



**City of Modesto**  
Comprehensive Annual Financial Report  
FY 2014-2015 | Fiscal Year Ended June 30, 2015





CITY OF  
**Modesto, California**

**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
**Fiscal Year Ended June 30, 2015**

Prepared by  
Finance Department



**CITY OF MODESTO**  
 June 30, 2015  
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INTRODUCTORY TAB

INTRODUCTORY TAB

# **INTRODUCTORY SECTION**





January 28, 2016

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

We are pleased to present to you the Comprehensive Annual Financial Report (CAFR) for the City of Modesto (City). The City of Modesto City Charter and Municipal Code require that a complete CAFR, which is comprised of financial statements and report on the finances of the City, be submitted to the City Council at the end of each fiscal year. This report fulfills that requirement for the year ended June 30, 2015.

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

The Modesto City Charter also requires an annual audit be performed by an independent certified public accountant selected by the Modesto City Council. The accounting firm of Macias Gini & O'Connell LLP was selected in 2015 to perform the City's annual financial audits. The auditors have issued an unmodified ("clean") opinion on the financial statements for the fiscal year ended June 30, 2015, 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. The MD&A is designed to be read in conjunction with this transmittal letter.

#### **City of Modesto Profile**

Modesto is located in the heart of California's San Joaquin Valley and is the County Seat of Stanislaus County. It is also the retail, service and financial center of Stanislaus County. The City currently occupies a land area of 37.4 square miles and serves a population of 209,286. The City has a diverse economy and population with a strong sense of community pride.

Incorporated as a municipal city in 1884, the City adopted its City Charter on March 12, 1951, with a Council-Manager form of government. The Modesto City Council (Council) is the City's legislative body and is made up of seven elected officials serving overlapping 4-year terms. The Mayor is elected at-large by the entire City; while the six Councilmembers are elected by district and are limited to two terms.

#### *City of Modesto*

1010 Tenth Street  
P.O. Box 642  
Modesto, CA 95353  
209/577-5369

Hearing and Speech  
Impaired Only  
TDD 209/526-9211

The Council sets policy and tax rates, approves budgets, and passes ordinances and resolutions, which govern the City. The Council also appoints citizens to advisory boards, committees and commissions as well as appoints the City Manager, City Attorney, City Clerk and City Auditor. The City Manager is responsible for carrying out Council policy and managing the day-to-day affairs of the City.

The City is a “full-service” city including police and fire; public works; water and sewer; community and economic development; parks, recreation and neighborhoods; public transportation; and cultural and convention visitor services.

Fire protection services during Fiscal Years 2012 to 2014 were provided by the Modesto Regional Fire Authority, which was a joint powers authority whose members consisted of the City, Stanislaus County and the Salida Fire Protection District. On July 1, 2014, the member agencies decided to disband the Regional Fire Authority and services returned to their respective agencies. As a transitional measure, the Salida Fire Protection District contracted with the City of Modesto to provide fire protection services from July 1, 2014 through January 15, 2015. Disbanding the Regional Fire Authority allowed the member agencies to move to a more efficient and collaborative regional service delivery model involving ‘boundary drops’. Boundary drops result in a more expanded regional effort than what would have been allowed under the Regional Fire Authority model.

The City’s financial reporting entity includes all funds and activities of the City 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 there is a financial benefit/burden relationship with the City or management has operational responsibility over the component unit. These component units are the Modesto Public Financing Authority and the City of Modesto Community Facilities Districts.

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

### **Local Economy**

Agriculture is the backbone of the City’s economy and has been so for more than a century. The City and its surrounding areas contain canneries, packing plants and warehouses, which ship agricultural products across the nation and the world. The major sectors for employment are agriculture related industries, healthcare, education, accommodation and food service, cultural organizations, social assistance and light manufacturing. Approximately 30% of the workforce is employed in management, professional and related occupations. Stanislaus County consistently ranks among the top 10 California counties in terms of annual agricultural production values with leading commodities being almonds, milk and poultry.

The City’s economy is bolstered by several prominent wineries including E & J Gallo, which is the largest privately owned winery in the world. The Gallo Glass Company is one of the largest wine bottle manufacturing companies in the world and provides thousands of manufacturing and office jobs. The food canneries and several steel working facilities also provide numerous jobs in the City. There are several prominent industries in the City, which provide numerous jobs. There is the Blue Diamond Growers almond factory, the Crystal Creamery dairy processing plant, and the Foster Farms major poultry plant. In addition, more than 30% of the Modesto workforce is employed outside of the county.

Primary revenue sources of the City, such as sales and property taxes, have been directly impacted by economic influences from the Great Recession and the areas subsequent recovery. During fiscal year 2014-15, property values continued to show positive growth, but have not reached pre-recessionary levels. The median sales price for a home in the City is approximately \$240,000 or \$157/square foot, which reflects an increase of approximately 9% when compared to the prior year.

The unemployment rate within the Modesto Metropolitan Statistical Area decreased during the 2014-2015 fiscal year. As of June 30, 2015, the City's unemployment rate was recorded at 9.3%, down from a rate of 11.0% a year ago.

Building permit activity increased slightly during the 2014-2015 fiscal year. Fiscal year 2014-15 ended with a total of 4,511 permits issued with a valuation of \$137,453,763.

### **Our Strategic Priorities**

During 2015, the City adopted its 2015-2018 Strategic Plan. Our priorities bring the City's vision and values to life in our community and define our overall direction as a city. It also confirms our commitment to our citizens. While the priorities are individually important, they are also interconnected and cannot be addressed in isolation. In addition, they are the basis of our scorecard that measures success and upon which our performance metrics are built.

- **Healthy Economy and Great Quality of Life:** Increase the City's proactive economic development efforts by creating and preserving jobs, strengthening our economic base and enhancing the City's revenue base.
- **Vibrant Infrastructure and Sustainable Environment:** Strengthen and maintain a safe infrastructure of City roads, water supply, storm sewers, transit and airport needs for residents, businesses and visitors.
- **Great Safe Neighborhoods:** Explore new approaches to public safety, working in partnership with the community to reduce crime and maintain a safe and inviting community in which to live, work and play. Increase collaboration with neighborhoods and school districts to achieve quality of life improvements, and safe neighborhoods through supporting community self-reliance, problem solving and public/private partnerships.
- **Effective, Responsive and Transparent Government:** Enhance the organization's commitment to the 9 principles of EMBRACE IT, develop new and creative methods to leverage technology, market organization strengths and remain dedicated to seeking efficiencies and continuous improvement. EMBRACE IT represents our employees' commitment to: **E**xceptional Service; **M**easurable Success; **B**uild Trust; **R**esults-Oriented; **A**ccountability; **C**ommunity Outreach; **E**xcite Pride; **I**nnovation; and **T**eamwork.

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

The City continues to develop its 10-year forecasting model and refine estimates and assumptions used to project future operations. At the end of fiscal year 2014-15, General Fund Balance was as follows: Restricted and Nonspendable - \$4.1 million; Committed - \$3 million; Assigned - \$3.1 million; and Unassigned \$14.6 million. The Committed Fund Balance allows the City to respond to unplanned circumstances and maintain adequate working capital to meet its cash flow needs. The City maintains at least \$7 million of Unassigned General Fund Balance in accordance with its debt requirements. In addition, through the date of this letter the City has appropriated \$2.1 million of General Fund Unassigned Fund Balance in fiscal year 2015-16 to augment its budget.

The City's long-term maintenance of a stable fund balance is a direct reflection of the Mayor and Council's leadership and prudent fiscal management.

## **SIGNIFICANT EVENTS and ACCOMPLISHMENTS**

### **Local Initiatives and Accomplishments**

#### Healthy Economy & Great Quality Of Life

- The Tuolumne River Regional Park Gateway Parcel was the site of the Backcountry Horsemen Mid-Valley Unit's Tail Trials this summer, attracting participants from throughout northern California,
- Completed the Bennett Place project which was developed by Stanislaus County Affordable Housing Corporation (STANCO) and provided 18 affordable housing units designated for seniors and special needs populations,
- Completed the Downey Terrace project which provides 11-units for seniors,
- Formation of the Downtown Community Benefit District,
- Downtown Incentive Program was implemented,
- Began construction of 10th Street "Complete Street" improvements in downtown,
- Completed acquisition and sale of 10th & H Street property for future Courthouse,
- Completed developmental and environmental entitlements: Keirnan Business Park,
- Implemented online building permit submittal and review process.

#### Great Safe Neighborhoods

- Adopted the Safer Neighborhood Initiative to strengthen partnerships with local neighborhood groups and improve public safety in our community,
- Formed small teams representing all City departments to align with the Police Department area commands which brought a collaborative, focused approach to neighborhood problems and complaints,
- Outstanding participation by citizens in the National Night Out event with well over 170 parties citywide,
- Expanded the use of predictive policing to maximum available resources to combat crime,
- Historic drought conditions caused a very active fire season in which the City provided assistance to several large wildfires in California, including the Butte and Valley fires,
- Entered into Boundary Drop resource sharing with other local fire departments,
- Taught CPR to over 1,700 junior high students and Life & Fire Prevention to over 5,000 elementary grade school students,
- Converted 9,845 street lights from High Pressure Sodium (HPS) to Light Emitting Diode (LED), which will result in savings of approximately \$500,000 per year,
- Tag - We're On It: Tagging Abatement Program was successfully implemented to address ongoing problems of tagging throughout the City,
- The City, along with neighbors of the Wesson Ranch and Lakewood Parks, removed existing play equipment and replaced it with new play equipment in Park Partners projects,
- Partnered with the County of Stanislaus to open a 'one-stop' Veteran's Service Facility in Modesto in a repurposed shopping center,
- Successfully strengthened the City's relationship with the Boys and Girls Club and provided programming to citizens in West Modesto,
- Successfully partnered with the Miracle League through a \$250,000 challenge grant to develop a baseball field within the City,
- Continues to work with our long-term partners to promote special events and provide funding for the City's Recreation Scholarship Program.



Vibrant  
Infrastructure &  
Sustainable  
Environment

- Filled 14,998 pot holes, laid 9.16 lane miles of new asphalt, 28,255 square feet of new sidewalk, and 3,317 linear feet of new curb and gutter,
- Completed construction of the new Compost Facility,
- Re-establishment of the City Nursery on 10 acres of the Compost Facility,
- Began construction of the propagation greenhouse, shade house, and tree growing areas which will produce over 4,500 trees annually for the urban forest,
- Completed Phase 6 of the Virginia Corridor for an additional .75 mile paved multi-use pedestrian and bicycle trail which completes approximately 3.25 miles of the Virginia Corridor, Rails-to-Trails conversion of the old Tidewater/Union Pacific Railroad tracks into a Class I, multiuse trail,
- Completion of the Shackelford Sewer Crossing (under the Tuolumne River), Emerald Relief Sewer Trunk, Emerald Sewer Lift Station Rehabilitation Project,
- Large water system strengthened and replaced projects: La Loma Phase 1 and South Modesto,
- Began construction of the largest water tank in the City's system (6.0 MG North Tank) and Tier 2 Pressure Reducing Valve Transmission System Project,
- Entered into Joint Powers and Water Sales Terms Agreements with Del Puerto Water District for Recycled Water Project,
- During the summer of 2012, the City started construction of its \$133 million Phase 2 Tertiary Wastewater Treatment Facility. Construction of this project proceeded according to plan and is expected to be completed in May 2016. The City successfully obtained a State of California Revolving Fund loan in the amount of \$128,162,000 to fund construction of this facility,
- Added 4 miles of street overlay and bike lanes on Briggsmore Avenue.



Effective  
Responsive &  
Transparent  
Government

- Conducted monthly Council workshops in order to expand transparency and engagement with the public and Council on important community issues,
- Reorganized several key operations within the City to more effectively serve the public and increase teamwork,
- Published the City's first Economic Indicator Report,
- Developed a new General Fund 10-year forecasting model to be used to anticipate future revenue and expenditure trends,
- Began procurement of a new budget software system which will allow the City to link its budgeting processes to performance metrics and the Strategic Plan,
- Implemented the Open Gov Transparency tool on the City's website and began the development of performance dashboards,
- Hosted community conversations on homelessness.

We also continued to be the home of the Modesto Nuts baseball team, which is affiliated with the Major League team, the Colorado Rockies and the Valley's premier performing arts center, the Gallo Center of the Arts.

**Awards and Acknowledgments**

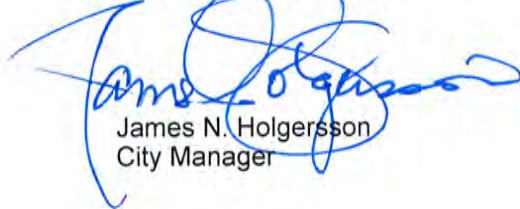
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Modesto for its comprehensive annual financial report for the fiscal year ended June 30, 2014. This was the 31<sup>st</sup> consecutive year that the government has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

The Comprehensive Annual Financial Report (CAFR) is the result of the cooperative work of many people. We wish to convey our appreciation to all of the City departments and members of the Finance Department team who prepared and contributed to its successful completion. Without their hard work, this report would not be possible.

Finally, we would like to express our appreciation to the City Council and community for their leadership and support. We look forward to the next year's challenges and opportunities.

Respectfully submitted,



James N. Holgersson  
City Manager



Gloriette Genereux  
Director of Finance



Government Finance Officers Association

**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, 2014**

Executive Director/CEO

# CITY OF MODESTO ORGANIZATIONAL CHART



## Legend

- Elected
- Council Appointed
- City Manager Appointed

**CITIZENS OF MODESTO**

**CITY COUNCIL**  
 Garrad Marsh, Mayor  
 John Gunderson, District 1      Bill Zoslocki, District 4  
 Tony Madrigal, District 2      Jenny Kenoyer, District 5  
 Dave Lopez, District 3      Dave Cogdill, Jr., District 6

**CITY ATTORNEY**  
Adam Lindgren

**CITY AUDITOR**  
Moss Adams

**CITY CLERK**  
Stephanie Lopez

**MODESTO CITY MANAGER**  
James N. Holgersson

**DEPUTY CITY MANAGER OPERATIONS**  
Brent Sinclair

**PUBLIC WORKS**  
Bill Sandhu

**UTILITIES**  
Larry Parlin

**PARKS, RECREATION & NEIGHBORHOODS**  
Vacant

**COMMUNITY & ECONOMIC DEVELOPMENT**  
Vacant

**Healthy Economy, Vibrant Infrastructure & Sustainable Environment**

Neighborhood Engagement, Utility and Infrastructure Maintenance and Repair, Recycling and Waste Removal, Community Programming and Neighborhood Development, Environmental Compliance, Construction Management, Economic Development, Transportation Management, Land Acquisition and Development

**POLICE DEPARTMENT**  
Galen Carroll

**FIRE DEPARTMENT**  
Sean Slamon

**Safe Neighborhoods**

Emergency Service Calls, Dispatch, Rescue, Hazardous Materials Control, Fire Prevention, Safety Education, Crime Prevention and Mapping, Patrols, Traffic Enforcement, Gang Enforcement

**DEPUTY CITY MANAGER SUPPORT**  
Joe Lopez

**FINANCE**  
Gloriette Genereux

**HUMAN RESOURCES**  
Joe Lopez

**INFORMATION TECHNOLOGY**  
Vacant

**PUBLIC RELATIONS**

**INNOVATION & PERFORMANCE MANAGEMENT**

**Effective Responsive & Transparent Government**

Driving Performance and Innovation, Recruitment and Testing, Customer Service Delivery, Innovation in Service delivery, Accessible Technology Implementation, Information Dissemination, Community Outreach

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# **FINANCIAL SECTION**





## Independent Auditor’s Report

City Council of the City of Modesto  
Modesto, California

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Modesto, California (City), as of and for the fiscal year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City’s basic financial statements as listed in the table of contents.

#### *Management’s Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditor’s Responsibility*

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

#### *Opinions*

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of June 30, 2015, and the respective changes in financial position, and, where applicable, cash flows thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Emphasis of Matter***

### ***Change in Accounting Principles***

As discussed in Note 1.F to the basic financial statements, effective July 1, 2014, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. Our opinions are not modified with respect to this matter.

## ***Other Matters***

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of changes in the net pension liability and related ratios, schedule of plan contributions, schedule of funding progress for OPEB, schedule of revenues – budget (GAAP basis) and actual – General Fund, schedule of expenditures by function – budget (GAAP basis) and actual – General Fund, and schedule of revenues, expenditures, and changes in fund balance – budget (GAAP basis) and actual – Housing and Community Development special revenue fund, as listed in the accompanying table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, the combining and individual fund statements and schedules, the statistical section, and the continuing disclosure section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund statements and schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory, statistical, and continuing disclosure sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated January 27, 2016 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

*Macias Gini & O'Connell LLP*

Sacramento, California

January 27, 2016

## 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, 2015. 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 2015 fiscal year by \$967,537,924 (*total net position*). Of this amount, \$141,727,801 is restricted for a specific purpose (*restricted net position*), \$905,929,963 is invested in capital assets, net of related debt and (\$80,119,840) is unrestricted (*unrestricted net position*).
- The City's total net position decreased by \$142,113,163 compared to the prior year. This decrease is attributed to the beginning net position restated by (\$199,407,557) for the implementation of GASB Statement No. 68 and 71 and adjustments related to prior year. The current year change based on fiscal year 2014-15 activity resulted in an increase in net position of \$57,294,394.
- As of June 30, 2015, the City's governmental funds reported combined fund balances of \$115,647,600, an increase of \$18,012,352 in comparison with the prior year. This increase is attributed to the beginning fund balance restated by \$11,484,568 due to adjustments related to prior year. The current year change based on fiscal year 2014-15 activity resulted in an increase in fund balance of \$6,527,784.
- Approximately 58.8% of the General fund balance of \$14,586,931 is available to meet the City's current and future needs (*General Fund unassigned fund balance*).
- At the end of the fiscal year, the General Fund balance was \$24,819,500 or 23.2% of total General Fund expenditures. Of this, \$1,341,972 is the restricted fund balances. The unassigned fund balance of \$14,586,931 represents 12.8% of total General Fund outflows. The City Council has adopted a goal of maintaining an 8% unassigned fund balance amount based on General Fund outflows.
- The City's total long-term liabilities showed a net decrease of \$36,860,387 in comparison with the prior year. This decrease was attributed to the reclassification of the net OPEB obligation from long-term liabilities to other liabilities. Overall excluding this reclassification, there was an increase in the loan payable in the amount of \$29,045,688, which represents the state revolving loan currently funding the construction of the wastewater treatment tertiary plant.

### 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 position* presents information on all City assets and liabilities, deferred outflows of resources and deferred inflow of resources, with the difference between the two reported as *net position*. Over time, increases or decreases in net position 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 position changed during the most recent fiscal year. All changes in net position 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).

## Management's Discussion and Analysis (continued)

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, Compost, Airport, Bus, Golf, Community Center and Abatement and Public Nuisance 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 or the City has operational responsibility for the entities. Examples are the Community Facilities Districts, Redevelopment Successor Agency of the City of Modesto and the Modesto Public Financing Authority.

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

**Fund Financial Statements** are groupings of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate finance-related legal compliance. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

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

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

The City reports 16 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, Capital Grants Fund and Housing and Community Development Fund. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor 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, Community Center and Abatement and Public Nuisance 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 with the exception of portions of the net OPEB obligation and compensated absences that have been included within business-type activities. The rest of internal services benefiting business-type functions have been allocated as "internal balances".

## Management's Discussion and Analysis (continued)

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 30-31 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 32-73** 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. This section also includes the schedules for net pension liability and OPEB.

**Required supplementary information can be found on pages 77-84 of this report.**

The *combining and individual fund statements and schedules* referred to earlier provide information for nonmajor governmental, enterprise and internal service funds and are presented immediately following the required supplementary information. Combining and individual fund statements and schedules can be found on **pages 88-121** of this report.

### GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$967,537,924 at the close of the most recent fiscal year.

#### Net Position (1)

	Governmental activities		Business-type activities		Total	
	2015	2014	2015	2014	2015	2014
Current and other assets	\$248,979,362	\$224,226,389	\$257,455,772	\$254,157,756	\$506,435,134	\$478,384,145
Capital assets	418,803,027	410,178,059	841,130,531	799,350,704	1,259,933,558	1,209,528,763
Total assets	667,782,389	634,404,448	1,098,586,303	1,053,508,460	1,766,368,692	1,687,912,908
Deferred outflow s of resources	23,792,551	10,276,475	40,254,775	32,384,362	64,047,326	42,660,837
Current and other liabilities	241,951,212	67,694,068	134,841,204	29,844,485	376,792,416	\$97,538,553
Long-term liabilities	91,288,243	131,437,023	346,641,048	343,352,655	437,929,291	474,789,678
Total liabilities	333,239,455	199,131,091	481,482,252	373,197,140	814,721,707	572,328,231
Deferred inflow s of resources	38,654,888	11,170,483	9,501,499	37,423,944	48,156,387	48,594,427
Net position:						
Net investment in capital assets	378,145,625	347,647,419	527,784,338	502,684,950	905,929,963	850,332,369
Restricted net position	121,105,182	77,564,677	20,622,619	22,398,957	141,727,801	99,963,634
Unrestricted net position	(179,570,210)	9,167,253	99,450,370	150,187,831	(80,119,840)	159,355,084
Total net position	\$319,680,597	\$434,379,349	\$647,857,327	\$675,271,738	\$967,537,924	\$1,109,651,087

(1) The 2014 amounts have not been restated for the adjustments to beginning net position noted on page 10.

## Management's Discussion and Analysis (continued)

The largest portion of the City's net position, \$905,929,963 (93.6 percent), reflects its investment in capital assets (e.g. land, water rights, buildings, improvements, furnishings and equipment, buses and fare boxes, pipelines, and infrastructure), less any related debt used to acquire those assets that are 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 debt and related deferred outflows and inflows, 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 position represents *unrestricted net position* of (\$80,119,840) (-8.3 percent).

The remaining balance of the City's net position of \$141,727,801 (14.6 percent) represents resources that are subject to external restrictions on how they may be used.

The City's net position decreased by \$142,113,163 during the current fiscal year was largely due to the accounting changes required by GASB Statement No. 68 for recording the net pension liability. In addition, the recording of the net position liability increased current and other liabilities by \$200,314,789 at June 30, 2015.

The long-term liabilities decrease was attributed to a \$59,569,740 reclassification of the net OPEB obligation from long-term liabilities to other liabilities.

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

Changes in Net Position (1)

	Governmental activities		Business-type activities		Total	
	2015	2014	2015	2014	2015	2014
<b>Revenues:</b>						
<b>Program revenues:</b>						
Charges for services	\$23,226,339	\$21,511,357	\$127,236,623	\$124,329,967	\$150,462,962	\$145,841,324
Operating grants and contributions	5,862,566	5,868,684	14,223,954	13,721,179	20,086,520	19,589,863
Capital grants and contributions	5,878,550	8,206,154	13,820,127	4,971,940	19,698,677	13,178,094
<b>General revenues:</b>						
Taxes	52,619,101	50,096,127	237,546	254,200	52,856,647	50,350,327
Intergovernment revenue not restricted for specific purposes	83,094,795	55,415,831	-	-	83,094,795	55,415,831
Unrestricted investment earnings	564,314	441,383	554,180	2,726,148	1,118,494	3,167,531
Settlements and recoveries	-	-	13,851	110,376	13,851	110,376
Connection fees	-	-	-	524,914	-	524,914
Miscellaneous	2,281,008	5,402,480	1,214,729	-	3,495,737	5,402,480
<b>Total revenues</b>	<b>173,526,673</b>	<b>146,942,016</b>	<b>157,301,010</b>	<b>146,638,724</b>	<b>330,827,683</b>	<b>293,580,740</b>
<b>Expenses:</b>						
General government	12,085,051	11,221,704	-	-	12,085,051	11,221,704
Community development	11,888,475	13,002,466	-	-	11,888,475	13,002,466
Highways and streets	21,269,704	21,316,315	-	-	21,269,704	21,316,315
Public works	9,810,989	3,241,135	-	-	9,810,989	3,241,135
Parks and recreation	4,641,611	11,659,816	-	-	4,641,611	11,659,816
Public safety	86,782,741	72,301,682	-	-	86,782,741	72,301,682
Interest on long-term debt	3,204,203	2,958,471	-	-	3,204,203	2,958,471
Water	-	-	54,718,239	63,498,896	54,718,239	63,498,896
Sewer	-	-	30,281,361	31,895,568	30,281,361	31,895,568
Bus	-	-	18,614,175	19,618,547	18,614,175	19,618,547
Parking	-	-	1,513,185	1,605,829	1,513,185	1,605,829
Storm drain	-	-	3,913,204	6,372,418	3,913,204	6,372,418
Compost	-	-	7,841,048	4,951,441	7,841,048	4,951,441
Airport	-	-	2,025,146	2,291,222	2,025,146	2,291,222
Golf	-	-	2,998,505	2,845,109	2,998,505	2,845,109
Community center	-	-	1,852,585	2,031,928	1,852,585	2,031,928
Abatement and Public Nuisance	-	-	93,067	31,877	93,067	31,877
<b>Total expenses</b>	<b>149,682,774</b>	<b>135,701,589</b>	<b>123,850,515</b>	<b>135,142,835</b>	<b>273,533,289</b>	<b>270,844,424</b>

## Management's Discussion and Analysis (continued)

### Changes in Net Position (cont'd) (1)

	Governmental activities		Business-type activities		Total	
	2015	2014	2015	2014	2015	2014
Increase in net position before transfers and special items	23,843,899	11,240,427	33,450,495	11,495,889	57,294,394	22,736,316
Transfers	(775,377)	(41,312)	775,377	41,317	-	5
Special item	-	-	-	(1,356,418)	-	(1,356,418)
Total transfers and special items	(775,377)	(41,312)	775,377	(1,315,101)	-	(1,356,413)
Change in net position	23,068,522	11,199,115	34,225,872	10,180,788	57,294,394	21,379,903
Net position - beginning, as previously reported	434,379,349	423,860,935	675,271,738	665,135,994	1,109,651,087	1,088,996,929
Adjustment to reimbursement agreement	17,247,750	-	-	-	17,247,750	-
Adjustment to property held for resale	(784,000)	-	(630,000)	-	(1,414,000)	-
Adjustment to capital assets	(3,402,733)	(645,506)	(5,970,727)	(569,356)	(9,373,460)	(1,214,862)
Adjustment to unearned revenue and accruals	40,371,373	(294,379)	26,037	(11,311)	40,397,410	(305,690)
Adjustment to loans payable	-	259,184	-	535,623	-	794,807
Adjustment to compensated absences	2,330,638	-	-	-	2,330,638	-
Adjustment to pollution remediation liability	-	-	(20,903,557)	-	(20,903,557)	-
Adjustment for net pension liability	(193,530,302)	-	(38,945,215)	-	(232,475,517)	-
Adjustment for reimbursement related to MID	-	-	4,783,179	-	4,783,179	-
Net position - beginning, as restated	296,612,075	423,180,234	613,631,455	665,090,950	910,243,530	1,088,271,184
Net position - ending	\$319,680,597	\$434,379,349	\$647,857,327	\$675,271,738	\$967,537,924	\$1,109,651,087

(1) The 2014 amounts have not been restated for the adjustments to beginning net position noted above.

**Governmental activities.** Governmental activities decreased the City's net position by \$114,698,752. This decrease was mainly a result of the recognition of the unfunded net pension liability due to the implementation of GASB Statement No. 68. Taxes in total increased slightly by \$2.5 million compared to 2014 due to a continuous improvement in the economy. Intergovernmental revenues increased by \$27.7 million due to an increase in state grant revenues for the new Pelandale Interchange project and other street projects compared to the prior fiscal year.

Expenses in total were higher compared to the prior year by \$13,981,185, or 10.3%, due mainly to an increase in public safety expenses. This was caused by an increase in fire expenses, which were generated by the return of operations of fire services back to the City via the dissolution of the Modesto Regional Fire Authority. Additionally, there was an increase in police expenses related to workers' compensation and employee leave reimbursements.

**Business-type activities.** Business-type activities decreased the City's net position by \$27,414,411. This decrease is attributed to the beginning net position restated for the recognition of the unfunded net pension liability due to the implementation of GASB Statement No. 68 in the amount of \$38,945,215. Additionally, a pollution remediation liability was reported for the Water and Sewer fund, which attributed to the beginning net position restated in the amount of \$20,903,557.

The Business-type activities increased the City's net position based on current year activity by \$34,225,872. This increase in the amount of \$18,809,652 was attributed to the Water and Sewer funds managing their operational revenues and expenses to ensure they meet the debt ratio requirements set by Council. The Bus Fund reported an increase in net position in the amount of \$9,395,925 due to an increase in capital contributions.

### FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

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

## Management's Discussion and Analysis (continued)

At June 30, 2015, the City's governmental funds reported combined fund balances of \$115,647,600 an increase of \$18,012,352 from the prior year. This increase is attributed to the beginning fund balance restated by \$11,484,568 due to adjustments related to prior year. The current year change resulted in an increase in fund balance of \$6,527,784. The total unassigned fund balance for the governmental funds was \$10,720,481, which includes a positive \$14,586,931, which represents the General Fund unassigned fund balance that is available to meet the City's current and future needs. The remainder of fund balance is *nonspendable, restricted, committed and assigned* to indicate that it is *not* available for new spending because certain constraints have been placed on the use of the balances.

The General Fund is the chief operating fund of the City. At June 30, 2015, unassigned fund balance of the General Fund was \$14,586,931 while total fund balance was \$24,819,500. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 13.6% of total General Fund expenditures, while total fund balance represents 23.2% of that same amount. The prior year ratios were 12.0% and 19.8%, respectively.

The Housing and Community Development fund accounts for the grants and funds received to disburse for projects developed and administered under the Housing and Community Development Act. At June 30, 2015, total fund balance was \$22,052,427, an increase of \$1,477,756 from prior year. This increase is attributed to new program income received to fund future low income project activity.

The Capital Grants fund accounts for all grants received to fund various governmental capital projects. At June 30, 2015, the total fund balance was a deficit of \$2,873,321, a decrease of \$3,706,063 from prior year. This decrease is due to the funding of various street and parks projects during the fiscal year and several grant reimbursements not meeting the period of availability.

Revenues of governmental funds totaled \$170,530,558 in fiscal year 2014-15, which represents an increase of \$24,217,847 from fiscal year 2013-14.

Expenditures of governmental funds totaled \$162,642,474 in fiscal year 2014-15, representing an increase of \$22,503,059 from fiscal year 2013-14.

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 2015		FY 2014		Increase (Decrease)	
	Amount	Percent	Amount	Percent	Amount	% Change
Taxes	\$52,619,101	30.8%	\$50,096,127	34.2%	\$2,522,974	5.0%
Licenses and permits	149,888	0.1%	174,734	0.1%	(24,846)	-14.2%
Intergovernmental	88,906,770	52.1%	67,426,885	46.1%	21,479,885	31.9%
Charges for services	22,337,357	13.1%	19,457,298	13.3%	2,880,059	14.8%
Special assessments	1,924,623	1.1%	2,063,784	1.4%	(139,161)	-6.7%
Interest and rent	957,846	0.6%	1,019,357	0.7%	(61,511)	-6.0%
Net increase (decrease) in fair value	(320,398)	-0.2%	(423,827)	-0.3%	103,429	-24.4%
Fines and forfeits	1,171,076	0.7%	1,844,607	1.3%	(673,531)	-36.5%
Miscellaneous	2,784,295	1.7%	4,653,746	3.2%	(1,869,451)	-40.2%
<b>Total</b>	<b>\$170,530,558</b>	<b>100.0%</b>	<b>\$146,312,711</b>	<b>100.0%</b>	<b>\$24,217,847</b>	<b>16.6%</b>

- Taxes – Revenues for property and business license taxes came in higher than the prior year due to an ongoing positive upturn in the economy and increased collection and compliance efforts by City staff.
- Intergovernmental – Revenues increased due to \$16.6 million state grant revenues recognized for the new Pelandale Interchange project.
- Charges for services – Revenues for charges for services increased due to the fire services returning to the City from the dissolution of the Modesto Regional Fire Authority (MRFA) effective July 1, 2014.

## Management's Discussion and Analysis (continued)

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

### Expenditures by Function – Governmental Funds

Exp by Function	FY 2015		FY 2014		Increase (Decrease)	
	Amount	Percent	Amount	Percent	Amount	% Change
General government	\$11,334,202	7.0%	\$11,643,579	8.3%	(\$309,377)	-2.7%
Community development	11,511,154	7.1%	12,589,817	9.0%	(1,078,663)	-8.6%
Highways and streets	9,672,790	5.9%	8,744,899	6.2%	927,891	10.6%
Public works	9,228,780	5.7%	3,088,701	2.2%	6,140,079	198.8%
Parks and recreation	4,212,301	2.6%	11,947,862	8.5%	(7,735,561)	-64.7%
Public safety	81,353,131	50.0%	74,595,533	53.1%	6,757,598	9.1%
Capital outlay	30,339,677	18.6%	12,901,002	9.2%	17,438,675	135.2%
Debt Service-principal retirement	1,789,335	1.1%	1,596,000	1.1%	193,335	12.1%
Debt Service-interest charges	2,417,840	1.5%	2,159,672	1.5%	258,168	12.0%
Debt Service-other	783,264	0.5%	872,350	0.6%	(89,086)	-10.2%
<b>Total</b>	<b>\$162,642,474</b>	<b>100.0%</b>	<b>\$140,139,415</b>	<b>100.0%</b>	<b>\$22,503,059</b>	<b>16.1%</b>

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

- Community development – Expenditures decreased by \$1,078,663 or 8.6% due to the organization restructuring of the Traffic division. This division in the prior year was reported under Community Development and has been restructured to Public Works.
- Parks and recreation – Expenditures decreased by \$7,735,561 or 64.7% over the prior year, due to the organization restructuring of the Housing Urban Development, building operations, community forestry, planning and development divisions. These divisions in the prior year were reported under parks and recreation and have been restructured to community development and public works.
- Public safety – Expenditures increased by \$6,757,598 or 9.1% over the prior year, due to an increase of expenses for police and fire services. These increases were attributed to fire equipment and engine purchases due to the losses of joint equipment from the dissolution of the MRFA, increased workers' compensation cost for police, information technology and police equipment and salary and benefit increase for the police department.
- Capital outlay – Expenditures increased by \$17,438,675 or 135.2% reflects the construction cost associated with the new Pelandale Interchange project.

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

	FY 2015	FY 2014	Increase/(Decrease)
			Amount
Transfers in	\$8,157,278	\$7,962,817	\$194,461
Transfers out	(10,682,539)	(11,164,994)	482,455
Capital leases	1,070,472	-	1,070,472
Sale of assets	94,489	200,838	(106,349)
Net financing (uses)	(\$1,360,300)	(\$3,001,339)	\$1,641,039

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 in/out from governmental funds for 2015 were \$(2,525,261) compared to \$(3,202,177) in the prior year. This net transfer is to various City funds including transferring funds from the General

## Management's Discussion and Analysis (continued)

Fund, Capital Facility Fee funds and the Public Financing Authority to cover the debt service payments and various transfers to cover City grant matches.

Debt transactions – A lease was issued in 2015 for the acquisition of two Pierce Velocity 1500 GPM Pumps in the amount of \$1.1 million under a capital lease agreement.

The fund balance of the City's General Fund increased by \$4,904,653 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% unassigned fund balance amount based on General Fund outflows.

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

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

	Major Funds			Nonmajor Funds	
	Water	Sewer	Bus	Other	Total
Operating revenues	\$58,844,199	\$45,236,891	\$3,424,662	\$17,817,429	\$125,323,181
Operating expenses	(50,754,851)	(29,257,850)	(19,009,074)	(20,810,085)	(119,831,860)
Operating income (loss)	8,089,348	15,979,041	(15,584,412)	(2,992,656)	5,491,321
Nonoperating revenues (expenses), net	(4,351,933)	(279,670)	13,350,945	1,608,053	10,327,395
Income (loss) before capital contributions, transfers and special items	3,737,415	15,699,371	(2,233,467)	(1,384,603)	15,818,716
Contributions, transfers and special items	(1,040,673)	413,539	11,629,392	3,593,246	14,595,504
Changes in net position	<u>\$2,696,742</u>	<u>\$16,112,910</u>	<u>\$9,395,925</u>	<u>\$2,208,643</u>	<u>\$30,414,220</u>

The Water fund did not have a CPI increase and the Sewer fund had a rate increase of 2.0% in fiscal year 2014-15. Even with the Sewer rate increases, both the Water and Sewer funds had a decline in revenue due to the drought conservation efforts in California. With the water drought, if metered rates drop, there will be a corresponding drop in sewer revenues from the City's commercial and industrial customers as part of the metered water consumed.

A pollution remediation liability was reported for the Water and Sewer fund in the amounts of \$9,592,835 and \$10,441,464 based on net recoveries the City has received from various settlements. Additional information regarding these liabilities can be found under Note II-M.

### GENERAL FUND BUDGETARY HIGHLIGHTS

Budget to actual information for the General Fund is presented as Required Supplementary Information, beginning on **page 80-81** of this report.

While the City Council amended the budget several times through the year, the differences between the original budget and the final amended budget for the General Fund were increased overall mainly due to an increase in taxes, intergovernmental revenue, and charges for services. The estimated revenues increased about \$4,914,402 while total appropriations were increased \$6,975,761. These amendments were to adjust the actual beginning balances and carryovers after closing the prior fiscal year, and to reflect adjustments to current estimates based on the periodic monitoring of revenue and expenditures throughout the year.

Revenues came in \$5,354,223 more than final estimates. Variances in Business Taxes \$574,347, Other Intergovernmental \$2,362,718, and Miscellaneous Revenue \$1,404,493 were due to an increase in collection and compliance efforts and the insurance and recovery reimbursements.

Expenditures, overall, were \$2,328,395 under budget, primarily due to efforts of departments to realize savings, and certain purchases being deferred to future periods.

## Management's Discussion and Analysis (continued)

### 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, 2015, amounted to \$1,259,933,558 (net of accumulated depreciation). The total increase in the City's investment in capital assets compared to 2014 was 4.2%.

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)	
	2015	2014	2015	2014	2015	2014	Percent Change	\$ Change
Land	\$33,123,493	\$33,658,003	\$31,102,451	\$31,102,451	\$64,225,944	\$64,760,454	-1%	(\$534,510)
Capitalized interest	-	-	14,284,878	13,341,683	14,284,878	13,341,683	7%	943,195
Buildings	15,277,849	15,956,712	42,830,095	45,370,293	58,107,944	61,327,005	-5%	(3,219,061)
Improvements	50,396,012	35,870,111	142,808,165	106,719,673	193,204,177	142,589,784	36%	50,614,393
Furnishings and equipment	3,632,117	2,628,864	4,587,762	4,216,112	8,219,879	6,844,976	20%	1,374,903
Intangible assets	4,483,709	4,827,027	23,464	32,615	4,507,173	4,859,642	-7%	(352,469)
Equipment pool	11,708,692	11,397,986	-	-	11,708,692	11,397,986	3%	310,706
Service animals	26,809	23,744	-	-	26,809	23,744	13%	3,065
Water rights	-	-	298,522,242	310,463,132	298,522,242	310,463,132	-4%	(11,940,890)
Streets	215,037,817	218,024,192	-	-	215,037,817	218,024,192	-1%	(2,986,375)
Signalization	3,702,835	1,760,044	-	-	3,702,835	1,760,044	110%	1,942,791
Bridges	20,097,532	20,621,676	-	-	20,097,532	20,621,676	-3%	(524,144)
Buses & fareboxes	-	-	12,453,248	5,057,982	12,453,248	5,057,982	146%	7,395,266
Pipelines	-	-	113,970,684	115,912,808	113,970,684	115,912,808	-2%	(1,942,124)
Construction in progress	61,316,162	65,409,700	180,547,542	167,133,955	241,863,704	232,543,655	4%	9,320,049
<b>Total</b>	<b>\$418,803,027</b>	<b>\$410,178,059</b>	<b>\$841,130,531</b>	<b>\$799,350,704</b>	<b>\$1,259,933,558</b>	<b>\$1,209,528,763</b>	<b>4%</b>	<b>\$50,404,795</b>

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

- Improvements – Some major construction projects were completed related to the Wastewater Tertiary Treatment improvements, Mary Grogan Park facility and various other primary outfall sewer improvements.
- Buses and fareboxes - Fifteen new bus purchases were made in fiscal year 2014-15.
- Furnishing and equipment – With the dissolution of MRFA, the City acquired various fire equipment based on the distribution of assets between all partner agencies.

