,803,875</u>	<u>23,668,692</u>	<u>11,868,370</u>	<u>11,800,322</u>
Total expenditures	<u>22,803,875</u>	<u>23,668,692</u>	<u>11,868,370</u>	<u>11,800,322</u>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	<u>(16,799,409)</u>	<u>(16,732,248)</u>	<u>(4,632,787)</u>	<u>12,099,461</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	4,948,163	3,565,577	3,580,830	15,253
Transfers out	<u>(5,421,219)</u>	<u>(5,126,093)</u>	<u>(1,455,805)</u>	<u>3,670,288</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(473,056)</u>	<u>(1,560,516)</u>	<u>2,125,025</u>	<u>3,685,541</u>
<b>NET CHANGE IN FUNDS BALANCE</b>	<u>(17,272,465)</u>	<u>(18,292,764)</u>	<u>(2,507,762)</u>	<u>15,785,002</u>
<b>FUND BALANCES, JULY 1</b>	<u>7,543,313</u>	<u>7,543,313</u>	<u>7,543,313</u>	
<b>FUND BALANCES, JUNE 30</b>	<u>\$ (9,729,152)</u>	<u>\$ (10,749,451)</u>	<u>\$ 5,035,551</u>	<u>\$ 15,785,002</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, 2008**

	Budget		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Taxes - business license tax	\$ 226,878	\$ 226,878	\$ 202,100	\$ (24,778)
Interest and rent - interest	600	600	1,584	984
Net increase in fair value of investments			709	709
Total revenues	<u>227,478</u>	<u>227,478</u>	<u>204,393</u>	<u>(23,085)</u>
<b>EXPENDITURES - community development</b>				
Downtown improvement district administration:				
Professional and contractual services	189,030	189,030	196,237	(7,207)
Materials and supplies	5,740	5,740	4,679	1,061
Other	32,100	32,100	25,894	6,206
Total expenditures	<u>226,870</u>	<u>226,870</u>	<u>226,810</u>	<u>60</u>
NET CHANGE IN FUND BALANCE	608	608	(22,417)	(23,025)
FUND BALANCES, JULY 1	<u>61,201</u>	<u>61,201</u>	<u>61,201</u>	
FUND BALANCES, JUNE 30	<u>\$ 61,809</u>	<u>\$ 61,809</u>	<u>\$ 38,784</u>	<u>\$ (23,025)</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, 2008**

	Budget		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Intergovernmental - federal grants	\$ 3,894,330	\$ 9,055,893	\$ 6,461,911	\$ (2,593,982)
Charges for services	786,908	1,287,318	139,236	(1,148,082)
Interest and rent - interest	250,000	200,000	165,552	(34,448)
Net increase in fair value of investments	50,000		29,133	29,133
Miscellaneous			9,361	9,361
Total revenues	<u>4,981,238</u>	<u>10,543,211</u>	<u>6,805,193</u>	<u>(3,738,018)</u>
<b>EXPENDITURES - community development</b>				
Housing program	4,139,006	9,356,325	2,028,943	7,327,382
Removal of architectural barriers	2,184,552	2,518,552	148,261	2,370,291
<b>Debt service:</b>				
Principal retirement	150,000	150,000	150,000	
Interest	224,475	224,475	224,475	
Total expenditures	<u>6,698,033</u>	<u>12,249,352</u>	<u>2,551,679</u>	<u>9,697,673</u>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	<u>(1,716,795)</u>	<u>(1,706,141)</u>	<u>4,253,514</u>	<u>5,959,655</u>
<b>OTHER FINANCING USES:</b>				
Transfers out	<u>(1,252,055)</u>	<u>(1,502,055)</u>	<u>(2,129,314)</u>	<u>(627,259)</u>
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>(1,252,055)</u>	<u>(1,502,055)</u>	<u>(2,129,314)</u>	<u>(627,259)</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>(2,968,850)</u>	<u>(3,208,196)</u>	<u>2,124,200</u>	<u>5,332,396</u>
<b>FUND BALANCES, JULY 1</b>	<u>15,910,135</u>	<u>15,910,135</u>	<u>15,910,135</u>	
<b>FUND BALANCES, JUNE 30</b>	<u>\$ 12,941,285</u>	<u>\$ 12,701,939</u>	<u>\$ 18,034,335</u>	<u>\$ 5,332,396</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, 2008

	Budget		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Charges for services	\$ 2,627,152	\$ 2,937,236	\$ 300,083	\$ (2,637,153)
Interest and rent - interest			41,708	41,708
Net increase in fair value of investments			17,676	17,676
Total revenues	<u>2,627,152</u>	<u>2,937,236</u>	<u>359,467</u>	<u>(2,577,769)</u>
<b>EXPENDITURES:</b>				
Community development	3,810,417	3,975,224	1,463,678	2,511,546
Public works				
Total expenditures	<u>3,810,417</u>	<u>3,975,224</u>	<u>1,463,678</u>	<u>2,511,546</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	(1,183,265)	(1,037,988)	(1,104,211)	(66,223)
<b>OTHER FINANCING USES:</b>				
Transfers in	625,000	636,520	11,520	(625,000)
Transfer out		(49,940)	(49,940)	
Issuance of loan payable			244,650	244,650
TOTAL OTHER FINANCING SOURCES (USES)	<u>625,000</u>	<u>586,580</u>	<u>206,230</u>	<u>(380,350)</u>
<b>NET CHANGE IN FUND BALANCE</b>	(558,265)	(451,408)	(897,981)	(446,573)
<b>FUND BALANCES, JULY 1</b>	<u>1,784,797</u>	<u>1,784,797</u>	<u>1,784,797</u>	
<b>FUND BALANCES, JUNE 30</b>	<u>\$ 1,226,532</u>	<u>\$ 1,333,389</u>	<u>\$ 886,816</u>	<u>\$ (446,573)</u>

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## Nonmajor Enterprise Funds

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

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

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

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

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

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

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

**CITY OF MODESTO**  
**COMBINING STATEMENT OF NET ASSETS - NON MAJOR ENTERPRISE FUNDS**  
**June 30, 2008**

	Parking	Storm Drain	Compost
<u>ASSETS</u>			
Current assets:			
Cash and cash equivalents	\$ 1,165,351	\$ 611,501	\$ 349,081
Cash and cash equivalents with fiscal agent			
Receivables:			
Accounts	259	10,582	91,387
Interest	6,355	3,865	1,518
Utilities, net		532,350	
Taxes			
Due from governments		4,611	
Property held for resale	630,000		
Total current assets	1,801,965	1,162,909	441,986
Capital assets:			
Land and construction in progress	3,142,479	2,039,713	
Other capital assets, net of accumulated depreciation	7,227,529	16,652,858	1,147,672
Total assets	12,171,973	19,855,480	1,589,658
<u>LIABILITIES</u>			
Current liabilities:			
Accounts payable	35,331	53,327	34,394
Accrued salaries and benefits	8,210	28,971	7,501
Interest payable			1,724
Current portion - long-term debt			77,485
Deferred revenues			
Total current liabilities	43,541	82,298	121,104
Noncurrent liabilities:			
Obligations under capital leases			
Certificates of participation			
Advances from other funds		1,324,704	
Total liabilities	43,541	1,407,002	121,104
<u>NET ASSETS</u>			
Invested in capital assets, net of related debt	10,370,008	18,692,571	1,070,187
Unrestricted	1,758,424	(244,093)	398,367
Total net assets	\$ 12,128,432	\$ 18,448,478	\$ 1,468,554

<u>Airport</u>	<u>Golf</u>	<u>Community Center</u>	<u>Total</u>
\$ 1,382,240	\$ 145,716 605,483	\$ 513,726	\$ 4,167,615 605,483
14,215 6,913	18,245	31,456 233	166,144 18,884 532,350
1,199 224,602			1,199 229,213 630,000
<u>1,629,169</u>	<u>769,444</u>	<u>545,415</u>	<u>6,350,888</u>
2,693,005 7,426,129	494,938 2,689,915	3,764,844 10,189,926	12,134,979 45,334,029
<u>11,748,303</u>	<u>3,954,297</u>	<u>14,500,185</u>	<u>63,819,896</u>
1,071 8,472	14,076	23,380 12,885	161,579 66,039 48,789 302,485
26,182	47,065 225,000 205,867		232,049
<u>35,725</u>	<u>492,008</u>	<u>36,265</u>	<u>810,941</u>
	5,210,000		5,210,000 1,324,704
<u>35,725</u>	<u>5,702,008</u>	<u>36,265</u>	<u>7,345,645</u>
10,119,134 1,593,444	(2,250,147) 502,436	13,954,770 509,150	51,956,523 4,517,728
<u>\$ 11,712,578</u>	<u>\$ (1,747,711)</u>	<u>\$ 14,463,920</u>	<u>\$ 56,474,251</u>

**CITY OF MODESTO**  
**COMBINING STATEMENT OF REVENUES, EXPENSES, AND**  
**CHANGES IN FUND NET ASSETS - NON MAJOR ENTERPRISE FUNDS**  
**Year ended June 30, 2008**

	<u>Parking</u>	<u>Storm Drain</u>	<u>Compost</u>
<b>OPERATING REVENUES:</b>			
Charges for services	\$ 1,287,450	\$ 5,327,048	\$ 1,052,792
Miscellaneous	10,034	11,790	22,240
Total operating revenues	<u>1,297,484</u>	<u>5,338,838</u>	<u>1,075,032</u>
<b>OPERATING EXPENSES:</b>			
Salaries and wages	460,355	1,255,671	297,250
Contractual services	444,041	1,506,392	81,359
Utilities	119,357	22,011	6,184
Maintenance and supplies	227,554	1,081,414	465,641
Insurance	23,079	69,450	6,802
Employee benefits	114,405	500,083	212,055
Administration services	38,295	853,224	13,579
Allocated indirect administrative costs	39,293	65,318	50,241
Other	16,954	9,896	7,619
Depreciation	388,130	611,272	69,711
Total operating expenses	<u>1,871,463</u>	<u>5,974,731</u>	<u>1,210,441</u>
<b>OPERATING INCOME (LOSS)</b>	<u>(573,979)</u>	<u>(635,893)</u>	<u>(135,409)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Operating grants			
Gain (Loss) on disposition of capital assets			
Tax revenue			
Tax expense	(12,324)		
Interest income	48,912	27,986	16,472
Net increase in fair value of investments	20,477	11,591	7,435
Rental income			
Interest expense			(5,741)
Total nonoperating revenues (expenses)	<u>57,065</u>	<u>39,577</u>	<u>18,166</u>
<b>INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS</b>	(516,914)	(596,316)	(117,243)
Capital contributions		1,338,334	602,778
Transfers in			
Transfers out	(80,000)	(632,000)	(74,626)
<b>CHANGE IN NET ASSETS</b>	(596,914)	110,018	410,909
<b>NET ASSETS (DEFICIT), July 1</b>	<u>12,725,346</u>	<u>18,338,460</u>	<u>1,057,645</u>
<b>NET ASSETS (DEFICIT), June 30</b>	<u>\$ 12,128,432</u>	<u>\$ 18,448,478</u>	<u>\$ 1,468,554</u>

<u>Airport</u>	<u>Golf</u>	<u>Community Center</u>	<u>Total</u>
\$ 588,137	\$ 2,124,672	\$ 524,660	\$ 10,904,759
5,212		7,811	57,087
593,349	2,124,672	532,471	10,961,846
345,209		821,868	3,180,353
64,547	1,747,813	65,885	3,910,037
115,801	1,110	181,944	446,407
108,074	65,573	231,560	2,179,816
8,307	13,901	44,537	166,076
122,966		266,924	1,216,433
49,430	40,621	12,585	1,007,734
144,743	14,984		314,579
37,522	3,942	13,809	89,742
379,500	313,210	784,229	2,546,052
1,376,099	2,201,154	2,423,341	15,057,229
(782,750)	(76,482)	(1,890,870)	(4,095,383)
(2,850)	(3,713)	(2,553)	(9,116)
201,219			201,219
(764)			(13,088)
49,969	20,443	(2,274)	161,508
20,901	621	(1,824)	59,201
167,918	84,244	479,841	732,003
	(286,260)		(292,001)
436,393	(184,665)	473,190	839,726
(346,357)	(261,147)	(1,417,680)	(3,255,657)
649,936			2,591,048
	127,992	746,571	874,563
			(786,626)
303,579	(133,155)	(671,109)	(576,672)
11,408,999	(1,614,556)	15,135,029	57,050,923
\$ 11,712,578	\$ (1,747,711)	\$ 14,463,920	\$ 56,474,251

**CITY OF MODESTO**  
**COMBINING STATEMENT OF CASH FLOWS - NONMAJOR ENTERPRISE FUNDS**  
**Year ended June 30, 2008**

	Parking	Storm Drain	Compost
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Receipts from customers and users	\$ 1,298,545	\$ 5,331,933	\$ 1,101,247
Receipts from interfund services provided		22,549	22,549
Payments to suppliers	(508,435)	(1,471,551)	(290,728)
Payments to employees	(570,266)	(1,747,188)	(507,648)
Payments for interfund services used	(415,339)	(2,195,110)	(329,043)
Net cash provided (used) by operating activities	(195,495)	(59,367)	(3,623)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>			
Operating grants received		(73)	
Taxes received			
Transfers in			
Transfers out	(80,000)	(632,000)	(74,626)
New advances from other funds		446,000	
Net cash provided (used) by noncapital financing activities	(80,000)	(186,073)	(74,626)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>			
Acquisition and construction of capital assets	2	(132,630)	
Principal repayments			(74,148)
Interest paid			(6,824)
Capital grants received			
Net cash used by capital and related financing activities	2	(132,630)	(80,972)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Interest received	47,512	27,180	17,357
Net increase in the fair value of investments	20,477	11,591	7,435
Net cash provided by investing activities	67,989	38,771	24,792
Net increase (decrease) in cash and cash equivalents	(207,504)	(339,299)	(134,429)
CASH AND CASH EQUIVALENTS, JULY 1	1,372,855	950,800	483,510
CASH AND CASH EQUIVALENTS, JUNE 30	\$ 1,165,351	\$ 611,501	\$ 349,081
<b>RECONCILIATION TO STATEMENT OF NET ASSETS:</b>			
Cash and cash equivalents	\$ 1,165,351	\$ 611,501	\$ 349,081
Cash and cash equivalents with fiscal agent			
<b>TOTAL CASH AND CASH EQUIVALENTS</b>	<b>\$ 1,165,351</b>	<b>\$ 611,501</b>	<b>\$ 349,081</b>

<u>Airport</u>	<u>Golf</u>	<u>Community Center</u>	<u>Total</u>
\$ 781,574	\$ 2,211,203	\$ 1,033,845	\$ 11,758,347
(838,943)	(1,818,408)	(383,363)	45,098
(464,717)		(1,087,955)	(5,311,428)
(445,783)	(99,139)	(165,500)	(4,377,774)
<u>(967,869)</u>	<u>293,656</u>	<u>(602,973)</u>	<u>(3,649,914)</u>
			(73)
201,219			201,219
	127,992	746,571	874,563
			(786,626)
			<u>446,000</u>
<u>201,219</u>	<u>127,992</u>	<u>746,571</u>	<u>735,083</u>
(634,859)	(29,882)	(111,946)	(909,315)
	(215,000)		(289,148)
	(288,195)		(295,019)
<u>1,205,673</u>			<u>1,205,673</u>
<u>570,814</u>	<u>(533,077)</u>	<u>(111,946)</u>	<u>(287,809)</u>
48,821	20,620	(2,507)	158,983
20,901	621	(1,824)	59,201
<u>69,722</u>	<u>21,241</u>	<u>(4,331)</u>	<u>218,184</u>
(126,114)	(90,188)	27,321	(870,213)
<u>1,508,354</u>	<u>841,387</u>	<u>486,405</u>	<u>5,643,311</u>
\$ <u><u>1,382,240</u></u>	\$ <u><u>751,199</u></u>	\$ <u><u>513,726</u></u>	\$ <u><u>4,773,098</u></u>
\$ 1,382,240	\$ 145,716	\$ 513,726	\$ 4,167,615
	605,483		605,483
<u>1,382,240</u>	<u>751,199</u>	<u>513,726</u>	<u>4,773,098</u>
			(continued)

**CITY OF MODESTO**  
**COMBINING STATEMENT OF CASH FLOWS - NON MAJOR ENTERPRISE FUNDS (Continued)**  
**Year ended June 30, 2008**

	Parking	Storm Drain	Compost
<b>RECONCILIATION OF OPERATING INCOME (LOSS)</b>			
<b>TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</b>			
Operating income (loss)	\$ (573,979)	\$ (635,893)	\$ (135,409)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	388,130	611,272	69,711
Rental income			
Taxes paid	(12,324)		
Change in assets and liabilities:			
(Increase) decrease in accounts receivable	1,061	(9,928)	48,764
(Increase) in utilities receivable		25,572	
Increase (decrease) in accounts payable and accrued expenses	(2,877)	(58,956)	11,654
Increase in accrued salaries and benefits	4,494	8,566	1,657
Increase in deferred revenues			
Total adjustments	378,484	576,526	131,786
Net cash provided (used) by operating activities	\$ (195,495)	\$ (59,367)	\$ (3,623)

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

Capital assets transferred from other funds	\$	\$	\$ 602,778
Developer infrastructure contributions		1,338,334	

<u>Airport</u>	<u>Golf</u>	<u>Community Center</u>	<u>Total</u>
\$ <u>(782,750)</u>	\$ <u>(76,482)</u>	\$ <u>(1,890,870)</u>	\$ <u>(4,095,383)</u>
379,500	313,210	784,229	2,546,052
167,918	84,244	479,841	732,003
(1,167)			(13,491)
(5,472)	17,478	21,533	73,436
			25,572
(755,538)	(29,603)	1,457	(833,863)
3,458		837	19,012
<u>26,182</u>	<u>(15,191)</u>		<u>10,991</u>
<u>(185,119)</u>	<u>370,138</u>	<u>1,287,897</u>	<u>2,559,712</u>
\$ <u><u>(967,869)</u></u>	\$ <u><u>293,656</u></u>	\$ <u><u>(602,973)</u></u>	\$ <u><u>(1,535,671)</u></u>

\$ 602,778  
1,338,334

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## Internal Service Funds

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

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

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

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

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

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

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

**CITY OF MODESTO**  
**COMBINING STATEMENT OF NET ASSETS - INTERNAL SERVICE FUNDS**  
**June 30, 2008**

	Fleet Management	Central Services	Information & Technology Services
<u>ASSETS</u>			
Current assets:			
Cash and cash equivalents	\$ 14,496,215	\$ 727,547	\$ 4,031,181
Receivables:			
Accounts receivable	323		
Interest	46,115	2,682	21,417
Inventories		542,624	
Due from governments			
Advances to other funds			
Total current assets	14,542,653	1,272,853	4,052,598
Noncurrent assets:			
Notes receivable, net			
Land and construction in progress	821,033		
Other capital assets, net of accumulated depreciation	15,465,136	67,102	2,693,803
Total assets	30,828,822	1,339,955	6,746,401
<u>LIABILITIES</u>			
Current liabilities:			
Accounts payable	210,944	141,445	95,674
Accrued salaries and benefits	29,527	6,660	54,547
Interest Payable			
Current portion - compensated absences			
Current portion - claims liability			
Current portion - long-term debt	29,968		66,676
Total current liabilities	270,439	148,105	216,897
Noncurrent liabilities:			
Compensated absences			
Claims liability			
Net OPEB obligation			
Long-term debt:			
Notes payable	86,252		
Obligations under capital leases			70,716
Total liabilities	356,691	148,105	287,613
<u>NET ASSETS</u>			
Invested in capital assets, net of related debt	16,256,201	67,102	2,556,411
Unrestricted	14,215,930	1,124,748	3,902,377
Total net assets	\$ 30,472,131	\$ 1,191,850	\$ 6,458,788