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 **43-44** of this report.

The City had major capital commitments for contracts awarded for various construction projects. As of June 30, 2015, there were major contracts awarded for water, sewer system improvements, bus and vehicle purchases, sewer tertiary plan construction, the Pelandale interchange reconstruction, and major street and street lighting improvements throughout the City. Additional information on the City's commitments can be found in note III-D on page **62** of this report.

#### Long-term debt

At June 30, 2015, the City had total long-term liabilities outstanding of \$437,929,291 net of unamortized discounts and premiums, as compared to \$474,789,678 in the prior year. This amount was comprised of \$57,970,000 of lease revenue bonds, \$48,989,556 of certificates of participation, \$39,057,561 of revenue bonds payable, \$137,055,810 of reimbursement agreement related to Modesto Irrigation District bonds, \$8,946,081 of estimated compensated absences, \$22,530,631 of claims liability, \$118,188,619 of loans payable, \$1,331,561 of developer advances, \$1,070,472 of capital leases, and \$2,789,000 of notes payable.

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

The net OPEB obligation was reclassified from the long-term liabilities and reported as other liabilities. Overall, the long-term debt increase was mainly due to an increase in the state revolving loan and the new capital lease for the fire equipment. Additional information on the City's long-term debt can be found in Note II-C on pages 45-54 of this report.

The City maintains a current bond rating for the various bonds listed below. There were no bond rating changes during the fiscal year.

<b>BONDS</b>	<b>Moody's Rating</b>	<b>S &amp; P Rating</b>	<b>Fitch Rating</b>
1993 Golf Certificates of Participation		AA-	
Wastewater Revenue Bonds, Series 2006A	A2	AA	AA-
Wastewater Revenue Bonds, Series 2005A	A2	AA	AA-
2008 Lease Revenue Bonds		A/A-1	AA-
2008 Water Certificates of Participation	Aa3	AA-	

Modesto maintains an Employee Benefits internal service fund (EBF) to pay a portion of retiree health benefits and other employee related expenses. As of June 30, 2015, the net OPEB obligation amounts to approximately \$57 million. This contributes significantly to the Employee Benefit Fund's \$54.6 million deficit net position. Additional information on the City's EBF can be found in Notes II-H, III-F 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 ten years and serves as a measure for the growth in the cost for supplies and services used by the City. In the fiscal year ended June 30, 2015, the CPI-Western Urban Index increased by 1.0%.
- *Utility Service Charges* - Water utility rates have no scheduled rate increase for fiscal year 2015-16. The City water revenues will continue to decline due to the current drought situation affecting all California cities. For the Sewer utility rates, a planned rate increase of 3.1% was effective on July 1, 2015. This rate increase will be used to assist with covering the debt service cost related to the existing construction of our Tertiary Treatment plant.

All of these factors were considered in preparing the City's budget for fiscal year 2015-16.

During the current fiscal year, fund balance in the General Fund increased by \$4,904,653, to \$24,819,500, which represents 21.8% of total General Fund outflows which exceeds the City Council's target value of 8% unassigned fund balance amount based on General Fund outflows. The budget adopted for fiscal year 2015-16 reflects a planned reduction in the reserve level on a temporary basis, from 8% to a flat reserve amount of \$7 million. This amount is reported as part of the unassigned fund balance.

### **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 MODOSTO**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2015**

	Governmental Activities	Business-type Activities	Total
<u>ASSETS</u>			
Cash and cash equivalents	\$ 72,948,740	\$ 173,322,802	\$ 246,271,542
Accounts receivable, net	3,099,469	1,521,018	4,620,487
Interest receivable	285,214	391,404	676,618
Utility billings receivable, net	820,678	9,177,110	9,997,788
Taxes receivable	9,712,239	-	9,712,239
Due from governments, net	11,046,801	16,452,119	27,498,920
Prepaid expenses	567,552	6,762,713	7,330,265
Internal balances	334,986	(334,986)	-
Inventories	443,452	31,392	474,844
Investments in joint ventures	11,718,362	-	11,718,362
Restricted assets:			
Cash and cash equivalents	61,754,216	22,833,156	84,587,372
Cash and cash equivalents with fiscal agent	5,684,004	27,299,044	32,983,048
Accounts receivable, net	4,247	-	4,247
Interest receivable	1,109	-	1,109
Due from governments, net	246,184	-	246,184
Reimbursement agreement	16,811,300	-	16,811,300
Notes and loan receivable, net	53,500,809	-	53,500,809
Capital assets:			
Land and construction in progress	94,439,655	211,649,993	306,089,648
Other capital assets, net of accumulated depreciation	324,363,372	629,480,538	953,843,910
<b>Total assets</b>	<b>667,782,389</b>	<b>1,098,586,303</b>	<b>1,766,368,692</b>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>			
Deferred pensions	13,048,819	2,389,903	15,438,722
Loss on refunding	-	2,147,947	2,147,947
Accumulated decrease in fair value of hedging derivatives	10,743,732	35,716,925	46,460,657
<b>Total deferred outflows of resources</b>	<b>23,792,551</b>	<b>40,254,775</b>	<b>64,047,326</b>
<b>Total assets and deferred outflows of resources</b>	<b>691,574,940</b>	<b>1,138,841,078</b>	<b>1,830,416,018</b>
<u>LIABILITIES</u>			
Accounts payable	13,987,453	15,833,378	29,820,831
Accrued salaries and benefits	2,434,498	854,744	3,289,242
Approved loans payable	1,605,187	-	1,605,187
Interest payable	83,354	2,341,040	2,424,394
Due to other governments	658,810	-	658,810
Unearned revenue	3,035,394	7,073,400	10,108,794
Refundable deposits	2,913,014	2,210,537	5,123,551
Derivative instrument - interest swap	10,743,732	35,716,925	46,460,657
Pollution remediation liability	-	20,034,299	20,034,299
Net OPEB obligation	37,830,962	19,120,900	56,951,862
Net pension liability	168,658,808	31,655,981	200,314,789
Long-term liabilities:			
Due within one year	9,754,925	8,511,186	18,266,111
Due in more than one year	81,533,318	338,129,862	419,663,180
<b>Total liabilities</b>	<b>333,239,455</b>	<b>481,482,252</b>	<b>814,721,707</b>
<u>DEFERRED INFLOWS OF RESOURCES</u>			
Deferred pensions	38,654,888	9,501,499	48,156,387
<b>Total liabilities and deferred inflows of resources</b>	<b>371,894,343</b>	<b>490,983,751</b>	<b>862,878,094</b>
<u>NET POSITION</u>			
Net investment in capital assets	378,145,625	527,784,338	905,929,963
Restricted for:			
Capital projects	46,677,343	-	46,677,343
Housing and community development	53,500,809	-	53,500,809
Other purposes	20,927,030	20,622,619	41,549,649
Unrestricted	(179,570,210)	99,450,370	(80,119,840)
<b>Total net position</b>	<b>\$ 319,680,597</b>	<b>\$ 647,857,327</b>	<b>\$ 967,537,924</b>

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

**CITY OF MODESTO**  
**STATEMENT OF ACTIVITIES**  
**FISCAL YEAR ENDED JUNE 30, 2015**

	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>FUNCTIONS/PROGRAMS:</b>				
Governmental activities:				
General government	\$ 12,085,051	\$ 5,912,157	\$ -	\$ -
Community development	11,888,475	3,385,050	5,352,670	9,921
Highways and streets	21,269,704	1,744,505	-	4,962,428
Public works	9,810,989	6,621,704	-	-
Parks and recreation	4,641,611	1,344,923	-	906,201
Public safety	86,782,741	4,218,000	509,896	-
Interest on long-term debt	3,204,203	-	-	-
Total governmental activities	<u>149,682,774</u>	<u>23,226,339</u>	<u>5,862,566</u>	<u>5,878,550</u>
Business-type activities:				
Water	54,718,239	59,800,535	-	-
Sewer	30,281,361	46,193,997	-	1,326,829
Bus	18,614,175	3,424,662	13,274,993	11,627,892
Parking	1,513,185	1,239,439	-	-
Storm drain	3,913,204	5,874,349	-	-
Compost	7,841,048	7,191,145	380,305	-
Airport	2,025,146	551,373	568,656	865,406
Golf	2,998,505	2,574,496	-	-
Community center	1,852,585	257,991	-	-
Abatement and public nuisance	93,067	128,636	-	-
Total business-type activities	<u>123,850,515</u>	<u>127,236,623</u>	<u>14,223,954</u>	<u>13,820,127</u>
<b>Total</b>	<u>\$ 273,533,289</u>	<u>\$ 150,462,962</u>	<u>\$ 20,086,520</u>	<u>\$ 19,698,677</u>

General revenues:

Taxes:

  Utility users tax

  Property taxes, levied for general purposes

  Property taxes, generated by and allocated to the airport

  Transient occupancy tax

  Franchise tax

  Business license tax, levied for general purposes

  Business license tax, levied for downtown improvement district

Intergovernmental revenue:

  Sales tax (state appropriation)

  Motor vehicle license fee

  Gas tax funding

  Community facilities district fees

  Special assessments, levied

  Proceeds from Modesto Regional Fire Authority dissolution

  Other

Unrestricted investment earnings

Miscellaneous

Settlements

Transfers, net

    Total general revenues and transfers

Changes in net position

Net position, July 1

Prior year adjustments

Net position, June 30

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

Net (Expense) Revenue and  
Changes in Net Position

Governmental Activities	Business-type Activities	Total
\$ (6,172,894)	\$ -	\$ (6,172,894)
(3,140,834)	-	(3,140,834)
(14,562,771)	-	(14,562,771)
(3,189,285)	-	(3,189,285)
(2,390,487)	-	(2,390,487)
(82,054,845)	-	(82,054,845)
(3,204,203)	-	(3,204,203)
<u>(114,715,319)</u>	<u>-</u>	<u>(114,715,319)</u>
-	5,082,296	5,082,296
-	17,239,465	17,239,465
-	9,713,372	9,713,372
-	(273,746)	(273,746)
-	1,961,145	1,961,145
-	(269,598)	(269,598)
-	(39,711)	(39,711)
-	(424,009)	(424,009)
-	(1,594,594)	(1,594,594)
-	35,569	35,569
<u>-</u>	<u>31,430,189</u>	<u>31,430,189</u>
(114,715,319)	31,430,189	(83,285,130)
19,591,170	-	19,591,170
13,551,827	-	13,551,827
-	237,546	237,546
2,097,952	-	2,097,952
5,768,146	-	5,768,146
11,421,759	-	11,421,759
188,247	-	188,247
28,437,594	-	28,437,594
13,871,248	-	13,871,248
5,924,101	-	5,924,101
4,570,403	-	4,570,403
1,924,623	-	1,924,623
2,500,721	-	2,500,721
25,866,105	-	25,866,105
564,314	554,180	1,118,494
2,281,008	1,214,729	3,495,737
-	13,851	13,851
<u>(775,377)</u>	<u>775,377</u>	<u>-</u>
<u>137,783,841</u>	<u>2,795,683</u>	<u>140,579,524</u>
23,068,522	34,225,872	57,294,394
434,379,349	675,271,738	1,109,651,087
<u>(137,767,274)</u>	<u>(61,640,283)</u>	<u>(199,407,557)</u>
<u>\$ 319,680,597</u>	<u>\$ 647,857,327</u>	<u>\$ 967,537,924</u>

**CITY OF MODESTO**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**JUNE 30, 2015**

	General	Housing and Community Development	Capital Grants	Other Governmental	Total Governmental
<b>ASSETS</b>					
Cash and cash equivalents	\$ 16,890,543	\$ 1,675,071	\$ -	\$ 18,138,921	\$ 36,704,535
Receivables:					
Accounts, net	1,035,505	91,419	-	81,459	1,208,383
Interest	61,864	1,693	-	122,527	186,084
Utilities, net	819,459	-	-	1,219	820,678
Taxes	9,430,237	-	-	282,002	9,712,239
Due from governments	564,948	2,149,030	5,173,839	3,109,828	10,997,645
Due from other funds	2,450,095	-	-	-	2,450,095
Prepaid expenditures	295,426	80,504	2,197	5,356	383,483
Advances to other funds	2,475,418	-	-	-	2,475,418
Restricted assets:					
Cash and cash equivalents	1,341,972	-	-	48,878,215	50,220,187
Cash and cash equivalents with fiscal agent	-	-	-	5,488,672	5,488,672
Accounts receivable	-	-	-	4,247	4,247
Interest receivable	-	-	-	1,109	1,109
Due from governments	-	-	208,644	37,540	246,184
Notes receivable, net	-	51,219,630	-	2,281,179	53,500,809
<b>Total assets</b>	<b>\$ 35,365,467</b>	<b>\$ 55,217,347</b>	<b>\$ 5,384,680</b>	<b>\$ 78,432,274</b>	<b>\$ 174,399,768</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>					
<b>Liabilities:</b>					
Accounts payable	\$ 4,373,400	\$ 1,702,672	\$ 2,740,015	\$ 1,911,367	\$ 10,727,454
Accrued salaries and benefits	2,021,117	13,905	-	231,185	2,266,207
Accrued interest payable	-	2,969	-	1,524	4,493
Approved loans payable	-	1,030,187	-	-	1,030,187
Due to other funds	-	-	2,432,036	273	2,432,309
Due to other governments	181	4,747	1,788	652,094	658,810
Unearned revenue	198,067	50,260	-	2,787,067	3,035,394
Refundable deposits	2,896,464	-	-	16,550	2,913,014
Advances from other funds	1,056,738	-	-	1,183,220	2,239,958
<b>Total liabilities</b>	<b>10,545,967</b>	<b>2,804,740</b>	<b>5,173,839</b>	<b>6,783,280</b>	<b>25,307,826</b>
<b>Deferred inflows of resources:</b>					
Unavailable revenue	-	30,360,180	3,084,162	-	33,444,342
<b>Fund balances:</b>					
Nonspendable	2,770,844	80,504	2,197	5,356	2,858,901
Restricted	1,341,972	22,745,191	208,644	56,690,136	80,985,943
Committed	3,000,000	-	-	-	3,000,000
Assigned	3,119,753	-	-	14,962,522	18,082,275
Unassigned	14,586,931	(773,268)	(3,084,162)	(9,020)	10,720,481
<b>Total fund balances</b>	<b>24,819,500</b>	<b>22,052,427</b>	<b>(2,873,321)</b>	<b>71,648,994</b>	<b>115,647,600</b>
<b>Total liabilities, deferred inflows of resources, and fund balances</b>	<b>\$ 35,365,467</b>	<b>\$ 55,217,347</b>	<b>\$ 5,384,680</b>	<b>\$ 78,432,274</b>	<b>\$ 174,399,768</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 POSITION - GOVERNMENTAL ACTIVITIES**  
**JUNE 30, 2015**

Total fund balances - total governmental funds \$ 115,647,600

Amounts reported for governmental activities in the statement of net position 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	\$ 93,241,068	
Depreciable	141,036,176	
Accumulated depreciation on general capital assets	(72,903,831)	
Infrastructure:		
Depreciable	547,776,578	
Accumulated depreciation on infrastructure	<u>(308,938,394)</u>	400,211,597

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

Deferred in the governmental funds	\$ 33,444,342	
Reimbursement agreement with Successor Agency	16,811,300	
Investments in joint ventures	<u>11,718,362</u>	61,974,004

Derivative instruments:

Rate swaps are not reported in governmental funds.	\$ 10,743,732	
Deferred outflows of resources used to accumulate decreases in fair value of hedging derivatives also are not reported in governmental funds.	<u>(10,743,732)</u>	-

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

(9,938,851)

Deferred outflows and inflows of resources for pension items in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.

Deferred outflows of resources	\$ 12,492,226	
Deferred inflows of resources	<u>(36,442,054)</u>	(23,949,828)

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

Approved loans payable	\$ (575,000)	
Bonds payable, and other long-term debt	(223,614,177)	
Accrued interest	<u>(74,748)</u>	<u>(224,263,925)</u>

Net position of governmental activities \$ 319,680,597

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

**CITY OF MODESTO**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - GOVERNMENTAL FUNDS**  
**FISCAL YEAR ENDED JUNE 30, 2015**

	General	Housing and Community Development	Capital Grants	Other Governmental	Total Governmental
<b>REVENUES:</b>					
Taxes	\$ 51,304,920	\$ -	\$ -	\$ 1,314,181	\$ 52,619,101
Licenses and permits	86,411	-	-	63,477	149,888
Intergovernmental	48,402,900	4,815,311	16,206,453	19,482,106	88,906,770
Charges for services	13,713,961	139,782	-	8,483,614	22,337,357
Special assessments levied	-	-	-	1,924,623	1,924,623
Interest and rent	409,712	378	-	547,756	957,846
Net decrease in fair value of investments	(53,513)	(71,656)	-	(195,229)	(320,398)
Fines and forfeits	653,339	-	-	517,737	1,171,076
Miscellaneous	2,405,670	5,408	-	373,217	2,784,295
Total revenues	<u>116,923,400</u>	<u>4,889,223</u>	<u>16,206,453</u>	<u>32,511,482</u>	<u>170,530,558</u>
<b>EXPENDITURES:</b>					
Current:					
General government	11,097,922	-	-	236,280	11,334,202
Community development	5,350,654	2,080,863	-	4,079,637	11,511,154
Highways and streets	-	-	223,642	9,449,148	9,672,790
Public works	5,531,620	-	4,231	3,692,929	9,228,780
Parks and recreation	3,185,561	-	-	1,026,740	4,212,301
Public safety	80,172,237	-	-	1,180,894	81,353,131
Capital outlay	1,624,260	-	19,941,218	8,774,199	30,339,677
Debt service:					
Principal retirement	73,335	211,000	-	1,505,000	1,789,335
Interest	-	252,462	-	2,165,378	2,417,840
Other	-	10,702	-	772,562	783,264
Total expenditures	<u>107,035,589</u>	<u>2,555,027</u>	<u>20,169,091</u>	<u>32,882,767</u>	<u>162,642,474</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>9,887,811</u>	<u>2,334,196</u>	<u>(3,962,638)</u>	<u>(371,285)</u>	<u>7,888,084</u>
<b>OTHER FINANCING SOURCES (USES):</b>					
Transfers in	1,009,392	-	255,506	6,892,380	8,157,278
Transfers out	(7,004,745)	(51,003)	-	(3,626,791)	(10,682,539)
Capital leases	1,070,472	-	-	-	1,070,472
Sale of assets	53,339	-	-	41,150	94,489
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>(4,871,542)</u>	<u>(51,003)</u>	<u>255,506</u>	<u>3,306,739</u>	<u>(1,360,300)</u>
<b>CHANGES IN FUND BALANCES</b>	5,016,269	2,283,193	(3,707,132)	2,935,454	6,527,784
<b>FUND BALANCES, JULY 1</b>	19,914,847	20,574,671	832,742	56,312,988	97,635,248
<b>PRIOR PERIOD ADJUSTMENTS</b>	<u>(111,616)</u>	<u>(805,437)</u>	<u>1,069</u>	<u>12,400,552</u>	<u>11,484,568</u>
<b>FUND BALANCES, JUNE 30</b>	<u>\$ 24,819,500</u>	<u>\$ 22,052,427</u>	<u>\$ (2,873,321)</u>	<u>\$ 71,648,994</u>	<u>\$ 115,647,600</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**  
**FISCAL YEAR ENDED JUNE 30, 2015**

Net change in fund balances - total governmental funds \$ 6,527,784

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	\$ 30,339,677	
Depreciation expense	<u>(16,502,562)</u>	13,837,115

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 position differs from the change in fund balances by the cost of the assets sold.