<u>Insurance</u>	<u>Employee Benefits Management</u>	<u>Building Services</u>	<u>Total</u>
\$ 18,105,347	\$ 20,666,309	\$ 105,760	\$ 58,132,359
416,417		1,328	418,068
35,008	100,342	609	206,173
			542,624
<u>18,556,772</u>	<u>20,766,651</u>	<u>107,697</u>	<u>59,299,224</u>
			821,033
<u>11,110</u>	<u>3,197</u>	<u>123,305</u>	<u>18,363,653</u>
<u>18,567,882</u>	<u>20,769,848</u>	<u>231,002</u>	<u>78,483,910</u>
524,760	763,552	45,555	1,781,930
10,523	2,450	22,143	125,850
	3,259,769		3,259,769
7,663,992			7,663,992
			96,644
<u>8,199,275</u>	<u>4,025,771</u>	<u>67,698</u>	<u>12,928,185</u>
	9,042,994		9,042,994
15,285,880			15,285,880
	37,180,914		37,180,914
			86,252
			70,716
<u>23,485,155</u>	<u>50,249,679</u>	<u>67,698</u>	<u>74,594,941</u>
11,110	3,197	123,305	19,017,326
(4,928,383)	(29,483,028)	39,999	(15,128,357)
<u>\$ (4,917,273)</u>	<u>\$ (29,479,831)</u>	<u>\$ 163,304</u>	<u>\$ 3,888,969</u>

**CITY OF MODESTO**  
**COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES**  
**IN FUND NET ASSETS - INTERNAL SERVICE FUNDS**  
Year ended June 30, 2008

	<u>Fleet Management</u>	<u>Central Services</u>	<u>Information &amp; Technology Services</u>
<b>OPERATING REVENUES:</b>			
Charges for services	\$ 7,230,822	\$ 106,648	\$ 5,449,073
Sales		5,380,938	
Cost of sales		(4,763,632)	
Total operating revenues	<u>7,230,822</u>	<u>723,954</u>	<u>5,449,073</u>
<b>OPERATING EXPENSES:</b>			
Salaries and wages	1,053,462	252,785	2,073,750
Contractual services	431,913	69,885	168,389
Utilities	7,720	850	256,739
Maintenance and supplies	3,052,351	48,421	924,010
Insurance	58,701	4,613	31,321
Claims expense			
Employee benefits	466,825	114,114	767,902
Administration services	115,546	6,235	561
Allocated indirect administrative costs	281,256		
Other	14,502	984	37,854
Depreciation	2,839,513	167,002	494,271
Total operating expenses	<u>8,321,789</u>	<u>664,889</u>	<u>4,754,797</u>
<b>OPERATING INCOME (LOSS)</b>	<u>(1,090,967)</u>	<u>59,065</u>	<u>694,276</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Operating grant			319,619
Loss on disposition of capital assets	(923,421)	(3,830)	(108,112)
Interest income	480,240	14,849	140,723
Net increase (decrease) in fair value of investments	229,737	5,858	55,163
Interest expense	(7,901)		
Total nonoperating revenues (expenses)	<u>(221,345)</u>	<u>16,877</u>	<u>407,393</u>
<b>INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS</b>	(1,312,312)	75,942	1,101,669
Capital contributions	11,038		
Transfers in	277,447		651,925
Transfers out	(1,782,462)		(823,962)
<b>CHANGE IN NET ASSETS</b>	(2,806,289)	75,942	929,632
<b>NET ASSETS (DEFICITS), July 1, (as restated)</b>	<u>33,278,420</u>	<u>1,115,908</u>	<u>5,529,156</u>
<b>NET ASSETS (DEFICITS), June 30</b>	<u>\$ 30,472,131</u>	<u>\$ 1,191,850</u>	<u>\$ 6,458,788</u>

<u>Insurance</u>	<u>Employee Benefits Management</u>	<u>Building Services</u>	<u>Total</u>
\$ 24,048,638	\$ 4,727,081	\$ 2,224,590	\$ 43,786,852
			5,380,938
			(4,763,632)
<u>24,048,638</u>	<u>4,727,081</u>	<u>2,224,590</u>	<u>44,404,158</u>
366,800	87,925	858,499	4,693,221
39,619	150,973	365,203	1,225,982
1,082		200,546	466,937
10,797	23,573	299,434	4,358,586
14,668,426	897	23,544	14,787,502
13,133,433			13,133,433
168,834	8,020,217	398,405	9,936,297
1,428,313	47,583	87,396	1,685,634
			281,256
17,572	54,217	8,658	133,787
8,833	734	27,735	3,538,088
<u>29,843,709</u>	<u>8,386,119</u>	<u>2,269,420</u>	<u>54,240,723</u>
<u>(5,795,071)</u>	<u>(3,659,038)</u>	<u>(44,830)</u>	<u>(9,836,565)</u>
			319,619
		(14,812)	(1,050,175)
512,182	737,497	69,541	1,955,032
272,816	308,772	230	872,576
			(7,901)
<u>784,998</u>	<u>1,046,269</u>	<u>54,959</u>	<u>2,089,151</u>
(5,010,073)	(2,612,769)	10,129	(7,747,414)
			11,038
			929,372
	<u>(953,000)</u>		<u>(3,559,424)</u>
(5,010,073)	(3,565,769)	10,129	(10,366,428)
<u>92,800</u>	<u>(25,914,062)</u>	<u>153,175</u>	<u>14,255,397</u>
<u>\$ (4,917,273)</u>	<u>\$ (29,479,831)</u>	<u>\$ 163,304</u>	<u>\$ 3,888,969</u>

**CITY OF MODESTO**  
**COMBINING STATEMENT OF CASH FLOWS - INTERNAL SERVICE FUNDS**  
**Year ended June 30, 2008**

	<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	\$ 2,751,879	\$ 38,593	
Receipts from interfund services provided	4,500,525	687,784	\$ 5,449,073
Payments to suppliers	(3,401,553)	144,622	(1,327,642)
Payment of insurance claims			
Payments to employees	(1,510,344)	(365,517)	(2,825,558)
Payments for interfund services used	<u>(614,267)</u>	<u>(70,796)</u>	<u>(68,575)</u>
Net cash provided (used) by operating activities	<u>1,726,240</u>	<u>434,686</u>	<u>1,227,298</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>			
Transfers in	277,447		651,925
Transfers out	(1,782,462)		(823,962)
Repayment of advances to other funds	1,782,462		
Operating grants received			318,581
Net cash provided (used) by noncapital financing activities	<u>277,447</u>	<u>                    </u>	<u>146,544</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>			
Acquisition and construction of capital assets	(2,040,644)	(171,264)	(900,635)
Proceeds from sale of capital assets	(319,811)		13,877
Principal repayments	(28,226)		(73,962)
Interest paid	<u>(7,901)</u>		
Net cash used by capital and related financing activities	<u>(2,396,582)</u>	<u>(171,264)</u>	<u>(960,720)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Interest received	472,376	13,302	129,589
Net increase in the fair value of investments	<u>229,737</u>	<u>5,858</u>	<u>55,163</u>
Net cash provided by investing activities	<u>702,113</u>	<u>19,160</u>	<u>184,752</u>
Net increase (decrease) in cash and cash equivalents	309,218	282,582	597,874
CASH AND CASH EQUIVALENTS, JULY 1	<u>14,186,997</u>	<u>444,965</u>	<u>3,433,307</u>
CASH AND CASH EQUIVALENTS, JUNE 30	<u>\$ 14,496,215</u>	<u>\$ 727,547</u>	<u>\$ 4,031,181</u>

<u>Insurance</u>	<u>Employee Benefits Management</u>	<u>Building Services</u>	<u>Total</u>
\$ 523,552	\$ 4,460,386	(1,328)	\$ 7,773,082
23,930,072	278,920	\$ 2,224,590	37,070,964
(14,236,179)	(232,823)	(749,140)	(19,802,715)
(6,809,798)			(6,809,798)
(531,180)	(3,157,569)	(1,251,059)	(9,641,227)
<u>(1,484,126)</u>	<u>(57,736)</u>	<u>(240,206)</u>	<u>(2,535,706)</u>
<u>1,392,341</u>	<u>1,291,178</u>	<u>(17,143)</u>	<u>6,054,600</u>
			929,372
	(953,000)		(3,559,424)
			1,782,462
			<u>318,581</u>
	<u>(953,000)</u>		<u>(529,009)</u>
(1)		(12,677)	(3,125,221)
			(305,934)
			(102,188)
			<u>(7,901)</u>
<u>(1)</u>		<u>(12,677)</u>	<u>(3,541,244)</u>
495,570	713,328	68,932	1,893,097
<u>272,816</u>	<u>308,772</u>	<u>230</u>	<u>872,576</u>
<u>768,386</u>	<u>1,022,100</u>	<u>69,162</u>	<u>2,765,673</u>
2,160,726	1,360,278	39,342	4,750,020
<u>15,944,621</u>	<u>19,306,031</u>	<u>66,418</u>	<u>53,382,339</u>
<u>\$ 18,105,347</u>	<u>\$ 20,666,309</u>	<u>\$ 105,760</u>	<u>\$ 58,132,359</u>
			(continued)

**CITY OF MODESTO**  
**COMBINING STATEMENT OF CASH FLOWS - INTERNAL SERVICE FUNDS (Continued)**  
**Year ended June 30, 2008**

	<u>Fleet Management</u>	<u>Central Services</u>	<u>Information &amp; Technology Services</u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</b>			
Operating income (loss)	\$ (1,090,967)	\$ 59,065	\$ 694,276
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	2,839,513	167,002	494,271
Change in assets and liabilities:			
(Increase) decrease in accounts receivable	21,582	2,423	
(Increase) decrease in due from governments			
Decrease in inventories		220,868	
Increase (decrease) in accounts payable and accrued expenses	(53,831)	(16,054)	22,657
Increase in accrued salaries and benefits payable	9,943	1,382	16,094
Increase in compensated absences and OPEB			
Decrease in claims liability			
Total adjustments	<u>2,817,207</u>	<u>375,621</u>	<u>533,022</u>
Net cash provided (used) by operating activities	<u>\$ 1,726,240</u>	<u>\$ 434,686</u>	<u>\$ 1,227,298</u>
 <b>NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:</b>			
Capital assets transferred in	\$ 11,038		\$
New capital lease transaction			

<u>Insurance</u>	<u>Employee Benefits Management</u>	<u>Building Services</u>	<u>Total</u>
\$ <u>(5,795,071)</u>	\$ <u>(3,659,038)</u>	\$ <u>(44,830)</u>	\$ <u>(9,836,565)</u>
8,833	734	27,735	3,538,088
404,986	12,225	(1,328)	439,888
			220,868
445,504	(13,316)	(4,565)	380,395
4,454	222	5,845	37,940
	4,950,351		4,950,351
<u>6,323,635</u>			<u>6,323,635</u>
<u>7,187,412</u>	<u>4,950,216</u>	<u>27,687</u>	<u>15,891,165</u>
\$ <u><u>1,392,341</u></u>	\$ <u><u>1,291,178</u></u>	\$ <u><u>(17,143)</u></u>	\$ <u><u>6,054,600</u></u>
			\$ 11,038

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## AGENCY FUNDS

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

**Special 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, 2008

	Balance June 30, 2006	Additions	Deletions	Balance June 30, 2007
<hr/> <u>Special Districts</u> <hr/>				
<u>ASSETS</u>				
Cash and cash equivalents	\$ 2,603,960	\$ 3,283,013	\$ 2,817,295	\$ 3,069,678
Cash and cash equivalents with fiscal agent	3,841,746	3,058,942	2,945,363	3,955,325
	<u>\$ 6,445,706</u>	<u>\$ 6,341,955</u>	<u>\$ 5,762,658</u>	<u>\$ 7,025,003</u>
<u>LIABILITIES</u>				
Due to special district bondholders	\$ 6,445,706	\$ 6,341,955	\$ 5,762,658	\$ 7,025,003
<hr/> <u>Tuolumne River Regional Park</u> <hr/>				
<u>ASSETS</u>				
Cash and cash equivalents	\$ 846,694	\$ 2,376,654	\$ 3,183,351	\$ 39,997
<u>LIABILITIES</u>				
Deposits held as agent for others	\$ 846,694	\$ 2,376,654	\$ 3,183,351	\$ 39,997
<hr/> <u>City/County Joint Powers Financing Authority</u> <hr/>				
<u>ASSETS</u>				
Cash and cash equivalents	\$ 251,511	\$ 1,878,565	\$ 1,908,837	\$ 221,239
<u>LIABILITIES</u>				
Deposits held as agent for others	\$ 251,511	\$ 1,878,565	\$ 1,908,837	\$ 221,239
<hr/> <u>Stanislaus Drug Enforcement Agency</u> <hr/>				
<u>ASSETS</u>				
Cash and cash equivalents	\$ 1,612,234	\$ 2,817,467	\$ 2,565,855	\$ 1,863,846
<u>LIABILITIES</u>				
Deposits held as agent for others	\$ 1,612,234	\$ 2,817,467	\$ 2,565,855	\$ 1,863,846
<hr/> <u>Industrial Fire District</u> <hr/>				
<u>ASSETS</u>				
Cash and cash equivalents	\$	\$ 353,137	\$ 290,696	\$ 62,441
<u>LIABILITIES</u>				
Deposits held as agent for others	\$	\$ 353,137	\$ 290,696	\$ 62,441
<hr/> <u>Totals - All Agency Funds</u> <hr/>				
<u>ASSETS</u>				
Cash and cash equivalents	\$ 5,314,399	\$ 10,708,836	\$ 10,766,034	\$ 5,257,201
Cash and cash equivalents with fiscal agent	3,841,746	3,058,942	2,945,363	3,955,325
	<u>\$ 9,156,145</u>	<u>\$ 13,767,778</u>	<u>\$ 13,711,397</u>	<u>\$ 9,212,526</u>
<u>LIABILITIES</u>				
Due to special district bondholders	\$ 6,445,706	\$ 6,341,955	\$ 5,762,658	\$ 7,025,003
Deposits held as agent for others	2,710,439	7,425,823	7,948,739	2,187,523
	<u>\$ 9,156,145</u>	<u>\$ 13,767,778</u>	<u>\$ 13,711,397</u>	<u>\$ 9,212,526</u>

# **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

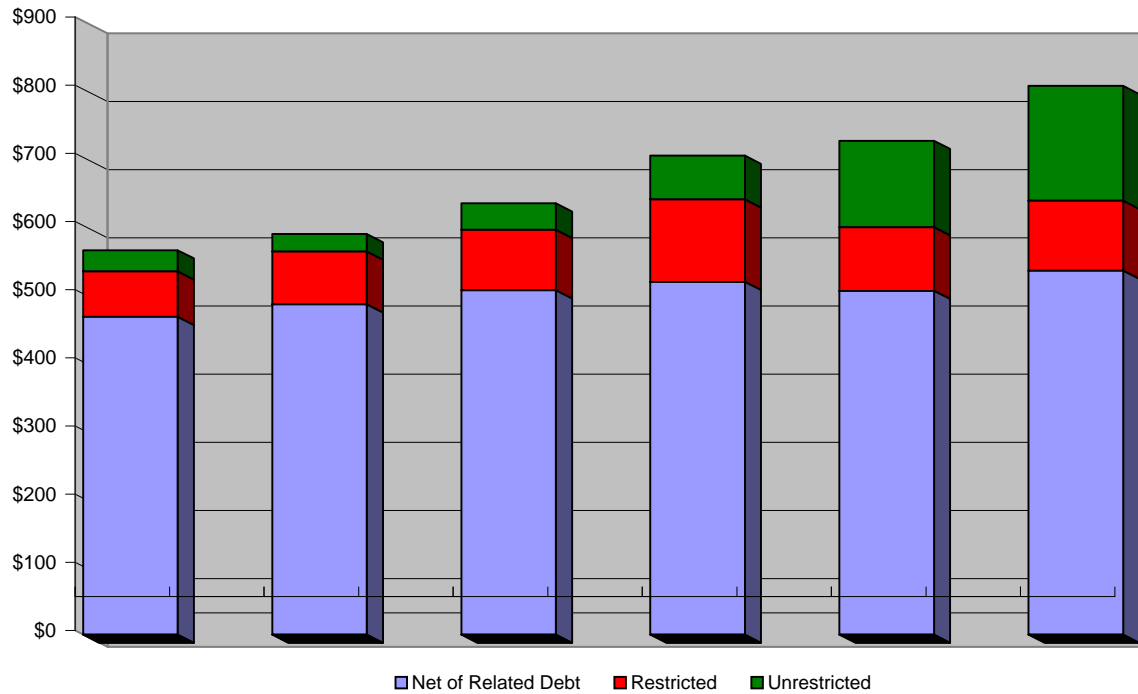
### Operating Information

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 Six Fiscal Years**  
**(accrual basis of accounting)**



	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</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
Restricted	65,766,576	76,577,126	88,725,341	120,937,678	93,168,664	102,602,698
Unrestricted	2,530,581	(11,382,001)	(6,715,483)	(2,303,306)	(12,566,297)	4,627,884
Total governmental activities net assets	<u>\$327,453,927</u>	<u>\$340,366,221</u>	<u>\$370,401,634</u>	<u>\$415,036,196</u>	<u>\$414,011,899</u>	<u>\$446,626,848</u>
<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
Restricted	756,245	763,190				
Unrestricted	28,786,201	37,266,369	45,548,813	66,550,276	139,613,374	163,792,245
Total business-type activities net assets	<u>\$236,335,145</u>	<u>\$247,260,020</u>	<u>\$262,106,963</u>	<u>\$287,431,967</u>	<u>\$310,404,395</u>	<u>\$358,227,618</u>
<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
Restricted	66,522,821	77,340,316	88,725,341	120,937,678	93,168,664	102,602,698
Unrestricted	31,316,782	25,884,368	38,833,330	64,246,970	127,047,077	168,420,129
Total primary government net assets	<u>\$563,789,072</u>	<u>\$587,626,241</u>	<u>\$632,508,597</u>	<u>\$702,468,163</u>	<u>\$724,416,294</u>	<u>\$804,854,466</u>

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

	2003	2004	2005	2006	2007	2008
<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
Community Development	13,823,955	\$10,517,243	\$14,105,411	\$12,241,213	12,025,105	14,619,525
Highways and streets	19,656,219	23,136,950	23,721,458	26,025,311	26,246,306	26,436,475
Public works	6,843,742	6,458,522	5,263,984	6,491,062	12,557,512	11,471,344
Parks and Recreation	16723475	12,682,746	13,334,330	11,733,698	14,568,192	14,264,334
Public safety	64,410,214	68,258,235	71,239,341	74,500,043	83,793,361	88,651,249
Interest on Long Term Debt	4,612,885	4,515,439	4,987,911	5,178,130	7,286,026	4,998,482
<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>Business-Type Activities:</b>						
Parking	1,153,145	651,330	1,162,479	1,287,450	1,475,340	1,982,066
Water	30,874,820	27,051,982	30,691,348	29,989,775	35,540,918	36,713,351
Sewer	23,266,170	21,386,084	22,422,268	22,716,100	24,156,577	23,974,989
Storm Drain	5,940,261	5,327,334	6,111,317	5,795,746	6,924,335	6,349,113
Compost				941,919	1,225,462	1,312,511
Airport	971,865	1,120,922	1,131,889	1,342,645	2,039,988	1,444,667
Bus	9,745,477	10,122,176	11,074,907	12,119,311	13,758,421	14,834,612
Golf	2,475,913	2,432,202	2,354,759	2,461,470	2,479,447	2,497,161
Community Center	2,390,517	2,078,752	2,323,169	2,465,644	2,543,121	2,465,825
<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>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>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
Community Development	11,566,306	9,592,055	11,294,130	9,466,082	10,873,541	7,869,742
Highway and streets	1,303,305	2,005,336	14,081,840	12,104,089	10,719,009	5,804,342
Public Safety	9,173,932	9,267,650	2,024,509	1,986,957	1,757,648	5,110,428
Parks and Recreation	3,835,652	3,992,598	4,821,884	4,928,366	4,437,320	5,590,196
Public Safety	5,925,096	6,794,911	8,011,509	7,124,387	8,414,456	4,868,612
Operating Grants and Contributions	9,413,521	15,975,814	13,736,453	11,892,511	12,701,177	14,221,390
Capital Grants and Contributions	23,297,198	18,368,908	22,799,320	38,484,548	4,207,389	17,930,957
<b>Total Governmental 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>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
Water	28,200,885	31,353,046	31,315,920	42,639,348	49,305,033	51,679,042
Sewer	23,556,044	25,292,995	24,419,607	23,083,280	24,833,019	29,340,615
Storm Drain	5,169,831	5,227,844	5,162,217	5,277,304	5,403,474	5,338,838
Compost				1,317,105	1,254,137	1,075,032
Airport	590,960	559,479	559,215	577,688	604,214	593,349
Bus	2,137,065	2,077,503	2,264,506	2,645,622	2,545,790	3,182,762
Golf	2,120,689	2,160,223	2,115,712	2,222,738	2,189,384	2,124,672
Community Center	467,229	496,680	504,338	543,085	552,878	532,471
Operating Grants and Contributions	5,119,474	6,217,613	7,525,367	8,317,889	11,059,129	12,459,707
Capital Grants and Contributions	13,603,460	10,145,892	8,498,408	10,467,873	7,962,675	9,793,356
<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>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>Net (Expense)/Revenue</b>						
Governmental Activities	(\$70,659,336)	(\$70,205,012)	(\$67,903,232)	(\$61,532,747)	(116,818,470)	(108,316,431)
Business-Type Activities	4,972,386	14,250,756	6,002,074	19,147,933	16,694,879	25,843,033
<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>