(597,776)

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

Change in unearned revenues	\$ 4,008,986	
Change in investments in joint ventures	<u>(323,603)</u>	3,685,383

Recognition of Successor Agency annual payment for their Reimbursement Agreement receivable associated with long-term debt.

(436,450)

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 position.

Principal retirement	\$ 1,789,335	
Proceeds of long-term debt	<u>(1,070,472)</u>	718,863

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	\$ (3,097)	
Pension expense associated with net pension liability	<u>(775,946)</u>	(779,043)

Revenues in the governmental funds provide current financial resources which are not reported as revenue with the governmental activities.

Principal income associated with housing loans		325,569
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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.

(212,923)

Change in net position of governmental activities	\$	<u><u>23,068,522</u></u>
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The notes to basic financial statements are an integral part of this statement.

**CITY OF MODESTO**  
**STATEMENT OF NET POSITION - PROPRIETARY FUNDS**  
**JUNE 30, 2015**

	Enterprise					
	Water	Sewer	Bus	Other Enterprise	Total Enterprise	Internal Service
<b>ASSETS</b>						
Current assets:						
Cash and cash equivalents	\$ 77,514,253	\$ 70,326,540	\$ 8,665,580	\$ 16,816,429	\$ 173,322,802	\$ 36,244,205
Receivables:						
Accounts, net	26,519	17,661	9,834	1,467,004	1,521,018	1,891,086
Interest	175,332	159,447	22,899	33,726	391,404	99,130
Utilities, net	5,057,619	3,552,318	-	567,173	9,177,110	-
Prepaid expenses	6,723,461	21,896	-	17,356	6,762,713	184,069
Due from governments	-	6,566,942	9,016,320	868,857	16,452,119	49,156
Inventories	-	-	-	31,392	31,392	443,452
Total current assets	<u>89,497,184</u>	<u>80,644,804</u>	<u>17,714,633</u>	<u>19,801,937</u>	<u>207,658,558</u>	<u>38,911,098</u>
Noncurrent assets:						
Advances to other funds	232,506	957,600	-	-	1,190,106	856,738
Restricted cash and cash equivalents	10,448,786	12,384,370	-	-	22,833,156	11,534,029
Restricted cash and cash equivalents with fiscal agent	23,222,307	3,471,975	-	604,762	27,299,044	195,332
Land and construction in progress	38,578,934	154,124,513	7,734,731	11,211,815	211,649,993	1,198,587
Other capital assets, net of accumulated depreciation	407,618,812	153,539,663	33,562,636	34,759,427	629,480,538	17,392,843
Total noncurrent assets	<u>480,101,345</u>	<u>324,478,121</u>	<u>41,297,367</u>	<u>46,576,004</u>	<u>892,452,837</u>	<u>31,177,529</u>
Total assets	<u>569,598,529</u>	<u>405,122,925</u>	<u>59,012,000</u>	<u>66,377,941</u>	<u>1,100,111,395</u>	<u>70,088,627</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>						
Deferred pensions	898,054	861,209	143,374	487,266	2,389,903	556,593
Loss on refunding	499,627	1,648,320	-	-	2,147,947	-
Accumulated decrease in fair value of hedging derivatives	35,716,925	-	-	-	35,716,925	-
Total deferred outflows of resources	<u>37,114,606</u>	<u>2,509,529</u>	<u>143,374</u>	<u>487,266</u>	<u>40,254,775</u>	<u>556,593</u>
Total assets and deferred outflows of resources	<u>\$ 606,713,135</u>	<u>\$ 407,632,454</u>	<u>\$ 59,155,374</u>	<u>\$ 66,865,207</u>	<u>\$ 1,140,366,170</u>	<u>\$ 70,645,220</u>
<b>LIABILITIES</b>						
Current liabilities:						
Accounts payable	\$ 2,769,894	\$ 3,647,111	\$ 8,380,968	\$ 1,035,405	\$ 15,833,378	\$ 3,259,999
Accrued salaries and benefits	307,724	285,993	49,372	211,655	854,744	168,291
Interest payable	2,000,342	301,129	8,069	31,500	2,341,040	4,113
Due to other funds	-	-	-	17,786	17,786	-
Current portion - compensated absences	-	-	-	-	-	3,150,067
Current portion - claims liability	-	-	-	-	-	4,754,729
Current portion - long-term debt	4,604,213	2,602,858	-	325,000	7,532,071	-
Current portion - developer advances	93,112	-	-	-	93,112	-
Unearned revenue	-	-	6,496,071	577,329	7,073,400	-
Total current liabilities	<u>9,775,285</u>	<u>6,837,091</u>	<u>14,934,480</u>	<u>2,198,675</u>	<u>33,745,531</u>	<u>11,337,199</u>
Noncurrent liabilities:						
Payable from restricted assets - refundable deposits	1,257,465	953,072	-	-	2,210,537	-
Advances from other funds	-	-	-	2,282,304	2,282,304	-
Compensated absences	-	-	-	-	-	5,796,014
Claims liability	-	-	-	-	-	17,775,902
Derivative instrument - interest swap	35,716,925	-	-	-	35,716,925	-
Pollution remediation liability	9,592,835	10,441,464	-	-	20,034,299	-
Net OPEB obligation	-	-	-	-	-	56,951,862
Net pension liability	11,895,370	11,407,333	1,899,090	6,454,188	31,655,981	7,372,465
Long-term debt:						
Reimbursement agreement related to MID debt	132,945,810	-	-	-	132,945,810	-
Revenue bonds payable	-	36,787,561	-	-	36,787,561	-
Loans payable	476,079	116,727,107	-	-	117,203,186	-
Certificates of participation	45,064,556	-	-	3,260,000	48,324,556	-
Developer advances	1,238,449	-	-	-	1,238,449	-
Total noncurrent liabilities	<u>238,187,489</u>	<u>176,316,537</u>	<u>1,899,090</u>	<u>11,996,492</u>	<u>428,399,608</u>	<u>87,896,243</u>
Total liabilities	<u>247,962,774</u>	<u>183,153,628</u>	<u>16,833,570</u>	<u>14,195,167</u>	<u>462,145,139</u>	<u>99,233,442</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>						
Deferred pensions	3,570,379	3,423,895	570,009	1,937,216	9,501,499	2,212,834
<b>NET POSITION</b>						
Net investment in capital assets:						
Restricted	286,829,022	156,666,945	41,297,367	42,991,004	527,784,338	18,591,430
Unrestricted	9,191,321	11,431,298	-	-	20,622,619	11,534,029
Total net position	<u>59,159,639</u>	<u>52,956,688</u>	<u>454,428</u>	<u>7,741,820</u>	<u>120,312,575</u>	<u>(60,926,515)</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 606,713,135</u>	<u>\$ 407,632,454</u>	<u>\$ 59,155,374</u>	<u>\$ 66,865,207</u>		<u>\$ 70,645,220</u>
Adjustment to reflect the consolidation of internal service fund activities					(20,862,205)	
Net position of business-type activities					\$ 647,857,327	

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 POSITION - PROPRIETARY FUNDS**  
**FISCAL YEAR ENDED JUNE 30, 2015**

	Enterprise				Total Enterprise	Internal Service
	Water	Sewer	Bus	Other Enterprise		
<b>OPERATING REVENUES:</b>						
Charges for services	\$ 58,587,119	\$ 45,213,169	\$ 3,093,783	\$ 17,778,892	\$ 124,672,963	\$ 45,455,094
Sales	-	-	-	-	-	3,501,080
Miscellaneous	257,080	23,722	330,879	38,537	650,218	-
Total operating revenues	<u>58,844,199</u>	<u>45,236,891</u>	<u>3,424,662</u>	<u>17,817,429</u>	<u>125,323,181</u>	<u>48,956,174</u>
<b>OPERATING EXPENSES:</b>						
Salaries and wages	7,809,839	6,707,694	1,108,778	4,446,498	20,072,809	4,143,617
Cost of sales	-	-	-	-	-	2,947,388
Contractual services	6,899,276	3,378,493	12,192,635	4,387,851	26,858,255	4,074,518
Utilities	2,770,860	1,700,806	134,683	574,133	5,180,482	245,039
Maintenance and supplies	2,588,808	2,900,094	1,627,433	3,527,888	10,644,223	2,868,549
Water purchases	7,891,502	-	-	-	7,891,502	-
Insurance	186,635	537,225	21,627	386,778	1,132,265	16,405,720
Claims	-	-	-	-	-	5,668,065
Employee benefits	2,571,296	2,672,183	434,279	1,693,628	7,371,386	3,062,125
Administration services	1,516,688	2,199,172	984,966	2,707,709	7,408,535	1,825,426
Allocated indirect administrative costs	1,193,286	615,916	244,305	389,213	2,442,720	269,379
Depreciation	17,326,661	8,546,267	2,260,368	2,696,387	30,829,683	3,469,742
Total operating expenses	<u>50,754,851</u>	<u>29,257,850</u>	<u>19,009,074</u>	<u>20,810,085</u>	<u>119,831,860</u>	<u>44,979,568</u>
<b>OPERATING INCOME (LOSS)</b>	<u>8,089,348</u>	<u>15,979,041</u>	<u>(15,584,412)</u>	<u>(2,992,656)</u>	<u>5,491,321</u>	<u>3,976,606</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>						
Operating grants	-	-	13,274,993	948,961	14,223,954	-
Loss on Modesto Regional Fire Agency dissolution	-	-	-	-	-	(2,443,359)
Gain on disposition of capital assets	15,119	15,192	-	40,865	71,176	34,701
Tax revenue	-	-	-	237,546	237,546	-
Tax expense	(88,603)	(138,980)	-	(21,382)	(248,965)	-
Interest income	415,115	557,692	9,757	54,066	1,036,630	391,597
Net decrease in fair value of investments	(293,697)	(123,393)	(25,022)	(40,338)	(482,450)	(141,128)
Connection fees	956,336	957,106	-	-	1,913,442	-
Rental income	44,543	501,959	91,217	577,010	1,214,729	-
Settlements and recoveries	-	13,851	-	-	13,851	-
Interest expense	(5,957,300)	(2,047,224)	-	(185,725)	(8,190,249)	-
Trustee fees	(154)	(2,050)	-	(2,950)	(5,154)	-
Amortization of discount, premium and refunding	556,708	(13,823)	-	-	542,885	-
Total nonoperating revenues (expenses)	<u>(4,351,933)</u>	<u>(279,670)</u>	<u>13,350,945</u>	<u>1,608,053</u>	<u>10,327,395</u>	<u>(2,158,189)</u>
<b>INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS</b>	<u>3,737,415</u>	<u>15,699,371</u>	<u>(2,233,467)</u>	<u>(1,384,603)</u>	<u>15,818,716</u>	<u>1,818,417</u>
Capital contributions	-	1,326,829	11,627,892	865,406	13,820,127	30,428
Transfers in	279,954	248,264	1,500	3,099,232	3,628,950	2,040,977
Transfers out	<u>(1,320,627)</u>	<u>(1,161,554)</u>	<u>-</u>	<u>(371,392)</u>	<u>(2,853,573)</u>	<u>(291,093)</u>
<b>CHANGES IN NET POSITION</b>	<u>2,696,742</u>	<u>16,112,910</u>	<u>9,395,925</u>	<u>2,208,643</u>	<u>30,414,220</u>	<u>3,598,729</u>
<b>NET POSITION, JULY 1</b>	<u>373,295,943</u>	<u>235,368,680</u>	<u>33,979,661</u>	<u>57,301,311</u>		<u>(27,193,222)</u>
<b>PRIOR YEAR ADJUSTMENTS</b>	<u>(20,812,703)</u>	<u>(30,426,659)</u>	<u>(1,623,791)</u>	<u>(8,777,130)</u>		<u>(7,206,563)</u>
<b>NET POSITION, JUNE 30</b>	<u>\$ 355,179,982</u>	<u>\$ 221,054,931</u>	<u>\$ 41,751,795</u>	<u>\$ 50,732,824</u>		<u>\$ (30,801,056)</u>
Adjustment to reflect the consolidation of internal service funds					<u>3,811,652</u>	
Change in net position of business-type activities					<u>\$ 34,225,872</u>	

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

**CITY OF MODESTO**  
**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS**  
**FISCAL YEAR ENDED JUNE 30, 2015**

	Enterprise					Internal Service
	Water	Sewer	Bus	Other Enterprise	Total Enterprise	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>						
Receipts from customers and users	\$ 60,182,024	\$ 59,504,597	\$ 3,578,276	\$ 18,141,426	\$ 141,406,323	\$ 5,398,251
Receipts from interfund services provided	55,135	586,813	-	15,810	657,758	43,769,529
Payments to suppliers	(21,427,859)	(12,189,341)	(6,785,100)	(5,479,111)	(45,881,411)	(24,181,906)
Payment of insurance claims	-	-	-	-	-	(8,108,477)
Payments to employees	(10,364,954)	(9,380,212)	(1,533,150)	(6,053,899)	(27,332,215)	(9,004,959)
Payments for interfund services used	(6,263,818)	(5,598,642)	(2,106,766)	(6,493,465)	(20,462,691)	(3,084,206)
Net cash provided (used) by operating activities	<u>22,180,528</u>	<u>32,923,215</u>	<u>(6,846,740)</u>	<u>130,761</u>	<u>48,387,764</u>	<u>4,788,232</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>						
Operating grants received	-	-	11,411,483	358,382	11,769,865	-
Taxes received	-	-	-	237,546	237,546	-
Settlements and recoveries	-	13,851	-	-	13,851	-
Interest paid	-	-	-	-	-	(1,620)
Transfers in	279,954	248,264	1,500	3,099,232	3,628,950	2,040,977
Transfers out	(1,320,627)	(1,161,554)	-	(371,392)	(2,853,573)	(291,093)
Advances from other funds	60,846	34,200	-	-	95,046	-
Advances to other funds	-	-	-	(34,200)	(34,200)	-
Proceeds from Modesto Regional Fire Agency dissolution	-	-	-	-	-	1,359,023
Net cash provided (used) by noncapital financing activities	<u>(979,827)</u>	<u>(865,239)</u>	<u>11,412,983</u>	<u>3,289,568</u>	<u>12,857,485</u>	<u>3,107,287</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>						
Acquisition and construction of capital assets	(14,608,049)	(49,213,222)	(11,629,286)	(1,155,337)	(76,605,894)	(2,297,782)
Proceeds from sale of capital assets	15,119	44,258	-	64,194	123,571	74,379
Proceeds of debt issues	-	29,045,688	-	-	29,045,688	-
Principal repayments	(4,680,946)	(2,160,000)	-	(310,000)	(7,150,946)	(183,610)
Interest paid	(8,027,877)	(1,990,322)	-	(192,020)	(10,210,219)	-
Trustee fees	(154)	(2,050)	-	(2,950)	(5,154)	-
Capital contributions	-	1,326,829	5,288,320	969,398	7,584,547	30,428
Connection fees for capital purposes	956,336	957,106	-	-	1,913,442	-
Net cash used by capital and related financing activities	<u>(26,345,571)</u>	<u>(21,991,713)</u>	<u>(6,340,966)</u>	<u>(626,715)</u>	<u>(55,304,965)</u>	<u>(2,376,585)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>						
Interest received	402,567	518,587	49,732	44,692	1,015,578	336,492
Net decrease in the fair value of investments	(293,697)	(123,393)	(25,022)	(40,338)	(482,450)	(141,128)
Net cash provided (used) by investing activities	<u>108,870</u>	<u>395,194</u>	<u>24,710</u>	<u>4,354</u>	<u>533,128</u>	<u>195,364</u>
Net increase (decrease) in cash and cash equivalents	(5,036,000)	10,461,457	(1,750,013)	2,797,968	6,473,412	5,714,298
CASH AND CASH EQUIVALENTS, JULY 1	<u>116,221,346</u>	<u>75,721,428</u>	<u>10,415,593</u>	<u>14,623,223</u>	<u>216,981,590</u>	<u>42,259,268</u>
CASH AND CASH EQUIVALENTS, JUNE 30	<u>\$ 111,185,346</u>	<u>\$ 86,182,885</u>	<u>\$ 8,665,580</u>	<u>\$ 17,421,191</u>	<u>\$ 223,455,002</u>	<u>\$ 47,973,566</u>
<b>RECONCILIATION TO STATEMENT OF NET POSITION:</b>						
Cash and cash equivalents	\$ 77,514,253	\$ 70,326,540	\$ 8,665,580	\$ 16,816,429	\$ 173,322,802	\$ 36,244,205
Restricted cash and cash equivalents	10,448,786	12,384,370	-	-	22,833,156	11,534,029
Restricted cash and cash equivalents with fiscal agent	<u>23,222,307</u>	<u>3,471,975</u>	<u>-</u>	<u>604,762</u>	<u>27,299,044</u>	<u>195,332</u>
TOTAL CASH AND CASH EQUIVALENTS	<u>\$ 111,185,346</u>	<u>\$ 86,182,885</u>	<u>\$ 8,665,580</u>	<u>\$ 17,421,191</u>	<u>\$ 223,455,002</u>	<u>\$ 47,973,566</u>

(continued)

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

**CITY OF MODESTO**  
**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS (Continued)**  
**FISCAL YEAR ENDED JUNE 30, 2015**

	Enterprise				Total Enterprise	Internal Service
	Water	Sewer	Bus	Other Enterprise		
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:						
Operating income (loss)	\$ 8,089,348	\$ 15,979,041	\$ (15,584,412)	\$ (2,992,656)	\$ 5,491,321	\$ 3,976,606
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:						
Depreciation	17,326,661	8,546,267	2,260,368	2,696,387	30,829,683	3,469,742
Rental income	44,543	501,959	91,217	577,010	1,214,729	-
Taxes paid	(88,603)	(138,980)	-	(21,382)	(248,965)	-
Change in assets, liabilities, and deferred resources:						
(Increase) decrease in accounts receivable	(22,467)	(12,603)	36,318	(836,861)	(835,613)	123,026
Decrease in utilities receivable	1,250,494	293,146	-	140,743	1,684,383	-
Decrease in due from governments	24,993	13,986,434	-	-	14,011,427	79,944
(Increase) decrease in prepaid expenses	(2,252,194)	(12,621)	-	(13,317)	(2,278,132)	173,255
(Increase) decrease in inventories	-	-	-	7,313	7,313	(48,088)
Increase (decrease) in accounts payable	(1,907,879)	(5,831,364)	6,339,862	655,807	(743,574)	1,222,813
Increase in accrued salaries and benefits	82,933	63,677	20,563	124,976	292,149	38,572
Decrease in compensated absences	-	-	-	-	-	822,280
Decrease in net OPEB obligation	-	-	-	-	-	(2,617,878)
Decrease in net pension liability and deferred resources	(66,752)	(64,012)	(10,656)	(36,218)	(177,638)	(41,370)
Decrease in claims liability	-	-	-	-	-	(2,410,670)
Decrease in pollution remediation liability	(395,946)	(473,312)	-	-	(869,258)	-
Decrease in due to other funds	-	-	-	(631,425)	(631,425)	-
Increase (decrease) in unearned revenue	(922)	-	-	460,384	459,462	-
Increase in refundable deposits	96,319	85,583	-	-	181,902	-
Total adjustments	<u>14,091,180</u>	<u>16,944,174</u>	<u>8,737,672</u>	<u>3,123,417</u>	<u>42,896,443</u>	<u>811,626</u>
Net cash provided (used) by operating activities	<u>\$ 22,180,528</u>	<u>\$ 32,923,215</u>	<u>\$ (6,846,740)</u>	<u>\$ 130,761</u>	<u>\$ 48,387,764</u>	<u>\$ 4,788,232</u>
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:						
Capitalized interest	\$ 2,026,738	\$ -	\$ -	\$ -	\$ 2,026,738	\$ -

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

**CITY OF MODESTO**  
**STATEMENT OF FIDUCIARY NET POSITION -FIDUCIARY FUNDS**  
**JUNE 30, 2015**

	Private-Purpose Trust	Agency
	<u>                    </u>	<u>                    </u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 1,729,743	\$ 3,829,230
Cash and cash equivalents held with fiscal agent	1,977,050	2,943,558
Interest receivable	3,394	-
Other assets	529,686	-
Capital assets, net of accumulated depreciation	845,682	-
Total assets	<u>5,085,555</u>	<u>\$ 6,772,788</u>
<u>LIABILITIES</u>		
Due to special district bondholders	-	\$ 3,372,033
Deposits held as agent for others	-	3,400,755
Other payables	42,120	-
Due to other agencies	1,192,004	-
Loans payable:		
Due within one year	2,227,850	-
Due in more than one year	27,223,450	-
Total liabilities	<u>30,685,424</u>	<u>\$ 6,772,788</u>
<u>NET POSITION</u>		
Net position held in trust	<u>\$ (25,599,869)</u>	

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

**CITY OF MODESTO**  
**STATEMENT OF CHANGE IN FIDUCIARY NET POSITION - FIDUCIARY FUND**  
**FISCAL YEAR ENDED JUNE 30, 2015**

	Private-Purpose Trust
<b>ADDITIONS:</b>	
Redevelopment Agency Property Tax Trust Fund	\$ 4,026,927
Interest and Investment Revenue:	
Use of money and property	367,859
Total additions	4,394,786
<b>DEDUCTIONS:</b>	
Distribution of property taxes to other taxing entities	935,793
Obligation retirements:	
Interest on note payable	651,368
Administrative expenses:	
City administrative expenses	172,422
Depreciation expense	55,614
Total administrative expenses	228,036
Total deductions	1,815,197
Change in net position	2,579,589
Net position held in trust, July 1	(10,931,708)
Prior year adjustment	(17,247,750)
Net position held in trust, June 30	\$ (25,599,869)

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

**CITY OF MODESTO  
NOTES TO BASIC FINANCIAL STATEMENTS  
FISCAL YEAR ENDED JUNE 30, 2015**

**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 (fire and police), highways and streets, drinking water, wastewater collection and treatment, storm drainage, public transit, recreation, 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 MPFA (Modesto Public Financing Authority) was established as a separate legal entity whose sole purpose is to provide financing for various City capital projects.
2. 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.

The Redevelopment Successor Agency (Successor Agency) operates under the auspices of a legislatively formed Oversight Board comprised of representatives of the local agencies that serve the development project area. The Oversight Board, in its fiduciary capacity, has authority over the operations and the timely dissolution of the former Redevelopment Agency (RDA). It is tasked with fulfilling the obligations of the former RDA, and is also responsible for revenue collection, maintaining necessary loan reserves and disposing of excess property. This agency is reported as a private-purpose trust fund based on the generally accepted accounting standards requirement.

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 and operational responsibility. There is an operational responsibility for the City related to these component units and for the MPFA it provides services solely for the City. 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 position 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 segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund statements. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Agency funds have no measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

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

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

The City reports the following major governmental funds:

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

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

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

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-purpose Trust Fund accounts as the fiduciary fund type used by the City to report trust arrangements under which principal and income benefit other governments. The fund reports the assets, liabilities, and net position of the Successor Agency.

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.

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

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

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

#### D. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION/FUND BALANCE

##### 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 position 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 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 position. 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 position. The Employee Benefits Management Fund collects funds which are restricted for future payouts for leave balances due to employees who terminate or retire from the City as well as any severance payouts. These assets are restricted due to management's designation of assets for

future payments for employee uses.

### 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 and prepaid items are offset by a nonspendable fund balance 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 inflow of resources. The corresponding proprietary fund revenues are recorded as nonoperating revenues when the receivables are recorded. Some grant and entitlement revenues are not susceptible to accrual, in which case the corresponding revenues are recorded when received. The total amount due from governments for grants, entitlements, and shared receivables and revenues at June 30, 2015 is \$27,498,920.

Utility service accounts receivable are \$9,997,788 net of an allowance for doubtful collections and include unbilled receivables using actual amounts billed in July for June services for all City funds. City accounts receivable of \$4,620,487 are reported net of an 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 governmental and proprietary funds are stated at average cost.

### 5. Capital Assets

Capital assets, which include property, plant and equipment, intangible assets and infrastructure assets (e.g., streets, 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 one year. 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 and enterprise funds are 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 of tax-exempted debt over the same period. During the fiscal year ended June 30, 2015, \$2,026,738 net interest expense on tax-exempt debt of the City's Water fund, was capitalized.

Depreciation is recorded using the straight line method over the estimated useful lives of the assets, which are 75 years for pipelines, 30 years for buildings, 20 years for improvements, 12 years for buses, 10 years for furnishings and equipment, 2 to 10 years for vehicles, 5 to 15 years for intangible assets, 30 to 50 years for streets, 20 years for signalization, and 50 years for bridges. Operating expenses include depreciation on all depreciable capital assets.

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

#### 6. Deferred Outflows and Inflows of Resources

The Governmental Accounting Standards Board (GASB) establishes criteria for recognizing deferred outflows and inflows of resources. A deferred outflow of resources is defined as a consumption of net position by the government that is applicable to a future reporting period. A deferred inflow of resources is defined as an acquisition of net position by the government that is applicable to a future reporting period. Refer to Note II. N for a detail listing of the deferred outflows and inflows of resources the City has recognized.

#### 7. 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 GASB 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, 2015, the total estimated liability for all compensated absences, including vacation and sick leave, is \$8,946,081.

#### 8. Fund Equity

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

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

used only if expenditures incurred for specific purposes exceed the amounts restricted, committed or assigned to those purposes.

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

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

#### 9. Fund Balance Policy

The City believes that sound financial management principles require that sufficient funds be retained by the City to provide a stable financial base at all times. To retain this stable financial base, the City needs to maintain unrestricted fund balance in its City funds sufficient to fund cash flows of the City and to provide financial reserves for unanticipated expenditures and/or revenue shortfalls of an emergency nature. Committed, assigned and unassigned fund balances are considered unrestricted.

The purpose of the City's fund balance policy is to maintain a prudent level of financial resources to protect against reducing service levels or raising taxes and fees because of temporary revenue shortfalls or unpredicted one-time expenditures.

The City has adopted a policy to achieve and maintain unrestricted fund balance in the General Fund of a flat \$7 million for fiscal year 2014-2015.

### 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 a reasonable period of time.

#### 2. Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the California Public Employees' Retirement System (CalPERS) Safety (police and fire) and Miscellaneous (all other) Plans and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, the benefit payments (including refunds of employee contributions) are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value. GASB 68 requires that the reported results must pertain to the liability and asset information within certain defined timeframes. For this report, the following:

Valuation Date: June 30, 2013  
Measurement Date: June 30, 2014  
Measurement Period: July 1, 2013 to June 30, 2014

#### 3. Interfund Transactions

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

## F. NEW ACCOUNTING STANDARDS

During the fiscal year ended June 30, 2015, the City implemented the following GASB standards:

**GASB Statement No. 68** – *Accounting and Financial Reporting for Pensions- an amendment of GASB Statement No. 27.* The provisions of GASB Statement No. 68 are effective for financial statements beginning after June 15, 2014. The City implemented this change for the fiscal year ended June 30, 2015. Additional information is available under Note III-G and III-H.

**GASB Statement No. 69** – *Government Combinations and Disposals of Government Operations* – The provisions of this statement are effective for financial statements for periods beginning after December 15, 2013. The City implemented this statement and has determined this statement has no effect to the City's financial statements.

**GASB Statement No. 71** – *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68.* The provision of this statement was applied simultaneously with the provisions of GASB Statement No. 68. Additional information is available under Note III-G and III-H.

## 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 position as "cash and cash equivalents." Each fund is allocated interest on average monthly cash balances held by the funds throughout the year. Certain deposits held in trust are displayed on the governmental funds balance sheet and the proprietary funds statement of net position 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.

Total City cash and investments are reported as follows:

Primary government:	
Cash and cash equivalents	\$246,271,542
Restricted cash and cash equivalents	84,587,372
Restricted cash and cash equivalents with fiscal agent	32,983,048
Successor Agency Private-Purpose Trust Fund:	
Cash and cash equivalents	1,729,743
Cash and cash equivalents held with fiscal agent	1,977,050
Agency funds:	
Cash and cash equivalents	3,829,230
Cash and cash equivalents held with fiscal agent	<u>2,943,558</u>
Total cash and investments	<u>\$374,321,543</u>

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

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

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Minimum Credit Quality</u>	<u>Maximum Percentage Of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
Local Agency Bonds	5 years	None	None	None
Treasury Obligations	5 years	None	None	None
State Obligations	5 years	A Rating	None	None
CA Local Agency Obligations	5 years	A Rating	None	None
Federal Agencies	5 years	None	None	None
Banker's Acceptances	180 days	Federal Reserve Eligible A1/P1	40%	5%
Commercial Paper	270 days	Rating	25%	5%
Negotiable Certificates of Deposit	5 years	A Rating	30%	5%
Certificates of Deposit	1 year	FDIC insured or collateralized	20%	5%
Repurchase Agreements	90 days	None	None	5%
Reverse Repurchase Agreements	92 days	None	20% of combined base value	5%
Medium Term Notes	5 years	A Rating	30%	5%
Money Market Mutual Funds	N/A	Multiple	15%	10%
Mortgage and Asset-backed Securities	5 years	AA Rating	20%	5%
CAMP	N/A	N/A	None	None
LAIF	N/A	N/A	N/A	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. Security types prohibited include, but are not limited to: Investments in inverse floaters, range notes, or interest only strips that are derived from a pool of mortgages. At June 30, 2015, the fair value approximated the City's cost. At June 30, 2015, these investments range from a maximum maturity of 5 years to some maturity limits of 180 days or less. The City reports its investments in CAMP at the fair value amounts provided by CAMP.

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.

Custodial Credit Risk – Deposits

The 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 deposits, or will not be able to recover collateral securities that are in the possession of an outside party. The City does not, currently, have a Custodial Credit Risk – Deposits Policy. 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.

As of June 30, 2015, the City had deposit balances of \$21,251,305. Of this amount, the FDIC insurance coverage was \$500,000 (\$250,000 for time and savings account and \$250,000 for demand account). The remainders of their balances were collateralized as part of the California Local Agency Pool Program. The securities serving as collateral are pooled, held by a third party custodian and monitored by the state.

On June 30, 2015, the total deposit balances at Bank of America, from California Local Agency Pool Program participants, were \$3,093,987,746 of which \$110,368,066 were FDIC insured. The remaining uninsured balances, \$2,983,619,680, were collateralized by securities pledged by Bank of America that had a market value of \$4,414,888,662. This results in collateral margin coverage of 148%, far in excess of the 110% required by the California Government Code.

Custodial Credit Risk – Investments

The Custodial Credit Risk for Investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, the City will not be able to recover the value of investment or collateral securities that are in the possession of an outside 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.

The City's investments consist of pooled investments, dedicated investments, and other funds held by trustees. The dedicated investment funds represent restricted funds and relate to bond proceeds of the Water and Wastewater Enterprise Funds, assessment districts (reported under Agency Funds) and the Successor Agency. The other funds held by trustees are made either in accordance with bond covenants and are pledged for payment of principal, interest, and specified capital improvements or in accordance with trust agreements. All investments held by a custodian are in the City's name excluding the Successor Agency.

Interest Rate Risk

Interest Rate Risk is the risk that interest rates will rise and reduce the fair value of an investment. Long-term fixed-income securities have the greatest amount of interest rate risk, due to potential loss in fair value.

As of June 30, 2015, the City owned four callable bonds. It is assumed the callable bonds will not be called in the segmented time distribution table on the following page. Information on those bonds has been provided below:

Federal Agencies			
Amount	Maturity Date	Call Date	Call Terms
\$4,350,000	3/17/2017	9/17/2015	One-Time Call
\$4,670,000	3/24/2017	3/24/2016	One-Time Call

Corporate Notes			
Amount	Maturity Date	Call Date	Call Terms
\$2,920,000	9/19/2016	8/19/2016	Any time after 8/19/16
\$2,940,000	5/15/2017	4/15/2017	Any time after 4/15/17

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.

The following table summarizes the City's investments based on maturity dates of various investments:

Investment Type	Credit Rating		Remaining Time to Maturity				
	Standard & Poor's	Moody's Investors Service	Total	Less Than 1 Year	1-2 Years	2-3 Years	3-4 Years
U.S. Treasury Notes	AA+	Aaa	\$80,439,833	\$17,787,886	\$62,651,947	\$ -	\$ -
Federal Agencies:							
Collateralized Mortgage Obligation	AA+	Aaa	3,194,819	-	-	2,128,815	1,066,004
Federal Agency Bond/Notes	AA+	Aaa	67,442,074	3,333,618	44,404,345	19,704,111	-
Corporate Notes	See Below	See Below	65,168,004	8,855,792	20,173,392	36,138,820	-
Commercial Paper	A-1	P-1	7,395,872	7,395,872	-	-	-
Negotiable Certificates of Deposit	See Below	See Below	15,926,108	-	15,926,108	-	-
CAMP Pool	AAAm	N/A	77,235,909	77,235,909	-	-	-
<b>Total</b>			<b>\$316,802,619</b>	<b>\$114,609,077</b>	<b>\$143,155,792</b>	<b>\$57,971,746</b>	<b>\$1,066,004</b>
Held By Fiscal Agent:							
Money Market Funds	AAAm	Aaa-mf	\$5,031,092	\$5,031,092	-	-	-
CAMP	AAAm	N/A	9,459,892	9,459,892	-	-	-
Federal Home Loan Discount	AA+	AAA	3,395,981	3,395,981	-	-	-
MID – Collateral Agreement - Deposits	A+	Aa3	20,008,884	20,008,884	-	-	-
<b>Fiscal Agent Total</b>			<b>\$37,895,849</b>	<b>\$37,895,849</b>	<b>-</b>	<b>-</b>	<b>-</b>
City of Modesto Banking Accts & Cash on Hand	A/A-1	A1/P1	20,359,492				
Timing Differences for Deposit & Electronic Vendor Payments			(736,417)				
<b>Total Cash and Investments</b>			<b>\$374,321,543</b>				

The following is a table indicating the credit ratings for the City's investment in Corporate Notes :

Amount	Standard & Poors	Moody's Investors Service
\$1,920,426	A	A1
2,988,228	A	A2
2,958,725	A	A3
14,316,686	A+	A1
5,899,485	A+	A2
2,969,644	A-3	A2
5,907,391	A-3	A3
2,942,197	AA	A1
2,994,252	AA	A2
2,993,745	AA	Aa1
4,947,516	AA-	A1
5,955,029	AA-	Aa3
2,946,430	AA+	A1
2,440,678	AA+	Aa1
2,987,572	AAA	Aaa
<u>\$65,168,004</u>		

The following is a table indicating the credit ratings for the City's investment in Negotiable Certificates of Deposit:

Amount	Standard & Poors	Moody's Investors Service
\$4,392,740	A-1	P-1
5,758,397	AA-	Aa3
5,774,971	AA-	Aa1
<u>\$15,926,108</u>		

In the event a rating drops below the minimum allowed rating category for a given investment type, the investment advisor shall notify the Finance Director and/or Designee and recommend a plan of action. The City will limit investments in any one non-government issuer, except local agency investment pools and money market funds, to no more than 10% regardless of security type.

#### 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, 2015:

Issuer	Investment Type	Reported Amount	Percent of Portfolio
Federal Home Loan Bank	Federal agency securities	\$27,457,674	7.7%
Fannie Mae (FNMA)	Federal agency securities	\$27,483,044	7.7%

## B. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2015 was as follows:

	Beginning Balance, <u>As Restated (1)</u>	<u>Additions</u>	<u>Deletions</u>	Ending <u>Balance</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 33,658,003	\$ -	\$ (534,510)	\$ 33,123,493
Construction in progress	61,978,302	30,402,422	(31,064,562)	61,316,162
Total capital assets, not being depreciated:	<u>95,636,305</u>	<u>30,402,422</u>	<u>(31,599,072)</u>	<u>94,439,655</u>
Capital assets being depreciated:				
Buildings	34,569,881	279,023	-	34,848,904
Improvements other than buildings	77,805,243	18,666,414	-	96,471,657
Furnishings and equipment	14,355,980	2,107,993	(218,136)	16,245,837
Service animals	30,336	9,137	-	39,473
Intangible assets	8,055,238	567,906	-	8,623,144
Equipment pool	30,650,140	2,781,278	(1,293,570)	32,137,848
Infrastructure				
Streets	494,962,283	6,632,412	-	501,594,695
Signals	17,719,240	2,255,436	-	19,974,676
Bridges	26,207,207	-	-	26,207,207
Total capital assets, being depreciated:	<u>704,355,548</u>	<u>33,299,599</u>	<u>(1,511,706)</u>	<u>736,143,441</u>
Less accumulated depreciation for:				
Buildings	(18,578,429)	(992,626)	-	(19,571,055)
Improvements	(42,169,765)	(3,905,880)	-	(46,075,645)
Furnishings and equipment	(11,784,467)	(1,013,620)	184,367	(12,613,720)
Service animals	(6,592)	(6,072)	-	(12,664)
Intangible assets	(3,453,769)	(685,666)	-	(4,139,435)
Equipment pool	(19,276,835)	(2,376,716)	1,224,395	(20,429,156)
Infrastructure				
Streets	(276,525,342)	(10,031,536)	-	(286,556,878)
Signals	(15,835,797)	(436,044)	-	(16,271,841)
Bridges	(5,585,531)	(524,144)	-	(6,109,675)
Total accumulated depreciation	<u>(393,216,527)</u>	<u>(19,972,304)</u>	<u>1,408,762</u>	<u>(411,780,069)</u>
Total capital assets being depreciated, net	<u>311,139,021</u>	<u>13,327,295</u>	<u>(102,944)</u>	<u>324,363,372</u>
Governmental activities capital assets, net	<u>\$ 406,775,326</u>	<u>\$ 43,729,717</u>	<u>\$ (31,702,016)</u>	<u>\$ 418,803,027</u>

Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
General government	\$ 490,520
Community development	498,178
Highways and streets, including depreciation of general infrastructure assets	11,410,340
Public works	399,402
Parks and recreation	182,299
Public safety	3,521,823
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	<u>3,469,742</u>
Total depreciation expense – Governmental activities	<u>\$19,972,304</u>

(1) Additional information regarding the restated beginning balance for both the Governmental and Business-type activities is available under Note III-H.

	Beginning Balance, As Restated (1)	Additions	Deletions	Ending Balance
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 31,102,451	\$ -	\$ -	\$ 31,102,451
Construction in progress	165,146,561	67,319,484	(51,918,503)	180,547,542
Total capital assets, not being depreciated:	<u>196,249,012</u>	<u>67,319,484</u>	<u>(51,918,503)</u>	<u>211,649,993</u>
Capital assets being depreciated:				
Capitalized interest	21,665,316	2,026,738	-	23,692,054
Buildings	100,861,794	472,237	-	101,334,031
Improvements other than buildings	243,322,659	51,669,058	-	294,991,717
Furnishings and equipment	10,220,658	1,199,272	(232,416)	11,187,514
Intangible assets	206,527	-	-	206,527
Water rights	358,226,691	-	-	358,226,691
Buses and fareboxes	20,132,762	7,864,346	-	27,997,108
Pipelines	152,366,627	-	-	152,366,627
Total capital assets, being depreciated:	<u>907,003,034</u>	<u>63,231,651</u>	<u>(232,416)</u>	<u>970,002,269</u>
Less accumulated depreciation for:				
Capitalized interest	(8,323,633)	(1,083,543)	-	(9,407,176)
Buildings	(55,491,501)	(3,012,435)	-	(58,503,936)
Improvements other than buildings	(141,268,321)	(10,915,231)	-	(152,183,552)
Furnishings and equipment	(6,007,725)	(772,048)	180,021	(6,599,752)
Intangible assets	(173,912)	(9,151)	-	(183,063)
Water rights	(47,763,559)	(11,940,890)	-	(59,704,449)
Buses and fareboxes	(14,389,599)	(1,154,261)	-	(15,543,860)
Pipelines	(36,453,819)	(1,942,124)	-	(38,395,943)
Total accumulated depreciation	<u>(309,872,069)</u>	<u>(30,829,683)</u>	<u>180,021</u>	<u>(340,521,731)</u>
Total capital assets being depreciated, net	<u>597,130,965</u>	<u>32,401,968</u>	<u>(52,395)</u>	<u>629,480,538</u>
Business-type activities capital assets, net	<u>\$ 793,379,977</u>	<u>\$ 99,721,452</u>	<u>\$ (51,970,898)</u>	<u>\$ 841,130,531</u>

Business-type activities:

Water	\$17,326,661
Sewer	8,546,267
Bus	2,260,368
Parking	440,058
Storm drain	565,170
Compost	206,871
Airport	680,509
Golf	56,477
Community center	747,302
Total depreciation expense – Business-type activities	<u>\$30,829,683</u>

(1) Additional information regarding the restated beginning balance for both the Governmental and Business-type activities is available under Note III-H.