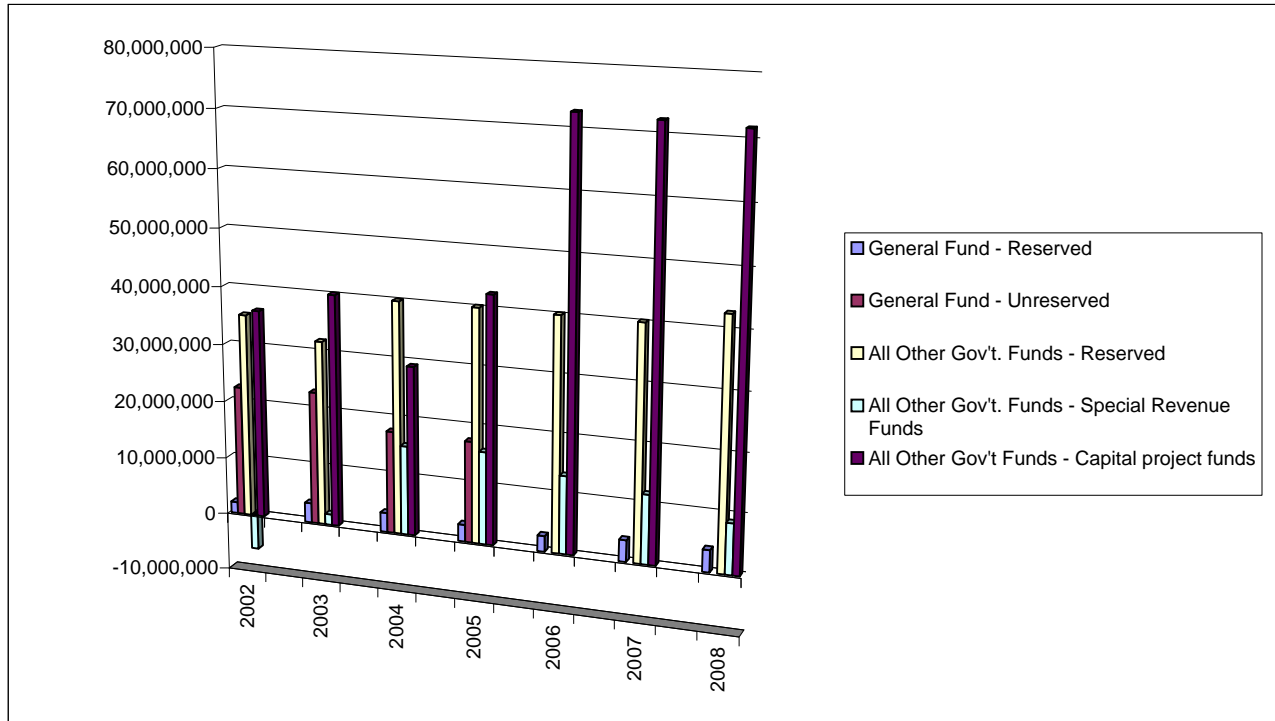
(continued)

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

	2003	2004	2005	2006	2007	2008
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
Property taxes, levied for general purposes	10,169,004	11,294,599	11,316,694	14,318,747	16,456,379	16,202,587
Tax increments for redevelopment agency	2,631,695	3,183,871	3,909,452	4,450,836	5,303,521	5,813,822
Transient occupancy tax	2,097,901	2,110,909	2,098,303	2,181,467	2,264,699	2,038,255
Franchise tax	3,360,976	3,455,535	3,420,453	3,693,307	3,823,216	7,735,131
Business license tax - for general purposes	9,238,797	9,231,136	9,726,816	10,374,157	10,359,058	9,680,721
Business license tax - for downtown improvement district	172,847	190,644	201,308	214,022	221,487	202,100
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
Motor vehicle license fee	11,746,283	9,052,449	16,403,864	14,986,883	16,233,262	16,856,108
Other	922,237	1,204,485	1,702,234	4,070,593	4,169,354	917,347
Unrestricted investment earnings	3,645,205	1,004,974	4,463,080	3,255,401	8,330,079	9,960,367
Miscellaneous	2,220,976	2,479,871	3,792,340	2,827,161	3,582,325	3,469,916
Transfers	(1,824,890)	(1,902,932)	(1,306,914)	(1,416,790)	(1,153,632)	(779,437)
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>
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
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
Miscellaneous			1,306,914			
Transfers	1,824,890	1,902,932	7,396,627	1,416,790	1,153,632	779,437
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)
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>
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>
Change in Net Assets						
Governmental Activities	\$13,341,330	\$12,912,294	\$30,035,413	\$44,634,562	(1,024,297)	9,259,763
Business-Type Activities	4,234,465	10,924,875	14,846,943	25,325,004	22,972,428	47,823,223
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>

Note: the City has elected to show only six years of data for this schedule.

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



	2002	2003	2004	2005	2006	2007	2008
<b>General Fund</b>							
Reserved	\$1,961,061	\$3,393,560	\$3,327,569	\$2,955,054	\$2,702,381	\$3,734,973	\$3,816,559
Unreserved	22,512,913	23,008,629	17,651,800	17,460,005	20,607,134	10,713,910	11,942,168
<b>Total General Fund</b>	<b>\$24,473,974</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>All Other Governmental Funds</b>							
Reserved	35,241,185	\$31,889,387	\$40,013,124	\$40,160,539	\$40,168,886	\$40,174,920	\$42,799,130
Unreserved, reported in:							
Special revenue funds	-6,013,102	1,844,576	15,398,402	15,931,290	13,431,304	11,885,910	8,746,111
Capital project funds	36,152,800	40,102,394	29,172,787	42,534,688	72,752,412	72,253,464	71,780,583
<b>Total all other governmental funds</b>	<b>\$65,380,883</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>

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)**

	Fiscal Year Ended June 30,						
	2002	2003	2004	2005	2006	2007	2008
<b>Revenues</b>							
Taxes	\$37,855,427	\$41,405,014	\$44,185,552	\$46,295,678	\$52,816,596	\$56,748,017	\$57,142,392
Licenses, permits and fees	173,348	169,108	250,129	128,754	146,854	187,289	153,545
Intergovernmental	62,726,570	66,228,880	70,583,373	73,889,063	64,759,658	66,129,862	71,179,504
Charges for services	33,633,119	31,789,634	33,203,507	41,660,016	37,802,149	36,979,023	33,319,642
Special assessments levied	823,091	2,015,090	386,368	107,696	65,909	51,634	35,294
Interest and rent	3,418,440	3,712,219	2,911,392	3,146,452	3,755,169	4,837,419	5,236,476
Net increase in fair value of investments	647,793	(339,331)	(1,458,065)	186,515	103,036	1,168,857	1,404,913
Fines and forfeits	1,055,966	1,030,389	1,294,193	1,646,472	1,675,926	2,699,445	2,614,523
Contribution from property owners					30,473,773		
Miscellaneous	1,111,982	2,220,976	2,479,871	2,991,745	2,821,161	2,814,421	3,469,916
<b>Total Revenues</b>	<b>141,445,736</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>Expenditures</b>							
<b>Current:</b>							
General government	10,168,110	11,352,860	11,878,443	11,819,603	14,111,535	15,517,544	15,107,461
Community development	7,950,839	13,123,011	10,113,628	12,832,640	12,296,072	11,789,640	13,820,295
Highways and streets	7,994,279	8,559,729	11,568,810	12,152,087	14,357,041	12,553,681	12,549,018
Public works	4,622,232	5,420,867	4,876,115	5,053,030	5,647,023	11,307,307	9,719,098
Parks and recreation	13,969,712	14,848,478	11,374,052	12,021,937	11,662,263	13,348,613	12,605,651
Public safety	52,812,553	56,576,055	62,747,623	70,882,176	74,527,875	80,988,650	82,707,285
Capital outlay	23,082,610	19,031,609	33,092,718	24,412,735	21,563,774	30,194,778	22,745,308
<b>Debt service:</b>							
Principal retirement	1,422,501	3,111,203	1,563,472	1,666,764	1,901,827	2,008,538	2,265,000
Interest	4,621,270	4,580,409	4,502,666	4,425,980	4,576,780	4,413,300	3,473,369
Advance refunding escrow						822,228	
Other	29,611	57,038	18,355	553,645	618,742	1,333,129	1,337,611
<b>Total Expenditures</b>	<b>126,673,717</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>Excess of revenues over (under) expenditures</b>	<b>14,772,019</b>	<b>11,570,720</b>	<b>2,100,438</b>	<b>14,231,794</b>	<b>33,157,299</b>	<b>(12,661,441)</b>	<b>(1,773,891)</b>
<b>Other Financing Sources (Uses)</b>							
Transfers in	18,838,748	14,601,556	19,332,436	17,962,442	17,724,718	23,985,863	24,429,880
Transfers out	(21,098,333)	(15,441,935)	(20,819,979)	(19,644,937)	(20,267,476)	(26,399,280)	(22,579,265)
Proceeds of capital lease	2,020,418						
Proceeds of loan payable	191,835	192,759	212,241			44,138	244,650
Proceeds of notes payable			4,500,000				
Proceeds of lease revenue bonds						62,275,000	
Sale of Assets				928,595	6,000	767,904	
Payments to refunded debt escrow agent						(58,911,124)	
<b>Total other financing sources (uses)</b>	<b>(47,332)</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>Net Change in fund balances</b>	<b>14,724,687</b>	<b>10,923,100</b>	<b>5,325,136</b>	<b>13,477,894</b>	<b>30,620,541</b>	<b>(10,898,940)</b>	<b>321,374</b>
<b>FUND BALANCES, July 1</b>	<b>75,130,170</b>	<b>89,315,446</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>FUND BALANCES, June 30</b>	<b>\$89,854,857</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>Debt service as a percentage of noncapital expenditures</b>	<b>0.06198</b>	<b>0.07000</b>	<b>0.05389</b>	<b>0.04884</b>	<b>0.04886</b>	<b>0.04979</b>	<b>0.03917</b>