C. LONG-TERM DEBT

Loans Payable

Governmental Activities:

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. As of June 30, 2015, no payments have been made to the Stanislaus County Economic Development Bank as no funds are available. According to the agreement, the Project will be completed as of the date the City first issues building permits within the Kiernan Business Park East area. To date, no building permits have been issued. The authorized loan amount is up to \$500,000. Currently, there is a balance of \$498,362. Outstanding amount will increase as more eligible costs are incurred and remaining available loan amount is borrowed.

\$ 498,362

Total Principal Balance – Governmental-Type Activities

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\$498,362

Business-Type Activities:

Water Enterprise Fund:

Loan payable to the State of California Department of Water Resources, assumed from Del Este Water Company at acquisition, for purposes of upgrading the water delivery system; interest at 3.2%; semi-annual installments on April 1 and October 1 of \$132,360, including interest, through October 1, 2015. The last payment will occur on October 1, 2015.

\$130,284

Loan payable to State of California Department of Public Health, also known as ARRA Water Grant. This Agreement constitutes funding in the form of a loan with forgiveness of principal made by State under the provisions of California Safe Drinking Water State Revolving Fund Law of 1997, and the American Recovery and Reinvestment Act of 2009 (ARRA) Public Law 11 1-5. The purpose of the funding is to assist in financing construction of a project, which will enable the City to meet safe drinking water standards or to address other health concerns, herein referred to as the "Project". The maximum loan amount of \$800,000 of which fifty percent (50%), or an estimated \$400,000 will not need to be repaid. The loan repayment term is 20 years at 2.5017% interest rate.

500,008

Sewer Enterprise Fund:

Loan payable to California State Water Resources Control Board, State Revolving Fund. The Project, commonly known as Tertiary Treatment Phase 1B Project generally consists of constructing a 12.6 million gallon per day tertiary treatment plant. Completion of construction date is established as June 1, 2015. Project completion date is established as June 1, 2016. The City agrees to repay all project funds at an interest rate of two and six-tenths percent (2.6%) per annum and an administrative service charge of zero percent (0%) per annum. The loan payable balance only reflects the current loan disbursements as of June 30, 2015. The total loan approved by the State Water Resources Control Board is \$125 million. The loan repayment term is 20 years (final payment due on June 1, 2035) and the annual principal and interest payments are \$8,409,144.

117,059,965

Total Principal Balances – Business-Type Activities

\$117,690,257

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

Year Ending June 30,	<u>Governmental-Type Activities</u>		<u>Business-Type Activities</u>	
	Principal	Interest	Principal	Interest
2016	\$498,362	\$-	\$487,071	\$8,090,722
2017	-	-	5,188,124	3,257,310
2018	-	-	5,322,995	3,122,438
2019	-	-	5,461,372	2,984,061
2020	-	-	5,603,347	2,842,087
2021-2025	-	-	30,278,937	11,948,230
2026-2030	-	-	34,424,624	7,802,543
2031-2035	-	-	30,923,787	2,882,055
Total	<u>\$498,362</u>	<u>\$-</u>	<u>\$117,690,257</u>	<u>\$42,929,446</u>

Certificates of Participation:

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, 2015, 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.

\$3,585,000

Water Enterprise Fund:

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.

While the 2008 COPS are in the Weekly Mode, they are subject to optional tender and mandatory tender for purchase. Funds for the payment of the purchase price of 2008 COPS that are tendered for purchase and that are not remarketed by the Remarketing Agent will be available (subject to certain conditions) under a Standby Certificate Purchase Agreement, dated May 1, 2008 (the "Liquidity Facility"). The Liquidity Facility does not support, secure or guaranty the payments of the principal of or interest with respect to the 2008 COPS. Subject to the terms and conditions of the Liquidity Facility, the Liquidity Facility Provider is to provide funds for the payment of the purchase price on each purchase of 2008 COPS up to \$47,625,000 in principal amount (the "Available Principal Commitment") and \$548,014 an amount equal to 35 days' interest on the Available Principal Commitment at an assumed rate of 12% and accrued interest on 2008 COPS subject to the Weekly Rate tendered or deemed tendered for purchase in the event that remarketing proceeds are not sufficient to pay the purchase price of such 2008 COPS. The Liquidity Facility will not provide for the payment of principal of and interest on any 2008 COPS other than with respect to the purchase price of the 2008 COPS tendered or deemed tendered and not remarketed. The initial Liquidity Facility expired on May 29, 2011 and was subsequently extended to July 14, 2017 by Bank of America.

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, 2015.

	<u>45,520,000</u>
Total Principal Balances – Business-Type Activities	49,105,000
Less:	
Unamortized Bond Discount – 2008 Water Refunding Certificates of Participation	<u>(115,444)</u>
Total Business-Type Activities – Certificates of Participation	<u><u>\$48,989,556</u></u>

The City has pledged future Water Enterprise Fund revenues, net of specified operating expenses, to repay the 2008 Certificates of Participation. The City has pledged future Golf Enterprise Fund revenues to pay the 1993 Certificates of Participation for the Golf Course Refinancing project. The Water and Golf Funds total principal and interest remaining to be paid on the certificates is \$81,829,170. The Water Fund's principal, interest and other debt service cost paid on certificates for the current year, along with payments to Modesto Irrigation District under the Treatment and Delivery Agreement, totaled \$12,708,823, and net operating revenues of the Fund were \$18,463,293, which represented coverage of 145%. The Golf Fund's principal and interest paid on certificates totaled \$495,037, and net operating revenues of the Fund were \$571,364, which represented coverage of 115%.

Annual debt service requirements to maturity for Certificates of Participation, for 2008 Water and 1993 Golf, are as follows:

Year Ending June 30,	Business-Type Activities	
	Principal	Interest, Net Swap Payments, and Remarketing Fees
2016	\$665,000	\$2,337,404
2017	705,000	2,299,238
2018	720,000	2,264,518
2019	775,000	2,227,729
2020	795,000	2,190,627
2021-2025	7,765,000	10,112,240
2026-2030	13,570,000	7,285,480
2031-2035	16,535,000	3,682,977
2036-2037	7,575,000	323,957
Total	\$49,105,000	\$32,724,170

Lease Revenue Bonds – Governmental Activities:

2008 Lease Revenue Refunding Bonds in the amount of \$65,170,000 issued to refund the balance of the 1998 Lease Revenue Bonds and the 2007 Lease Revenue Refunding and Capital Improvement Bonds; variable rate securities maturing September 1, 2033, with interest initially calculated weekly, fluctuating according to market conditions. The bonds may be converted to a daily, term, flexible, or fixed rate. The combination of the variable rate bonds and a floating swap rate creates a synthetic fixed-rate debt for the City. The synthetic fixed-rate was 3.61% at June 30, 2015.

Regularly scheduled payments of principal and interest are supported by an irrevocable, direct pay Letter of Credit (the "Credit Facility") issued by Bank of America, N. A. The Trustee can draw funds under the Credit Facility to pay the purchase price of tendered bonds that are not remarketed. Draws on the Letter of Credit will be paid under the terms of the agreement. Under the terms of the agreement the City will repay the amount drawn in equal semi-annual installments plus interest within 5 years. The Credit Facility and Reimbursement Agreement initially expired however was subsequently extended to March 31, 2017.

\$57,970,000

Annual debt service requirements to maturity for Lease Revenue Bonds are as follows:

Year Ending June 30,	Governmental-Type Activities	
	Principal	Interest, Net Swap Payments, and Remarketing Fees
2016	\$1,665,000	\$2,896,329
2017	1,835,000	2,802,570
2018	1,695,000	2,714,300
2019	1,860,000	2,621,510
2020	2,000,000	2,522,849
2021-2025	12,920,000	10,771,121
2026-2030	18,225,000	6,718,780
2031-2034	17,770,000	1,679,532
Total	\$57,970,000	\$32,726,991

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 and mature on November 1, 2022.	\$ 21,730,000
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	38,265,000
Plus: Unamortized Bond Premium - 2005 Bonds	1,022,405
Less:	
Unamortized Bond Discount – 2006 Bonds	(229,844)
Total Business-Type Activities Revenue Bonds	<u><u>\$ 39,057,561</u></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 \$54,112,366. The Sewer Fund's principal and interest paid for the current year and total customer net revenues were \$4,150,322 and \$25,646,343, respectively.

Annual debt service requirements to maturity for Revenue Bonds are as follows:

Year Ending June	Business-Type Activities	
	Principal	Interest
30,		
2016	\$2,270,000	\$1,748,434
2017	2,385,000	1,643,984
2018	2,485,000	1,531,052
2019	2,625,000	1,396,914
2020	2,765,000	1,258,881
2021-2025	11,000,000	4,195,246
2026-2030	5,245,000	2,592,793
2031-2035	3,725,000	1,350,968
2036-2039	5,765,000	129,094
Total	<u><u>\$38,265,000</u></u>	<u><u>\$15,847,366</u></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 4.00% to 6.01%; semi-annual installments on August 1 and February 1 through August 2024. This 2004-A Note was defeased on May 27, 2015.

On March 26, 2015, the City received notice of a public offering to refinance the existing note, with an outstanding balance of \$2,789,000. The City agreed to refinance the note, as it reduced the interest on the HUD Section 108 Loan, a net savings of approximately \$502,908. The public offering date was May 28, 2015. The terms of the new promissory note include semi-annual payments on August and February through the maturity date of August 1, 2024. The interest rates range from 0.28% through 2.85%. No new security provisions were required, as the Contract for Fixed Rate Note incorporates the previous additional security provisions.

\$2,789,000

Total Notes Payable

\$2,789,000

Annual debt service requirements to maturity for these Notes Payable are as follows:

Year Ending June 30,	Governmental-Type Activities	
	Principal	Interest
2016	\$221,000	\$35,153
2017	233,000	50,951
2018	245,000	48,845
2019	256,000	46,003
2020	269,000	41,773
2021-2025	1,565,000	108,770
Total	<u>\$2,789,000</u>	<u>\$331,495</u>

Reimbursement Agreement - Business-Type Activities:

Water Enterprise Fund:

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 and the California Safe Drinking Water Act loan (as described previously). 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 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. On August 14, 2013, Modesto Irrigation District Financing Authority refunded the 1998 D Bonds, with 2013 G Bonds. As of June 30, 2015, the total outstanding on the MID bonds is: \$39,300,000 for the

2013 G Bonds and \$93,190,000 for the 2007 F Bonds, for a total of \$132,490,000. For the 2007F Bonds, the annual principal payments begin on September 1, 2023 and mature on September 1, 2037 in amounts from \$4,275,000 to \$11,870,000, with variable interest rates fluctuating according to market conditions. The City has entered into interest-rate swap agreements to synthetically fix the rates that the City pays at 4.38% and 4.44%. Refer to the Interest Rate Swap agreement section below with more information about the debt schedule. Annual debt service payments to maturity for the Reimbursement Agreement are as follows:

Year Ending June 30,	Business-Type Activities	
	Principal	Interest and Net Swap Payments
2016	\$4,110,000	\$5,985,397
2017	4,320,000	5,774,647
2018	4,535,000	5,553,271
2019	4,760,000	5,320,897
2020	5,005,000	5,076,771
2021-2025	25,300,000	21,506,974
2026-2030	25,550,000	16,002,071
2031-2035	32,040,000	9,651,450
2036-2038	26,870,000	1,990,896
Total	<u>\$132,490,000</u>	<u>\$76,862,374</u>

Interest Rate Swap Agreements:

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

During fiscal year 2007, the City entered into an interest swap agreement in connection with the 2006 Water Revenue Certificates of Participation. This transaction was updated due to the refunding of the 2006 Certificates by the 2008 Water Refunding Revenue Certificates of Participation (COPs). The swap agreement allows the City to create a synthetic fixed-rate on the COPs, protecting it against increases in short-term interest rates.

During fiscal year 2008, the City entered into an interest swap agreement in connection with the 1998 and 2007 Lease Revenue Bonds. The swap agreement allows the City to create a synthetic fixed rate on the Lease Revenue Bonds, protecting it against increases in short-term interest rates. The terms, fair value and credit risk of these swap agreements are disclosed below.

Additionally, in May 2007, the City approved the issuance of revenue bonds by the Modesto Irrigation District Financing Authority related to the financing of Phase 2 of the Domestic Water Treatment and Delivery System of the Modesto Irrigation District. The MID Water Refunding Bonds were issued with an interest swap feature with Bear Sterns, which was subsequently acquired by JP Morgan. Under the agreement between MID and JP Morgan, the City must post collateral when our negative position exceeds the Pledgor’s Threshold of \$20 million. This negative position represents the present value of declining interest rates to date from issuance of bonds. In June 2010, the City Council authorized the City to post collateral up to \$18 million, which would support a negative position of \$38 million. In July 2010, the City Council increased the City’s authorization to post collateral from \$18 million to up to \$20 million. At the end of fiscal year 2015, the City had posted a cumulative total of \$20 million of collateral posting, which is reported in the Water Enterprise Fund cash with fiscal agent.

Terms – The terms, including the counterparty credit rating of the outstanding swaps, as of June 30, 2015 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>Current 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	\$45,520,000	5/30/2008	Bank of America	A	3.48%	63.7% of USD-LIBOR, plus .154%	10/1/2036
2008 Lease Revenue Refunding and Capital Improvement	57,970,000	8/28/2008	Bank of America	A	3.61%	63.7% of USD-LIBOR, plus .154%	9/1/2033
2007 MID Domestic Water Revenue Bonds Series 2007F	23,370,000	6/26/2007	JP Morgan Chase Bank	A+	4.38%	67% of 3 Month LIBOR + 0.58%	9/1/2027
2007 MID Domestic Water Revenue Bonds Series 2007F	69,820,000	6/26/2007	JP Morgan Chase Bank	A+	4.44%	67% of 3 Month LIBOR + 0.63%	9/1/2037

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

GASB Statement 53 (GASB 53) addresses the recognition measurement and disclosure of information regarding derivative instruments entered into by state and local governments. All derivatives are to be reported on the statement of net position at fair value and all hedges must be tested for effectiveness to qualify for hedge accounting. The tests are outlined in GASB 53. Depending on the test results, the changes in fair value are either reported on the statement of net position as a deferral or in the statement of activities as investment revenue or loss.

Fair value – Fair value takes into consideration the prevailing interest rate environment, the specific terms and conditions of each transaction and any upfront payments that may have been received. Fair value was estimated using the zero-coupon discounting method, which calculates the future payments required by the swap, assuming that the current forward rates implied by the LIBOR swap yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement on the swaps.

As of June 30, 2015, the fair value of the swaps was in favor of the counterparty as shown in the following table:

<u>Bond Issue</u>	<u>Fair Value</u>
2008 Water Refunding Rev. Certificates of Participation	(\$9,508,817)
2008 Lease Revenue Bonds	(\$10,743,732)
2007 MID Domestic Water Revenue Bonds	(\$26,208,108)

Credit risk – As of June 30, 2015, 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, 2015, debt service requirements of the 2008 Water Refunding Revenue Certificates of Participation, the 2008 Lease Revenue Refunding Bonds, and the 2007 MID Domestic Water Revenue Bonds, including net swap payments and broker fees, are as shown in the following table assuming current interest rates remain the same for their term. The bond interest payments and net swap payments will vary as interest rates vary.

Year Ending	Variable-Rate Bonds		Net Swap	Total
	Principal	Interest	Payments and Remarketing Fees	
June 30,				
2016	\$2,005,000	\$2,269,071	\$6,916,684	\$11,190,755
2017	2,200,000	2,236,801	6,833,653	11,270,454
2018	2,060,000	2,205,377	6,759,463	11,024,840
2019	2,255,000	2,172,282	6,681,353	11,108,635
2020	2,395,000	2,136,883	6,600,490	11,132,373
2021-2025	27,630,000	9,834,921	31,101,538	68,566,459
2026-2030	57,345,000	6,925,740	23,080,591	87,351,331
2031-2035	66,345,000	3,098,101	11,915,858	81,358,959
2036-2037	34,445,000	209,853	2,105,000	36,759,853
<b>Total</b>	<b>\$196,680,000</b>	<b>\$31,089,029</b>	<b>\$101,994,630</b>	<b>\$329,763,659</b>

Changes in Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2015, was as follows:

	Beginning Balance, (1) As Restated	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental activities:</b>					
Loans Payable	\$498,362	\$ -	\$ -	\$498,362	\$498,362
Lease Revenue Bonds	59,475,000	-	1,505,000	57,970,000	1,665,000
Notes Payable	3,000,000	-	211,000	2,789,000	221,000
Obligations under Capital Leases	256,945	1,070,472	256,945	1,070,472	351,770
Compensated Absences	3,875,565	4,910,488	2,356,275	6,429,778	2,264,064
Claims Liability	22,284,679	5,914,018	5,668,066	22,530,631	4,754,729
<b>Total governmental activities</b>	<b>\$89,390,551</b>	<b>\$11,894,978</b>	<b>\$9,997,286</b>	<b>\$91,288,243</b>	<b>\$9,754,925</b>

	Beginning Balance, (1) As Restated	Additions	Reductions	Ending Balance	Due Within One Year
<b>Business-type activities:</b>					
Loans Payable	\$88,922,403	\$29,045,688	\$277,834	\$117,690,257	\$487,071
Compensated Absences	3,102,476	1,248,057	1,834,230	2,516,303	886,003
Certificates of Participation:	49,755,000	-	650,000	49,105,000	665,000
Unamortized Discounts	(120,938)	-	(5,494)	(115,444)	-
Reimbursement Agreement::					
MID Bonds	136,460,000	-	3,970,000	132,490,000	4,110,000
Unamortized Premium	5,136,536	-	570,726	4,565,810	-
Sewer Bonds:	40,425,000	-	2,160,000	38,265,000	2,270,000
Unamortized Premium	1,150,205	-	127,800	1,022,405	-
Unamortized Discount	(240,291)	-	(10,447)	(229,844)	-
Developer Advances	1,424,673	-	93,112	1,331,561	93,112
<b>Business-type activities</b>	<b>\$326,015,064</b>	<b>\$30,293,745</b>	<b>\$9,667,761</b>	<b>\$346,641,048</b>	<b>\$8,511,186</b>

(1) Additional information regarding the restated beginning balance is available under Note III-H.

Principal balances are reported on the government-wide and enterprise funds statements of net position, net of unamortized issuance discounts and premiums. Deferred losses on refundings are reported as deferred outflows of resources. Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for the internal service funds are included as part of the above totals for governmental activities. At year-end, internal service funds obligations were zero under notes payable, and zero in capital leases. 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. The predominant contributors for these internal service funds include the General Fund, Water Fund, and Sewer Fund.

#### D. OBLIGATIONS UNDER CAPITAL LEASES

##### Governmental Funds

The City entered into a capital lease agreement for two Pierce Velocity 1500 GPM Pumpers for \$1,070,472 and is being leased under a capital lease agreement. The first payment for this lease will begin in 2016. The following is a schedule of the future minimum lease payments on this capital lease as of June 30, 2015:

Year Ending June 30,	
2016	\$ 367,078
2017	367,078
2018	367,078
Total minimum lease payments	1,101,234
Less: amount representing interest	(30,762)
Present value of minimum lease payments	<u>\$1,070,472</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, 2015, the total outstanding balance due under the agreements is \$1,331,561. The total annual payments fluctuate depending on the ending date of each agreement. At June 30, 2015, the amount of \$93,112 due during fiscal year 2016 has been reported as "current portion-developer advances" on the Water Enterprise Fund statement of net position. The remaining \$1,238,449 of outstanding principal has been reported under noncurrent liabilities, as "developer advances."