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, 2008)**

Ten Largest Customers of Water Utility System, Year Ended 06/30/08

<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) Signature Fruit CO, LLC	Cannery	621,758	1.80%	\$770,208	1.56%
2) Grover Landscaping	Landscape Maintenance	485,905	1.41%	762,757	1.54%
3) Modesto City Schools	Education	477,764	1.38%	698,789	1.42%
4) Stanislaus Food Products	Cannery	408,383	1.18%	522,560	1.06%
5) Foster Farms	Dairy Processor	339,297	0.98%	420,473	0.85%
6) Stanislaus County	Government	200,641	0.58%	306,287	0.62%
7) Stanislaus Housing Authority	Housing Authority	185,421	0.54%	281,317	0.57%
8) Modesto Irrigation District	Power Company	208,608	0.60%	281,067	0.57%
9) Sylvan Union School Dist	Education	166,622	0.48%	237,791	0.48%
10) Yosemite Comm Coll Dist	Education	146,927	0.43%	214,490	0.43%
<b>Total Top Ten</b>		<b>3,241,326</b>	<b>9.39%</b>	<b>\$4,495,740</b>	<b>9.10%</b>

Total Flat/Metered Revenues (Water Sales)

\$49,384,207

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

Water Sales Revenue, Year Ended 06/30/08

Residential - flat rates	\$31,494,577
Commercial, Industrial and municipal - metered rates	<u>17,889,630</u>
<b>Total Water Sales</b>	<b><u>\$49,384,207</u></b>

Water Rates and Charges as of 07/01/07

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

Commercial Accounts:

<u>Meter Size</u>	
3/4"	\$13.06
1"	18.52
1 1/2"	32.06
2"	48.37
3"	91.91
4"	140.83
6"	276.68
8"	439.76
10"	630.08
12"	1,173.62

In addition to these minimum charges, commercial accounts are charged \$1.22 per 100 cubic feet of water used.

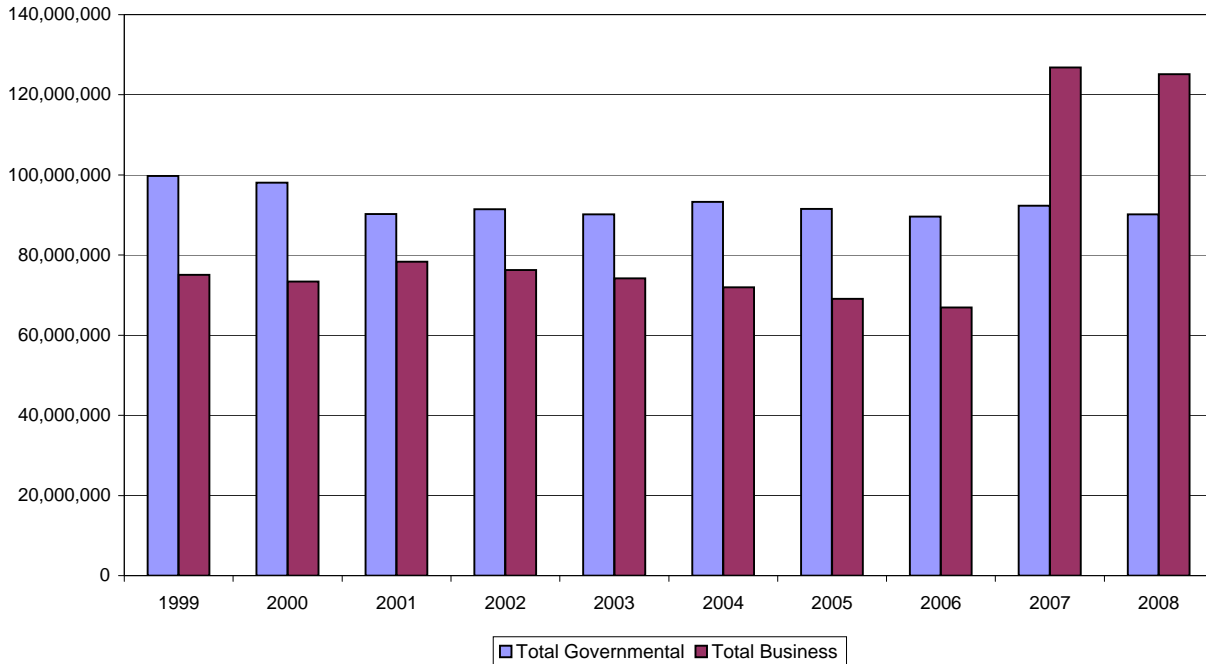
Water rates for both metered and flat rate services were increased on July 1, 2007.

Source:

City of Modesto-Customer Services

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

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



**Governmental Activities**

Fiscal Year	Governmental Activities					Total
	Loans Payable	Certificates of Participation	Lease Revenue Bonds	Notes Payable	Obligations Under Capital Leases	
1999		\$33,490,000	\$64,835,000		\$1,462,933	\$99,787,933
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

**Business-Type Activities**

Fiscal Year	Business-Type Activities					Total Primary Government	Percentage of Personal Income (a)	Per Capita (a)
	Loans Payable	Certificates of Participation	Revenue Bonds	Capital Leases	Total			
1999	\$3,378,635	\$24,900,000	\$46,780,000		\$75,058,635	\$174,846,568	4.26%	947.16
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

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, 2008**

<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	23,555,000	5.03	1,184,753
Hart-Ransom Union School District	3,899,767	38.15	1,487,663
Modesto Elementary School District	19,528,337	80.47	15,714,938
Modesto High School District	67,646,328	75.54	51,101,584
Paradise Elementary School District	400,000	0.00	0
Salida Union Elementary District	1,315,000	29.83	392,325
Stanislaus Union School District	2,900,000	70.04	2,031,196
Sylvan School District	29,480,000	77.02	22,705,669
Yosemite Community College District	<u>234,085,000</u>	36.11	<u>84,536,065</u>
Total overlapping debt	<u>382,809,433</u>		<u>179,154,193</u>
Total direct and overlapping debt	\$ <u><u>382,809,433</u></u>		\$ <u><u>179,154,193</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, 2008**

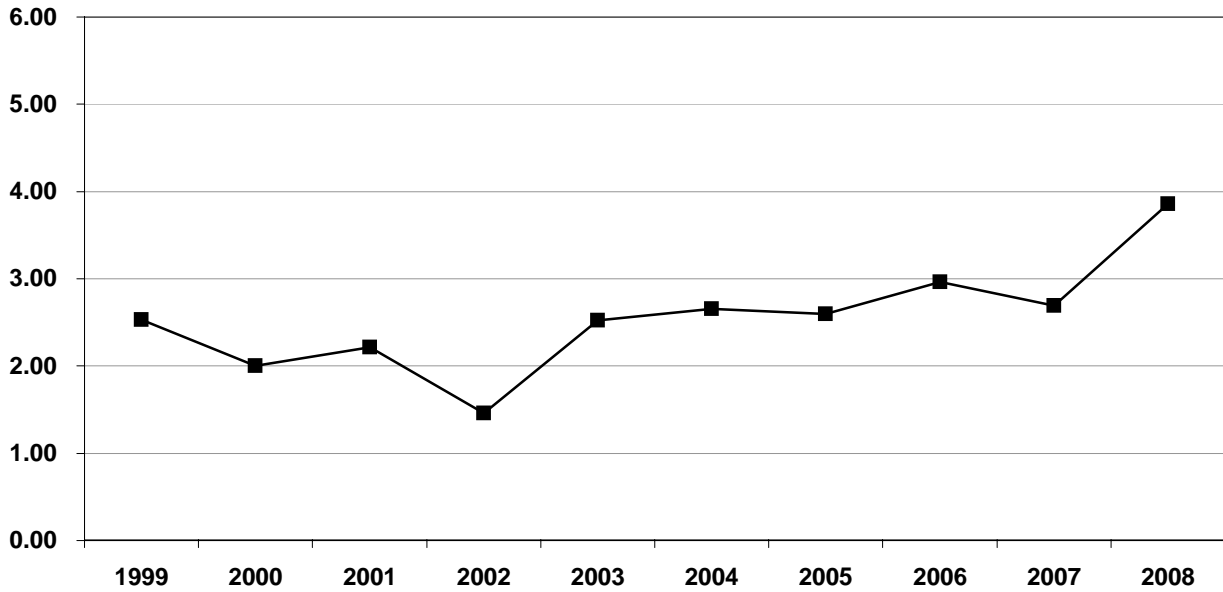
Net assessed value (1)		\$ 15,285,388,423
Plus homeowners' exemption (1)		<u>234,255,392</u>
Gross assessed value (1)		\$ 15,519,643,815
Debt limit - 15% of gross assessed value (2)		\$ 2,327,946,572
Amount of debt applicable to debt limit:		
Total general bonded debt, including special assessment debt	\$	<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>\$ 2,327,946,572</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	\$ 2,327,946,572	\$ 0	\$ 2,327,946,572	0%

Notes: (1) Source of Data: Stanislaus County Auditor; Last Equalized Roll (AC2703, 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>
1999	\$20,192,478	\$11,204,247	\$8,988,231	\$3,551,320	2.53
2000	19,490,824	12,380,840	7,109,984	3,549,445	2.00
2001	21,102,892	13,244,750	7,858,142	3,549,180	2.21
2002	22,288,061	17,117,917	5,170,144	3,550,017	1.46
2003	24,623,786	15,664,660	8,959,126	3,551,958	2.52
2004	26,123,771	16,687,958	9,435,813	3,550,120	2.66
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

- 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, 2008**

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: \$4,876 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>Category</u>	<u>Customer Base by Type of Account</u>		
	<u>Number of Accounts</u>	<u>% of Total Accounts</u>	<u>% of Sewer Fee Operating Revenue</u>
Residential	56,984	95.46%	50.20%
Commercial	2,667	4.47%	11.53%
Industrial	46	0.08%	38.27%
Total	59,697	100.00%	100.00%

Ten Largest Users of Sewer Facilities, Year Ended 6/30/08

<u>User</u>	<u>Sewer Fee Revenue</u>	<u>% of Sewer Fee Operating Revenue</u>
1) Stanislaus Foods	\$ 2,792,729	9.52%
2) Signature Fruit	1,834,454	6.25%
3) Del Monte Foods	1,539,889	5.25%
4) E & J Gallo Winery	912,938	3.11%
5) Frito-Lay, Inc.	827,128	2.82%
6) Foster Farms	702,675	2.39%
7) City of Ceres	683,130	2.33%
8) Nestle Food Company	291,758	0.99%
9) Modesto City Schools	136,881	0.47%
10) Memorial Hospital	121,995	0.42%
Total (Top Ten Customers)	\$ 9,843,577	33.55%
Total (All Customers)	\$ 29,340,615	

The average single-family residence monthly sewer charge is \$18.54

<u>Commercial Group</u>	<u>Charge Per 1,000 Gallons</u>	<u>Fixed Charge</u>
Group 1 (no food, just toilets or working facilities)	\$1.81	\$2.57
Group 2 (commercial laundromats, service stations, hotels without food)	\$2.23	\$2.57
Group 3 (industrial laundromats, hotels with food)	\$2.65	\$2.57
Group 4 (restaurants, bakeries, auto steam, markets)	\$3.15	\$2.57

Industrial users pay a minimum account charge of \$2.57 with additional charges of: \$1,475.66 per million gallons of flow, \$72.98 per 1,000 pounds of excess biochemical oxygen demand (BOD), and \$127.82 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, 2008**

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

**CITY OF MODESTO**  
**WASTEWATER SYSTEM**  
**Five 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

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

<u>City</u>	<u>Monthly Residential Charge</u>
<b>Modesto</b>	<b>\$21.95</b>
Stockton	21.10
Fresno(1)	21.01
Lodi(2)	27.74
Turlock	37.10
Tracy	31.00

(1) Minimum charge.

(2) Based upon a three-bedroom residence.

**CITY OF MODESTO**  
**CONTINUING DISCLOSURE REQUIREMENTS**  
**Year Ending June 30, 2008**

**CITY OF MODESTO**  
**WASTEWATER SYSTEM**  
**Wastewater Connection Fees Comparison**  
**As of January 1, 2008**

<u>City</u>	<u>Connection Fee</u>
<b>Modesto</b>	<b>\$4,876</b>
Turlock (1)	1,800
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, 2008**

1997 Water Utility System Refinancing Project, Refunding Revenue Certificates of Participation  
Water Revenue Refinancing Certificates of Participation, Series 2006 A & 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 6/30/08	\$3,914,824
Surety Policy Value:	(1,935,855) Provided by FGIC
Balance in Parity Reserve Account as of 6/30/08	<u>(2,144,034)</u>
Shortfall/(Excess) Reserve Coverage:	<u><u>(165,065)</u></u>

Balance in Rate Stabilization Account as of 6/30/08: 3,000,000

Ten Largest Customers of Water Utility System, Year Ended 6/30/08

<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) Signature Fruit	Cannery	621,758	1.80%	\$770,208	1.56%
2) Grover Landscaping	Landscape Maintenance	485,904	1.41%	762,757	1.54%
3) Modesto City Schools	Education	477,764	1.38%	698,789	1.42%
4) Stanislaus Foods	Cannery	408,383	1.18%	522,560	1.06%
5) Foster Farms	Dairy Processor	339,297	0.98%	420,473	0.85%
6) Stanislaus County	Government	200,641	0.58%	306,287	0.62%
7) Stanislaus Housing Authority	Housing Authority	185,421	0.54%	281,317	0.57%
8) Modesto Irrigation District	Power Company	208,608	0.60%	281,067	0.57%
9) Sylvan Union School District	Education	166,162	0.48%	237,791	0.48%
10) Yosemite Comm Coll Dist.	Education	146,927	0.43%	214,490	0.43%
Total Top Ten		<u>3,240,865</u>	<u>9.39%</u>	<u>\$4,495,740</u>	<u>9.10%</u>

Total Flat/Metered Revenues (Water Sales)

\$49,384,207

(1) Grover Landscaping maintains City parks

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

Water Sales Revenue, Year Ended 6/30/08

Residential - flat rates	\$31,494,577
Commercial, industrial and municipal - metered rates	<u>17,889,630</u>
Total Water Sales	<u><u>\$49,384,207</u></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"	\$13.06
1"	18.52
1 1/2"	32.06
2"	48.37
3"	91.91
4"	140.83
6"	276.68
8"	439.76
10"	630.08
12"	1,173.62

In addition to these minimum charges, commercial accounts are charged \$1.22 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 6/30/08, the balance of the 1998 Bonds was \$70,525,000 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 Five 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
2006 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.

	<u>Fiscal Year 2006</u>	<u>Fiscal Year 2007</u>	<u>Fiscal Year 2008</u>
\$	42,639,348	\$ 49,289,417	\$ 51,433,282
	1,334,259		
	1,728,873	2,023,224	1,539,039
	534,234	2,279,905	2,187,439
			-10,300
	<u>(153,200)</u>	<u>15,616</u>	<u>245,760</u>
	46,083,514	53,608,162	55,395,220
	28,672,955	32,466,468	34,676,952
	(2,383,566)	(2,396,440)	(2,276,755)
	(6,690,994)	(6,687,444)	(6,681,894)
	84,556	85,487	86,733
	<u>95,385</u>	<u>65,000</u>	<u>65,000</u>
	19,778,336	23,533,071	25,870,036
	26,305,178	30,075,091	29,525,184
	1,790,658	1,794,120	1,791,930
		1,082,432	1,982,256
	6,690,994	6,687,444	6,681,894
	<u>264,654</u>	<u>264,719</u>	<u>264,719</u>
\$	\$ 8,746,306	\$ 9,828,715	\$ 10,720,799
	3.01	3.06	2.75

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

	<u>2009</u>	<u>2010</u>
GROSS OPERATING REVENUES	\$	\$
Charges for Services	\$54,317,196	\$55,320,269
DBCP Settlement		
Connection Charges	1,497,500	1,747,500
Interest and Rental Income	523,780	539,500
Gain/(Loss) on Disposition of Capital Assets		
Draw from (Deposit to) Rate Stab, Fund		
GROSS OPERATING REVENUES	<u>56,338,476</u>	<u>57,607,269</u>
OPERATING EXPENSES:		
Total operating expenses	20,591,327	21,085,947
Less: Depreciation		
T&DA debt service paid to MID(1)	5,051,370	7,331,350
Property taxes	96,460	
Plus: Operating Transfers	<u>65,000</u>	<u>65,000</u>
TOTAL OPERATING EXPENSES	<u>25,804,157</u>	<u>28,482,297</u>
NET OPERATING REVENUES	30,534,319	29,124,972
TOTAL DEBT SERVICE		
Revenue obligations:		
1997 Certificates of Participation	1,795,758	1,794,688
2008 Revenue Certificates of Participation	3,158,099	1,989,829
2007 Treatment & Delivery Agreement COP's	0	403,048
1998 Treatment & Delivery Agreement	6,672,406	6,681,894
CDWR Loan	<u>264,719</u>	<u>264,719</u>
TOTAL DEBT SERVICE	\$ 11,890,982	\$ 11,134,178
DEBT SERVICE COVERAGE		
(Net Operating Revenues/ Total Debt Service)	2.57	2.62

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>2011</u>	<u>2012</u>	<u>2013</u>
\$ 56,420,374	\$ 57,542,482	\$ 58,687,031
1,747,500	1,747,500	1,747,500
539,500	539,500	539,500
<u>58,707,374</u>	<u>59,829,482</u>	<u>60,974,031</u>
21,929,244	22,806,274	23,718,385
9,858,416	10,048,380	10,249,352
65,000	65,000	65,000
<u>31,852,660</u>	<u>32,919,654</u>	<u>34,032,737</u>
26,854,714	26,909,828	26,941,294
1,794,013	1,795,513	1,799,388
1,979,923	1,969,634	1,986,638
3,898,642	4,123,147	4,123,147
6,670,769	6,670,894	6,666,644
264,719	264,719	264,719
\$ <u>14,608,066</u>	\$ <u>14,823,907</u>	\$ <u>14,840,536</u>
1.84	1.82	1.82

**CITY OF MODESTO  
CITY WATER UTILITY SYSTEM STATISTICS  
CONTINUING DISCLOSURE REQUIREMENTS  
Year Ended June 30, 2008**

**CITY WATER UTILITY SYSTEM STATISTICS  
(Calendar Years 2004 through 2008)**

	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 2008)**

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

**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>\$35.45-\$40.30</b>
Stockton(1)	42.50
Tracy(2)	56.65
Turlock(3)	31.50
Sacramento	25.97
Merced	28.76

(1) All water is metered. A monthly base rate of \$22.00 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)

**CITY OF MODESTO**  
**CONTINUING DISCLOSURE REQUIREMENTS**  
**Year Ended June 30, 2008**

The following table sets forth connection fees for all users except multi-family units by meter size for year 2007-08.

**CITY WATER UTILITY SYSTEM**  
**Connection Fees for All users**  
**Except Multiple Family Units**  
**(Fiscal Year 2007-2008)**

<u>Meter Size</u>	<u>Connection Fees</u>
5/8" meter**	\$2,162
1" meter	5,404
1-1/2" meter	10,808
2" meter	17,291
3" meter	34,582
4" meter	54,035
6" meter	108,069
8" meter	172,910
10" meter	248,558
12" meter	464,694

\*\*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, 2008**

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

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

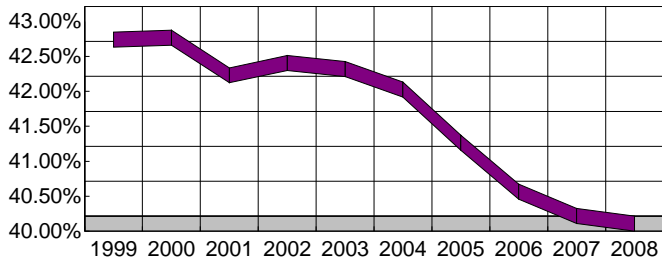
The following table sets forth the adopted monthly service charge and volume charge for commercial accounts through fiscal year 2007-08.