F. INTERFUND BALANCES

Interfund balances as of June 30, 2015 consist of the following:

Due to General Fund from:

Capital Grants Fund	\$ 2,432,036
Other governmental funds	273
Other enterprise funds	<u>17,786</u>

Total Due to General Fund 2,450,095

Total Due to/Due From: \$ 2,450,095

Advances from General Fund to:

Other governmental funds	\$1,150,714
Other enterprise funds	<u>1,324,704</u>

Advances from General Fund 2,475,418

Advances from Water Fund to:

General Fund	200,000
Other governmental funds	<u>32,506</u>

Advances from Water Fund 232,506

Advances from Sewer Fund to other enterprise funds	<u>957,600</u>
Advance from internal service funds to General Fund	<u>856,738</u>

Total Advances from/Advances to \$4,522,262

All balances reported as "due to/due from" are short-term loans to cover temporary fund cash shortages as of June 30, 2015, and were repaid early in fiscal year 2016. Balances reported as "advance to/advance from" were for capital projects expenditures and are either in the process of being repaid or have scheduled repayments in future years.

## G. Fund Balance

Detailed classifications of the City's Fund Balances, as of June 30, 2015, are provided below:

	General Fund	Housing and Community Development	Capital Grants	Other Governmental	Total Governmental Funds
<b>Nonspendable</b>					
Advances to other funds	\$ 2,475,418	\$ -	\$ -	\$ -	\$ 2,475,418
Prepaid Items	295,426	80,504	2,197	5,356	383,483
<b>Total Nonspendable Fund Balance</b>	<b>2,770,844</b>	<b>80,504</b>	<b>2,197</b>	<b>5,356</b>	<b>2,858,901</b>
<b>Restricted</b>					
Capital Facility Fees	-	-	-	27,163,511	27,163,511
Cash with Fiscal Agent	-	-	-	5,488,672	5,488,672
Community Facilities District	-	-	-	16,421,088	16,421,088
Grants and Donations	-	-	208,644	3,199,967	3,408,611
Notes Receivable	-	22,745,191	-	2,281,179	25,026,370
Deposits	1,341,972	-	-	-	1,341,972
Traffic Fines	-	-	-	2,135,719	2,135,719
<b>Total Restricted Fund Balance</b>	<b>1,341,972</b>	<b>22,745,191</b>	<b>208,644</b>	<b>56,690,136</b>	<b>80,985,943</b>
<b>Committed</b>					
General Fund Set-Aside	3,000,000	-	-	-	3,000,000
<b>Total Committed Fund Balance</b>	<b>3,000,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,000,000</b>
<b>Assigned</b>					
Encumbrances - Vendor Contracts	1,070,453	-	-	-	1,070,453
Fire Station #6 Funding	1,600,000	-	-	-	1,600,000
FY 15-16 Budget Carryover	449,300	-	-	-	449,300
Down town n Improvement District	-	-	-	40,946	40,946
Successor Redevelopment Housing Agency	-	-	-	392,665	392,665
Gas Tax Funding	-	-	-	13,546,149	13,546,149
Special Capital Outlay Projects	-	-	-	2,977	2,977
Strategic Planning and Development	-	-	-	979,785	979,785
<b>Total Assigned Fund Balance</b>	<b>3,119,753</b>	<b>-</b>	<b>-</b>	<b>14,962,522</b>	<b>18,082,275</b>
Unassigned - General Fund	14,586,931	-	-	-	14,586,931
Unassigned - Special Revenue Funds	-	(773,268)	-	-	(773,268)
Unassigned - Debt Service Funds	-	-	-	(9,020)	(9,020)
Unassigned - Capital Project Funds	-	-	(3,084,162)	-	(3,084,162)
<b>Total Unassigned Fund Balance</b>	<b>14,586,931</b>	<b>(773,268)</b>	<b>(3,084,162)</b>	<b>(9,020)</b>	<b>10,720,481</b>
<b>Total Fund Balance</b>	<b>\$ 24,819,500</b>	<b>\$ 22,052,427</b>	<b>\$ (2,873,321)</b>	<b>\$ 71,648,994</b>	<b>\$ 115,647,600</b>

## H. DEFICIT FUND EQUITY

The Capital Grants fund has a fund balance deficit of \$2,873,321, due to grant revenues not being recognized due to the period of availability not being met within the 60 day period. Based on how grant reimbursements are requested through the grant agency there is a timing delay of when the grant request is submitted to the agency. This deficit will be addressed once the period of availability has been met for these grants.

The Golf Enterprise Fund has a net position deficit of \$1,553,798, due to a change in accounting policy several years ago, as well as revenues not keeping up with expenses. The City originally classified the 1993 Refunding Certificates of Participation as debt of the governmental funds, with construction proceeds transferred to the Golf Enterprise Fund when the certificates were issued. However, since the Golf Fund is paying, and is expected to continue paying, the entire debt service cost, it was decided that the balance of the debt should be recorded in the Golf Fund. The Golf Fund also has struggled due to competition and lagging revenues. Depreciation expense further contributes to the deficit. The City is looking at various options to resolve this funding deficit.

The Employee Benefits Management Internal Service Fund has a net position deficit of \$54,655,685. It exists partially because the total compensated absences and other post-employment benefit balance previously classified as debt of the governmental funds was included in this fund at its inception several years ago, and has never been fully funded. The City is continuing to charge a higher benefit rate to help reduce this deficit. In addition, one-time revenues having to do with employee benefits are deposited to this fund.

The Insurance Fund has a net position deficit of \$3,006,641, due mainly to the recognition of settlements that were

reached in the prior fiscal year which have been reported as liabilities of the Liability Insurance Fund. Both settlements involved matters that represented city-wide policies and practices and therefore are allocable to all of the funds that make annual contributions to the liability insurance program. The liability insurance program will recover the full amount of the settlement from charges to the funds that participate in the liability insurance program over a period of 5 years.

#### I. INTERFUND TRANSFERS

The following is a schedule of interfund transfers.

Transfers (in) to:	Transfers from (out):							
	General Fund	Housing & Community Development	Other Governmental	Water	Sewer	Other Enterprise Funds	Internal Service	Total
General Fund	\$ -	\$ -	\$794,000	\$65,000	\$68,640	\$ -	\$ 81,752	\$ 1,009,392
Capital Grants	229,857	10,274	15,219	-	-	156	-	255,506
Other Governmental	4,188,581	-	2,450,033	-	-	46,122	207,644	6,892,380
Water	278,826	-	1,128	-	-	-	-	279,954
Sewer	114,000	-	-	114,848	-	17,719	1,697	248,264
Bus	1,500	-	-	-	-	-	-	1,500
Other Enterprise	2,191,981	-	205,364	700,000	-	1,887	-	3,099,232
Internal Service	-	40,729	161,047	440,779	1,092,914	305,508	-	2,040,977
<b>Grand Total</b>	<b>\$7,004,745</b>	<b>\$ 51,003</b>	<b>\$3,626,791</b>	<b>\$1,320,627</b>	<b>\$1,161,554</b>	<b>\$371,392</b>	<b>\$291,093</b>	<b>\$13,827,205</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. SUCCESSOR AGENCY TRUST FOR ASSETS OF FORMER REDEVELOPMENT AGENCY

On December 29, 2011, the California Supreme Court upheld Assembly Bill 1X 26 (Bill) that provides for the dissolution of all redevelopment agencies in the State of California. This action impacted the reporting entity of the City that previously had reported a redevelopment agency blended component unit. The Bill provides that upon dissolution of a redevelopment agency, either the City or another unit of local government will agree to serve as the “successor agency” to hold the assets until they are distributed to other units of state and local government. On January 24, 2012, the City Council elected to become the Successor Agency for the former Redevelopment Agency (RDA) in accordance with the Bill as part of County Resolution number 12-7.

After enactment of the law, which occurred on June 28, 2011, redevelopment agencies in the State of California cannot enter into new projects, obligations or commitments. Subject to the control of a newly established oversight board, remaining assets can only be used to pay enforceable obligations in existence at the date of dissolution (including the completion of any unfinished projects that were subject to legally enforceable contractual commitments).

In future fiscal years, successor agencies will only be allocated revenue in the amount that is necessary to pay the estimated annual installment payments on enforceable obligations of the former redevelopment agency until all enforceable obligations of the prior redevelopment agency have been paid in full and all assets have been liquidated.

The Bill directs the State Controller to review the propriety of any transfers of assets between redevelopment agencies and other public bodies that occurred after January 1, 2011. If the public body that received such transfers is not contractually committed to a third party for the expenditure or encumbrance of those assets, the State Controller is required to order the available assets to be transferred to the public body designated as the successor agency by the Bill.

Management believes, in consultation with legal counsel, that the obligations of the former RDA due to the City are valid enforceable obligations payable by the Successor Agency trust under the requirements of the Bill.

In accordance with the timeline set forth in the Bill (as modified by the California Supreme Court on December 29, 2011), all redevelopment agencies in the State of California were dissolved and ceased to operate as a legal entity as of February 1, 2012.

After the date of dissolution, as allowed under Section 34176(a) of the Bill, the City elected to retain the housing assets and functions previously performed by the former RDA. The assets and activities for the Successor Agency Housing fund continue to be reported in the City's governmental fund financial statements. The remaining assets, liabilities, and activities of the dissolved RDA, are reported in the Successor Agency fiduciary fund (private-purpose trust fund) in the financial statements of the City.

As of June 30, 2015, one of the obligations under the Successor Agency trust is associated with the 10<sup>th</sup> Street Place Project:

Reimbursement agreement with the City totaling \$19,566,862. The original loan is from the City's 1998 Lease Revenue Bonds and the 2007 Lease Revenue Bonds that pertain to the Successor Agency. On August 28, 2008, the City refinanced the entire outstanding balance of the City's 1998 Lease Revenue Bonds and the 2007 Lease Revenue Bonds with variable rate 2008 Lease Revenue Bonds. The new balance has been provided as of June 30, 2015 that pertains to the Successor Agency. Additional information related to the 2008 Lease Revenue bonds is provided in Note II-C under the Lease Revenue Bonds – Governmental Activities section. \$16,811,300

Annual debt service requirements to maturity are as follows:

Year Ending June 30	Principal	Interest	Total
2016	\$ 482,850	\$ 839,935	\$ 1,322,785
2017	532,150	812,745	1,344,895
2018	491,550	787,147	1,278,697
2019	539,400	760,238	1,299,638
2020	580,000	731,626	1,311,626
2021-2025	3,746,800	3,123,625	6,870,425
2026-2030	5,285,250	1,948,446	7,233,696
2031-2035	5,153,300	487,064	5,640,364
Total	<u>\$ 16,811,300</u>	<u>\$ 9,490,826</u>	<u>\$ 26,302,126</u>

The reserves for the Reimbursement Agreement are recorded in the Public Financing Authority debt service fund for the City.

No-interest loan payable to the Stanislaus County Economic Development Bank loan program, for the purpose of funding the Kansas Avenue Business Park Project's Master Plan costs. The Agency has no obligation to begin repayment until the Project is completed and revenues begin; final payment is due in 2016 if not repaid sooner.

Future debt service requirements to maturity for loans payable, as of June 30, 2015, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	<u>\$ 405,000</u>	<u>\$ 0</u>	<u>\$ 405,000</u>
Total	<u>\$ 405,000</u>	<u>\$ 0</u>	<u>\$ 405,000</u>

As of June 30, 2015, the Successor Agency was obligated for the following long-term debt in conjunction with the Community Center Project:

1993 Refunding Certificates of Participation; serial certificates with annual maturities on November 1 in amounts ranging from \$800,000 to \$1,040,000; interest rates from 5.3% to 5.6%; and in the amount of \$12,235,000 at 5.0% maturing November 1, 2023, with annual payment of \$1,090,000 to \$1,610,000 beginning in 2011. \$12,235,000

Future debt service requirements to maturity for the Certificates of Participation, as of June 30, 2015, are as follows:

Year Ending June 30,	Principal	Interest	Total
2016	\$1,340,000	\$578,250	\$1,918,250
2017	1,135,000	516,375	1,651,375
2018	1,195,000	458,125	1,653,125
2019	1,260,000	396,750	1,656,750
2020	1,320,000	332,250	1,652,250
2021-2024	5,985,000	617,375	6,602,375
Total	<u>\$12,235,000</u>	<u>\$2,899,125</u>	<u>\$15,134,125</u>

The former RDA also has a few outstanding obligations related to reimbursements for parking expenses with Westland Development Company and payments to the Tenth Street Joint Power Agency for maintenance for common areas in the Tenth Street Place. These amounts are all reported in the Successor Agency in the Fiduciary financial statements under the Private-Purpose Trust Fund.

**K. NOTES AND LOANS RECEIVABLE**

The notes receivable in the Housing and Community Development and Other Governmental Funds of \$53,500,809 net of \$203,634 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 or business assets, and are generally bearing annual interest at 3 or 5 percent. Some direct loans may be subject to forgiveness, some are interest free and require no repayment of principal until the loans reach maturity, and some are subject to residual receipt payment agreements. Loan terms range from 5 to 55 years.

**L. APPROVED LOANS PAYABLE**

The approved loans payable in the Housing and Community Development Special Revenue Fund of \$1,030,187 consist of amounts being held for rehabilitation of properties using funds provided by federal grants. This liability is expected to be liquidated in less than a year.

The approved loans payable in the Governmental Activities related to the Successor Redevelopment Housing Agency of \$575,000 consists of amounts being held for affordable housing for the Palms Valley and Village One Town Center. The liability is expected to be liquidated within a long-term period.

**M. POLLUTION REMEDIATION LIABILITY**

The City reported a liability in the Water and Sewer Enterprise funds, which represents the recoveries the City has collected less any remediation and 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. As of June 30, 2015, the City reported a pollution remediation liability from the Water and Sewer funds in the amount of \$9,592,835 and \$10,441,464,

respectively.

#### N. DEFERRED INFLOWS/OUTFLOWS OF RESOURCES

Pursuant to GASB Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position", the City recognized deferred outflows and inflows of resources in the entitywide and governmental fund statements. These items are an acquisition of net position by the City that is applicable to a future reporting period. On the governmental fund statements, the Housing and Community Development Fund and Capital Grants reported deferred inflow of resources in the amount of \$30,360,180 and \$3,084,162 for unavailable resources related to note and grant receivables not meeting the period of availability. Previous financial reporting standards do not include guidance for reporting these financial statements, which are distinct from assets and liabilities. The items relate to outflows and inflows for net pension liability (Note III-G), swap hedging (Note II-C) and loss on refunding.

<b>Deferred Outflows of Resources</b>	<b>Governmental Activities</b>	<b>Business-type Activities</b>
Deferred pensions	\$ 13,048,819	\$ 2,389,903
Loss on refunding	-	2,147,947
Accumulated decreases in fair value of hedging derivatives	10,743,732	35,716,925
<b>Total</b>	<b>\$ 23,792,551</b>	<b>\$ 40,254,775</b>

<b>Deferred Inflows of Resources</b>	<b>Governmental Activities</b>	<b>Business-type Activities</b>
Deferred pensions	\$ 38,654,888	\$ 9,501,499

### III. OTHER INFORMATION

#### A. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to and illnesses of employees; and natural disasters. The City maintains the Insurance Internal Service Fund to account for and finance its risks of loss. Under this program, the City is self-insured for the following risks up to the maximum amount per claim/occurrence as follows: workers' compensation \$500,000; liability \$1,000,000. The City purchases commercial insurance for property loss, airport liability, and for claims in excess of the preceding self-insured coverage amounts.

For liability claims, the City is one of twelve members of the Authority for California Cities Excess Liability (ACCEL) risk pool. This pool covers City claims between \$1,000,000 and \$5,000,000. The purpose of the pool is to spread the adverse effect of losses among the member agencies. The City contributes its pro rata share of anticipated losses to the pool. Should actual losses among participants be greater than anticipated, the City will be assessed its pro rata share of that deficiency. Conversely, if the actual losses are less than anticipated, the City will be refunded its pro rata share of the excess. Commercial insurance covers claims over \$5,000,000 in three excess layers, of \$10,000,000 each; for additional coverage of \$35,000,000 per claim. Settled claims have not exceeded this commercial coverage in any of the past five fiscal years.

All operating funds participate in the program and make payments to the Insurance Fund based on historical cost and/or actuarial estimates of the amounts needed to pay prior and current year claims, and to allow accrual of estimated incurred but not reported claims and allocated loss adjustment expenses. Insurance premiums to commercial insurers are also processed through the Insurance Fund. The total claims liability at June 30, 2015 is \$22,530,631 consisting of \$18,451,248 workers' compensation, \$3,857,412 general liability, \$177,774 dental, and \$44,197 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 2% (general liability) and 3% (workers' compensation). The undiscounted workers' compensation and liability claims totaled \$21,956,318 and \$4,005,907, respectively. The actuarial liability for workers' compensation and general liability

were based on November 24, 2014 actuarial reports.

The current portion of the total claims liability is estimated to be \$4,754,729 and the balance of \$17,775,902 is reported as a long-term liability on the statement of net position. Changes in the Insurance Fund claims liability during the fiscal years ended June 30, 2013 through June 30, 2015 were:

	Claims Liability July 1	Current-Year Claims and Changes in Estimates	Current-Year Claim Payments	Claims Liability June 30
2012-13	\$23,215,907	\$5,880,326	\$(6,413,548)	\$22,682,685
2013-14	22,682,685	4,264,666	(4,662,672)	22,284,679
2014-15	22,284,679	5,914,018	(5,668,066)	22,530,631

#### 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, 2015, the balance of these districts' outstanding debt was as follows:

Issue	Outstanding Amount
Village One #2 Community Facilities District	\$29,320,000
Fairview Village Community Facilities District	4,420,000

#### 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, 2015, there were two series of conduit revenue bonds outstanding. The aggregate principal amount payable for these multiple-family housing bond issues, issued between 1994 and 2002, was \$8,475,000.

#### D. COMMITMENTS AND CONTINGENCIES

The City is involved in litigation relating to tort claims, workers' compensation claims and other claims such as contract actions and inverse condemnation actions for which the City is self-insured. The City is a defendant in various matters of litigation.

In the 1950's and 1960's, the City operated a landfill facility outside the City limits. This facility was closed in 1968, to the standards in effect at that time. State and federal laws and regulations require that the City perform certain maintenance and monitoring functions. Testing performed during fiscal year 2007 indicated that methane emissions in the area had exceeded State standards, however, quarterly groundwater monitoring at the site has determined that the landfill has experienced a "release" that measurably affects groundwater. The City has to develop a plan to monitor the release and determine the nature and extent of impacts. An engineering feasibility study must be completed to determine if the City should remove/treat the release, or just continue to monitor the release. To conclude, depending on the results of the engineering feasibility study, the City will need to implement the recommended action, which could involve construction and operation of a groundwater treatment system. As of June 30, 2015, the future post closure care cost of monitoring the landfill was calculated to be immaterial for presentation purposes, which includes the agreement cost for the study.

The City receives funding from a number of federal, state and local grant programs, principally the Federal Highway Administration, Community Development Block Grants, and Federal Transit Administration grants. These programs are subject to financial and compliance review by the grantors. Accordingly, the City's compliance with applicable grant requirements will be determined at some future date. Expenditures, if any, which may be disallowed by the granting agencies, cannot be determined at this time. The City does not expect the undeterminable amounts of disallowed expenditures, if any, to materially affect the basic financial statements. Receipt of these federal, state and local grant revenues is not assured in the future.

The City has commitments of \$22,369,519 for the City's governmental funds as of June 30, 2015 for contracts awarded but not completed and other outstanding purchase requisitions and orders. This amount consists of \$1,070,453 in the General Fund, \$1,277,079 in the Housing and Community Development, \$18,091,527 in the Capital Grants, and \$1,930,460 in other governmental funds. Commitments of the governmental funds are recorded in one of the classifications of fund balance based on the various funding restrictions on the balance sheet. As of June 30, 2015, there are major contracts for water (Gateway Pacific Contractors - \$10.4 million and Hobbs Construction - \$2.3 million) and sewer system improvements (Aztec Consultants - \$2.7 million), bus and vehicle purchases, sewer tertiary plan construction (GSE Construction - \$100.6 million), Pelandale interchange reconstruction (Teichert - \$30.3 million and Mendoza and Associates - \$4.2 million), Virginia Corridor (Cal Valley Construction - \$2.1 million) and major street and street lighting improvements (VSS International - \$1.5 million and Tanko Street Lighting - \$3.2 million).