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

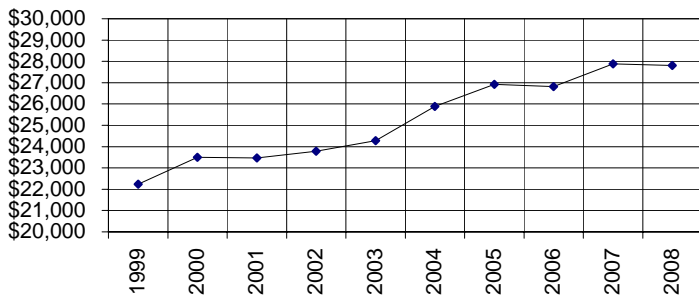
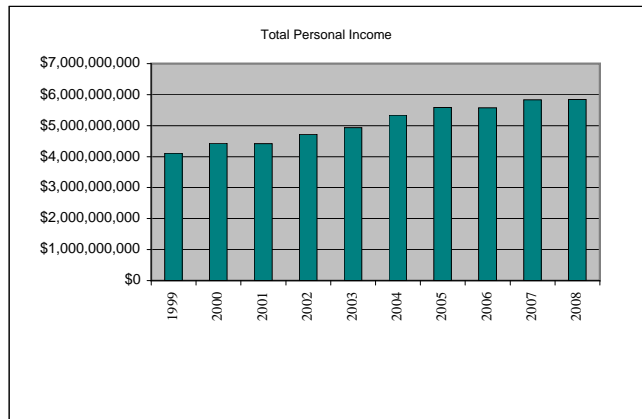
	<b>Effective January 1,2005</b>	<b>Effective July 1, 2005</b>	<b>Effective July 1, 2006</b>	<b>Effective July 1, 2007</b>	<b>Effective July 1, 2008</b>
<b>Volume-based Rate (\$/hcf)</b>	\$0.84	\$1.01	\$1.16	\$1.22	\$1.28
<b>Fixed Monthly Meter Charge (in addition to volume-based charges)</b>					
5/8"-3/4" 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)

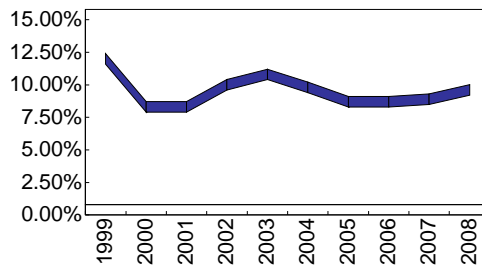
**CITY OF MODESTO  
DEMOGRAPHIC AND ECONOMIC STATISTICS  
Last ten fiscal years**



■ 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
1999	184,600	\$4,106,242,400	22,244	11.6%	432,990	42.63%
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	\$5,579,348,670	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%

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)

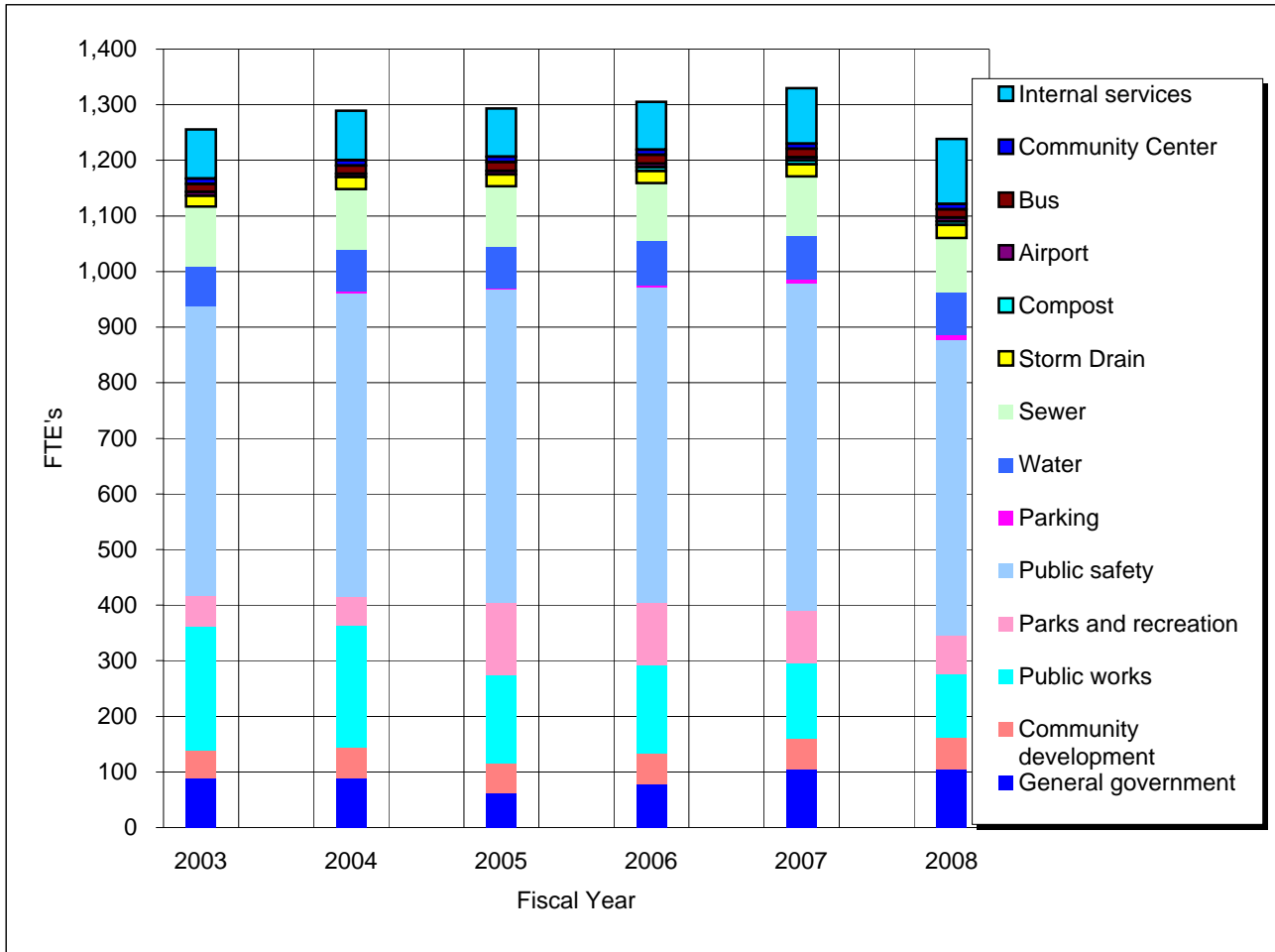
**CITY OF MODESTO  
Principal Employers**

Employer	2007-08		
	Number of Employees	Rank	Percentage of Total City Employment
Stanislaus County	4,747	1	4.6%
E&J Gallo Winery	3,345	2	3.3%
Modesto City Schools	3,200	3	3.1%
Signature Fruit Compan	2,900	4	2.8%
Memorial Medical Center	2,682	5	2.6%
Del Monte Food	2,600	6	2.5%
Stanislaus Food Products	2,259	7	2.2%
Doctors Medical Center	2,066	8	2.0%
Foster Farms	1,813	9	1.8%
City of Modesto	1,614	10	1.6%
Subtotal	<u>27,226</u>		26.7%
Total City Employment	102,100		
Total City Population	209,936		

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 Six Fiscal Years



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

Source: City of Modesto

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

	<b>2006</b>	<b>2007</b>	<b>2008</b>
<b>Function/Program</b>			
Public safety:			
Fire:			
Fire calls for service	20,200	21,526	23,246
Primary fire inspections conducted	1,006	936	976
Police:			
Police calls for Service	129,225	92,971	121,434
Law violations:			
Part I and Part II crimes	63,954	46,401	60,595
Physical arrests (adult and juvenile)	13,054	15,374	14,185
Traffic violations	23,104	27,111	25,739
Parking violations	20,308	21,600	16,079
Public works			
Street resurfacing (miles)	9.98	10.06	9.32
Potholes repaired (square miles)	30,252	31,055	40,411
Airport:			
Number of passengers enplaned	23,969	50,782	49,525
Number of tenant aircraft	201	202	195
Number of hangars	109	109	109
Number of runways	2	2	2
Annual fuel consumption in gallons	998,978	1,102,439	1,140,426
Bus Service:			
Number of buses	43	51	56
Number of routes	19	19	20
Total route miles	305	356	362
Average weekday number of passengers	11,206	12,295	12,599
Total number of passengers carried	3,629,191	3,629,128	3,699,846
Community Development			
Permits issued in 2005-2006	5,968	5,174	4,182
Estimated cost of construction	\$298,025,900	\$228,814,464	\$157,006,451
Building Inspections made	49,852	44,542	39,172
Culture and recreation:			
Community Services:			
Recreation class participants	5,291	5,175	4,255
Solid Waste:			
Recyclables Processed (tons per year)	61,080	74,645	106,664
Yard waste			38,889
Commercial food waste			280.00
Waste tires			7,120.00

Source: City of Modesto - Various Departments

Note: The City has elected to show only three 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>Public safety:</b>			
Fire stations	11	11	11
Police stations	1	1	1
Police patrol units	98	102	102
<b>Public works</b>			
<b>Traffic &amp; Streets</b>			
Miles of streets (1)	672	674	675
Street lights	13,358	13,595	13,738
Traffic Signals	140	140	142
<b>Water:</b>			
Miles of water mains	N/A	990	994
Fire hydrants	7,060	7,200	7,301
Storage capacity (thousands of gallons)	N/A	9,400,000	9,400,000
<b>Wastewater:</b>			
Miles of sanitary sewers	481	641.0	656.7
Miles of storm sewers	130	132.9	133.6
Number of treatment plants (2)	2	2	2
Treatment capacity (millions of gallons)	70	70	70
<b>Community services:</b>			
City parks	75	75	76
City parks acreage	1,088	1,088	1,088
Playgrounds	55	55	55
City trails	4	4	4
City trails miles	11	11	12
Regional park acreage	324	324	324
<b>Regional park facilities:</b>			
Golf courses (18 holes)	2	2	2
Golf courses (9 holes)	1	1	1
Clubhouse and banquet facility	8	8	8
Historic house	4	4	4
Community gardens	2	2	2
Community centers	6	6	6
Senior centers	1	1	1
Sports centers	1	1	1
Performing arts centers	1	1	1
Swimming pools	16	16	13
Tennis courts	37	37	37
Baseball/softball diamonds	24	24	24
Soccer/football fields	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 three years of data for this schedule