#### 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 \$108,462 for the fiscal year ended June 30, 2015. As of June 30, 2015 the City's investment in this joint venture was \$980,239, and is included in governmental activities on the statement of net position. Financial statements for TRRP are prepared by the City of Modesto Finance Department.

##### Stanislaus Drug Enforcement Agency

Stanislaus County (County) and the cities of Modesto, Oakdale, Ceres, Patterson, Turlock, Riverbank, Hughson, Waterford and Newman are the participants in the Stanislaus Drug Enforcement Agency (SDEA). The purpose of the SDEA is to maintain a specially trained police unit to assist each of the participating agencies in the enforcement of drug control laws, and to study, plan, and set priorities for effective enforcement of such laws throughout Stanislaus County. The governing board consists of the sheriff of Stanislaus County and the chief of police of each participating city. All participants contribute to the funding of the SDEA budgeted expenditures, based on population and assessed property value. The City's cash contribution to the SDEA for the fiscal year ended June 30, 2015 was \$416,816. The City's investment in this joint venture was estimated to be \$1,028,296 as of June 30, 2015, based on the most recent available information. This amount is reported in governmental activities in the statement of net position. 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 final at the end of June 2003. Starting in July 1, 2010 the County Auditor Controller became the fiscal administrator. For the fiscal year ended June 30, 2015, the City's payments to the Agency were \$786,926 for operations and capital reserve.

The City's equity interest in the Agency is \$9,709,827, 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 position. Financial statements of the Agency are prepared by the Stanislaus County Auditor Controller office.

#### 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, 2015, the City has no equity interest. Stanislaus County Treasurer's office prepares the Agency's financial statements.

#### Consolidated Emergency Dispatch Agency

The Modesto/Stanislaus Consolidated Emergency Dispatch Agency (the MSCEDA) was created on September 1, 1999, pursuant to a joint exercise of powers agreement between the City of Modesto and the County of Stanislaus. The MSCEDA is administered by a seven-member commission consisting of one member of the City Council, one member of the County Board of Supervisors, the County Chief Executive Officer, the City Manager, two members from the Dispatch Advisory Board, and one member from the City of Ceres' City Council or one member selected by the City Council of another participating City. The purpose of the MSCEDA is to consolidate the public safety communications system. The responsibilities of the agency include approval of annual budget, claims, liabilities, and the use of MSCEDA property as collateral. Each participant will contribute sufficient funds to pay for all costs and expenses associated with providing Emergency Dispatch Services. Upon termination of the agreement, assets will be distributed equally to the City and County, unless otherwise approved. The financial statements may be obtained by writing to the Modesto/Stanislaus Consolidated Emergency Dispatch, Office Manager, 3705 Oakdale Road, Modesto, California 95357.

#### North County Corridor Transportation Expressway Authority

On April 1, 2008, the City Council approved the establishment of a Joint Powers Authority between the County and the cities of Modesto, Oakdale and Riverbank to create the North County Corridor Transportation Expressway Authority (NCCTEA). The purpose of the Authority is to prepare, identify, and adopt a precise alignment, and prepare and certify environmental documents for a route to improve east/west traffic circulation in the County.

The intent of the NCCTEA is to provide a high capacity high speed east-west roadway to accommodate anticipated traffic growth, alleviate traffic on parallel roads, and to accommodate multi-modal travel. Under the terms of the agreement, the County will incur 40% of the costs of the project while each of the participating cities will be contributing 20%. The preliminary project development costs will be funded by State Transportation Program and Public Facility Fees. The NCCTEA Board of Directors will be comprised of two directors appointed by the County, and one director from each participating city. The board acts autonomously from the respective member agencies. The County of Stanislaus Public Works Director is designated as the NCCTEA's manager. Upon completion of the agreement, all assets will be distributed to the respective parties of the agreement as determined by the Board of Directors of the Authority. Financial statements may be obtained by writing to the County of Stanislaus, Public Works Department, 1716 Morgan Road, Modesto, CA 95358.

#### Stanislaus Animal Services Agency

The Stanislaus Animal Services Agency (SASA) was created October 27, 2009, pursuant to a joint powers agreement among the cities of Ceres, Hughson, Modesto, Patterson, Waterford, and the County of Stanislaus. SASA is administered by a six-member board comprised of the City Manager of each partner agency, and the Chief Executive Officer of the County. The purpose of SASA is to operate a regional agency providing animal services to their respective communities. The SASA Executive Director is responsible for the annual budget which must be approved by the SASA Board of Directors. Each partner agency will contribute sufficient funds to pay for all costs approved in the budget to provide animal services. Upon termination of the agreement, assets will be distributed in accordance with the joint powers agreement. The financial statements may be obtained by writing to the Stanislaus Animal Services Agency, Executive Director, 3647 Cornucopia Way, Modesto, CA 95358.

### 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.

### Modesto Regional Fire Authority

The City participates in the Modesto Regional Fire Authority, which was established by the City of Modesto, the Salida Fire Protection District, and the County of Stanislaus on January 17, 2011. The purpose of the authority is to provide fire suppression, protection and prevention, emergency management and related services including but not limited to technical rescue, emergency medical and transport services, and hazardous materials mitigation, as well as providing facilities and personnel for such services. As of July 1, 2014, this agency was dissolved and all services returned to the partner agency. The City received a cash distribution for the agency dissolution in the amount of \$2,500,721 reported in the City's General Fund under intergovernmental revenue and the unfunded liability for workers' compensation and employee benefits which transferred to the City of \$3,802,382 along with cash of \$1,359,023 resulted in a loss of \$2,443,359 reported in the City's internal service funds.

### Stanislaus Regional Water Authority

The City participates in the Stanislaus Regional Water Authority, which was established between the City of Ceres, Modesto and Turlock on September 27, 2011. The purpose of the authority is direct the future of the proposed Regional Surface Water Supply Project (RSWSP). The authority would purchase water from the Turlock Irrigation District, would treat such water, and make treated water available "at cost" to the participating agencies. For the fiscal year ended June 30, 2015, the City's payments to the Agency were \$45,170. The City has no equity interest.

### North Valley Regional Recycled Water Program (NVRWP)

The City participates in the NVRWP, which was established by the City of Modesto and Del Puerto Water District in November 2014. The purpose of this agreement is to develop, construct, operate and maintain water supply facilities and service. Through this agreement all partner agencies will cooperate and collaborate to use their best efforts regarding the submission of grants, loans and other funding resources to cover future cost related to the design and construction on future projects. At the end of the fiscal year June 30, 2015, the City has no equity interest.

## F. 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 based on certain criteria related to their hired and retirement date, under contractual agreements with all employee groups. All full-time employees hired before January 1, 2011, except firefighters who receive a cash payout, are eligible to set aside a percentage of accumulated sick leaves upon retirement to be used for payment of future health care premiums to a choice of insurance plans (sick leave conversion). The City has no obligation to pay the health insurance allowance for retirees with no accumulated sick leave. All employees hired on or after January 1, 2011 will not be eligible to participate in the sick leave conversion. As of June 30, 2015, there were 498 retirees receiving these health care benefits or a buy-out contribution to a retirement health savings account.

The OPEB Plan provisions and benefits in effect at June 30, 2015, are summarized as follows:

Benefit Types Provided	Police (including Management)	General Employees	Management	Fire	Fire Management
Duration of Benefits	Medical, dental and vision	Medical, dental and vision	Medical, dental and vision	Medical, dental and vision	Medical, dental and vision
City Health Allowance per month*	One month per eight hours of converted sick leave	One month per eight hours of converted sick leave	One month per eight hours of converted sick leave	Lifetime	One month per eight hours of converted sick leave
City Health Allowance per month**	\$621.00 for single; \$1,100.00 with dependents	\$621.00 for single; \$1,100.00 with dependents	\$621.00 for single; \$1,100.00 with dependents	\$122.00	\$621.00 for single; \$1,100.00 with dependents
City Health Allowance per month***	N/A	\$621.00 for single; \$858 with spouse; \$1,214 with dependents	N/A	N/A	N/A
City Health Allowance per month****	N/A	N/A	N/A	N/A	N/A

\*Employees hired before January 1, 2011 and retired on or after October 23, 2012 through December 31, 2014 have had their sick leave conversion frozen with the health allowance.

\*\*Employees hired before January 1, 2011 and retire after January 31, 2015 through December 31, 2015.

\*\*\*Employees hired before January 1, 2011 and retire after December 31, 2015 (after January 31, 2015 for General Employees, after July 1, 2014 for Modesto Police Officers Association, and after August 26, 2014 for Modesto Police Management Association) will be subject to the City's new retirement program. The new retirement program will provide a City contribution to a Retirement Health Savings (RHS) account based on allowance. More information about the new retirement program is available under the City of Modesto Human Resources Department website under Compensation and Labor Agreements.

Except for the Fire group, the City health allowance amounts may increase each year based on the health allowance for active employees but for all union groups newly retired employees will not have this option due to these health allowances being frozen. For the Fire group, the City health allowance amounts increase each year in accordance with Government Code Section 22825.

#### Funding Policy and Actuarial Assumptions

The City's funding policy for the Plan is to fund benefits on a pay-as-you-go basis. The annual required contribution was determined as part of the January 1, 2015 actuarial valuation using the entry age normal actuarial cost method. This is a projected benefit cost method, which takes into account those benefits that are expected to be earned in the future as well as those already accrued. The actuarial assumptions included (a) 4% investment rate of return, (b) 7% graded down to ultimate 5% rate over 8 years Medical cost trend rate; 5% Dental/Vision cost trend rate (c) Projected salary increases are based on California Public Employee Retirement System (CalPERS) experience study released in 2014 for miscellaneous, police and fire (refer to chart below).

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contribution of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The actuarial methods and assumptions used include techniques that are designed to reduce the short-term volatility in actuarial accrued liabilities and actuarial value of asset. 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.

Projections of benefits for financial purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include types of benefits provided at the time of each valuation and the historical

pattern of sharing benefit costs between the employer and the plan members to that point. 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.

The remaining amortization period at June 30, 2015 was 20 years.

Projected Salary Increases  
(CalPERS experience study released in 2014)

Service	Miscellaneous	Police	Fire
0	11.60%	14.70%	19.80%
3	8.10%	7.80%	9.40%
5	6.00%	5.80%	6.40%
10	4.30%	4.30%	4.60%
15	4.00%	4.30%	4.20%
20	3.80%	4.30%	3.90%
25	3.60%	4.30%	3.70%
30	3.40%	4.30%	3.60%

The City has set aside \$11,534,029 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 annual required contribution and the pay-as-you-go contributions.

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, so long as it is calculated in a manner consistent with GASB Statement 27, which employed methodologies consistent with those now required under GASB 45.

The Plan annual required contributions and actual contributions for the fiscal year ended June 30, 2015 and the prior two years is set forth below:

Fiscal Year	Annual Required Contribution (ARC)	Interest on Net OPEB Obligations	ARC Adjustments	Annual OPEB Cost	Actual Contribution	Net OPEB Obligation	Percentage of Annual OPEB Cost Contributed
6/30/2013	\$8,564,803	\$2,470,678	(\$4,544,921)	\$6,490,560	\$4,924,253	\$57,897,614	75.87%
6/30/2014	\$8,564,803	\$2,470,678	(\$4,544,921)	\$6,490,560	\$4,818,434	\$59,569,740	74.24%
6/30/2015	\$3,189,054	\$2,382,790	(\$4,383,246)	\$1,188,598	\$3,806,476	\$56,951,862	320.25%

The Schedule of Funding Progress is based on the most recent actuarial valuation as of January 1, 2015.

Actuarial Valuation Date	Actuarial Value of Assets (A)	Entry Age Actuarial Liability (B)	(Underfunded) Actuarial Liability (A-B)	Funded Ratio (A/B)	Covered Payroll (C)	(Underfunded) Actuarial Liability as Percentage of Covered Payroll [(A-B)/C]
01/01/2015	\$0	\$31,691,066	(\$31,691,066)	0.00%	\$46,576,754	-68.04%

The schedule of funding progress, presented as RSI following the notes to the basic financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability of benefits.

G. PENSION PLANS

I. General Information about the Pension Plans

**Plan Descriptions**

All City of Modesto qualified employees are eligible to participate in the City of Modesto separate Safety (police and fire) and Miscellaneous (all other) Plans, agent multi-employer defined benefit pension plans administered by the California Public Employees' Retirement System (CalPERS), which acts as a common investment and administrative agent for its participating member employers. Benefit provisions under the Plans are established by the State statute and City resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website. This report is available online at [www.calpers.ca.gov](http://www.calpers.ca.gov).

The California Legislature passed and the Governor signed the "Public Employees' Pension Reform Act of 2013" (PEPRA) on September 12, 2012. PEPRA contained a number of provisions intended to reduce future pension obligations. PEPRA primarily affects new pension plan members who are enrolled for the first time after December 2012. Benefit provisions and other requirements are established by State statute.

**Benefits Provided**

The benefits for the Plans are based on members' years of service, age, final compensation, and benefit formula. Benefits are provided for disability, death, and survivors of eligible members or beneficiaries. Members become fully vested in their retirement benefits earned to date after five years of credited service.

The Plans' provisions and benefits in effect at June 30, 2015 are summarized as follows:

Miscellaneous Plan:

	<b>Prior to January 17, 2012</b>	<b>January 17, 2012 to December 31, 2012</b>	<b>On or after January 1, 2013</b>
Hire date			
Benefit formula	2% @ 55	2% @ 60	2% @ 62
Benefit vesting schedule	5 years service	5 years service	5 years service
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	50 to 67	50 to 67	52 to 67
Monthly benefits, as a % of eligible compensation	1.426 to 2.418%	1.092 to 2.418%	1.0 to 2.5%

Safety Plan:

	<b>Prior to September 11, 2012</b>	<b>September 11, 2012 through December 31, 2012</b>	<b>On or after January 1, 2013</b>
Hire date			
Benefit formula	3% @ 50	3% @ 55	2.7% @ 57
Benefit vesting schedule	5 years service	5 years service	5 years service
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	50 to 55	50 to 55	50 to 57
Monthly benefits, as a % of eligible compensation	3.0%	2.4 to 3.0%	2.0 to 2.7%

**Contributions**

Section 20814(c) of the California Public Employees Retirement Law (PERL) requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through the CalPERS' annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The City is required to contribute the difference between the actuarially determined

rate and the contribution rate of employees.

For the measurement period ended June 30, 2014 (the measurement date) for the Plans, the average active employee contribution rate was 6.971% of annual pay for Miscellaneous and 9.050% for Safety and the employer's contribution rate is 11.984% of annual payroll for Miscellaneous and 30.607% for Safety. Employer contribution rates may change if plan contracts are amended.

## II. Net Pension Liability

The City's net pension liability for each Plan is measured as the total pension liability, less the pension plan's fiduciary net position. The net pension liability of each of the Plans is measured as of June 30, 2014, using an annual actuarial valuation as of June 30, 2013 rolled forward to June 30, 2014 using standard update procedures.

A summary of principal assumptions and methods used to determine the net pension liability is shown below:

	<b>Miscellaneous Plan</b>	<b>Safety Plan</b>
Actuarial Cost Method	Entry-Age Normal	Entry-Age Normal
Actuarial Assumptions:		
Discount Rate	7.5%	7.5%
Inflation	2.75%	2.75%
Salary Increases	Varies by Entry Age and Service	Varies by Entry Age and Service
Investment Rate of Return	7.5% <sup>(1)</sup>	7.5% <sup>(1)</sup>
Mortality Rate Table <sup>(2)</sup>	CalPERS Membership Data	CalPERS Membership Data
Post Retirement Benefit Increase	Up to 2.75%	Up to 2.75%

<sup>(1)</sup> Net of Pension Plan Investment and Administrative Expenses; includes inflation

<sup>(2)</sup> The mortality table used was developed based on CalPERS specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 2014 experience study report.

All other actuarial assumptions used in the June 30, 2013 valuation were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study report can be obtained at CalPERS website under Forms and Publications.

### **Discount Rate**

The discount rate used to measure the total pension liability was 7.50 percent. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.50 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long-term expected discount rate of 7.50 percent is applied to all plans in the Public Employees Retirement Fund. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained at CalPERS' website under the GASB 68 section.

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50 percent investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65 percent. Using this lower discount rate has resulted in a slightly higher total pension liability and net pension liability. This difference was not material to the financial statements of the City.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as it has changed its methodology.

The long-term expected rate of return on pension plan investments was determined using a building-block method

in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one-quarter of one percent.

The table below reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These geometric rates of return are net of administrative expenses.

<b>Asset Class</b>	<b>New Strategic Allocation</b>	<b>Real Return Years 1 – 10<sup>(1)</sup></b>	<b>Real Return Years 11+<sup>(2)</sup></b>
Global Equity	47.0%	5.25%	5.71%
Global Fixed Income	19.0	0.99	2.43
Inflation Sensitive	6.0	0.45	3.36
Private Equity	12.0	6.83	6.95
Real Estate	11.0	4.50	5.13
Infrastructure and Forestland	3.0	4.50	5.09
Liquidity	2.0	(0.55)	(1.05)

(1) An expected inflation of 2.5% used for this period

(2) An expected inflation of 3.0% used for this period

### III. Changes in the Net Pension Liability

The changes in the Net Pension Liability for each Plan follows:

Miscellaneous Plan:

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability/(Asset) (c) = (a) - (b)
Balance at June 30, 2013 <sup>(1)</sup>	\$ 380,805,825	\$ 284,695,845	\$ 96,109,980
Changes Recognized for the Measurement Period:			
Service Cost	6,400,912	-	6,400,912
Interest on the Total Pension Liability	28,037,915	-	28,037,915
Contributions from the Employer	-	4,654,055	(4,654,055)
Contributions from the Employees	-	2,853,492	(2,853,492)
Net Investment Income <sup>(2)</sup>	-	48,702,803	(48,702,803)
Benefit Payments, Including Refunds of Employee Contributions	(20,334,821)	(20,334,821)	-
<b>Net Change during 2013-14</b>	<b>14,104,006</b>	<b>35,875,529</b>	<b>(21,771,523)</b>
Balance at June 30, 2014 <sup>(1)</sup>	\$ 394,909,831	\$ 320,571,374	\$ 74,338,457

Safety Plan:

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability/(Asset) (c) = (a) - (b)
Balance at June 30, 2013 <sup>(1)</sup>	\$ 478,481,227	\$ 328,498,093	\$ 149,983,134
Changes Recognized for the Measurement Period:			
Service Cost	8,970,868	-	8,970,868
Interest on the Total Pension Liability	35,310,732	-	35,310,732
Contributions from the Employer	-	8,963,542	(8,963,542)
Contributions from the Employees	-	2,939,117	(2,939,117)
Net Investment Income <sup>(2)</sup>	-	56,385,743	(56,385,743)
Benefit Payments, Including Refunds of Employee Contributions	(24,313,823)	(24,313,823)	-
Net Change during 2013-14	19,967,777	43,974,579	(24,006,802)
Balance at June 30, 2014 <sup>(1)</sup>	\$ 498,449,004	\$ 372,472,672	\$ 125,976,332

(1) The fiduciary net position includes receivables for employee service buybacks, deficiency reserves, fiduciary self-insurance and OPEB expense. This may differ from the plan assets reported in the funding actuarial valuation report.

(2) Net of administrative expenses.

**Sensitivity of the Net Pension Liability to Changes in the Discount Rate**

The following presents the net pension liability of the Plan as of the measurement date, calculated using the discount rate of 7.50 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.50 percent) or 1 percentage-point higher (8.50 percent) than the current rate:

Miscellaneous Plan:

	Discount Rate - 1% (6.50%)	Current Discount Rate (7.50%)	Discount Rate + 1% (8.50%)
Plan's Net Pension Liability	\$ 122,911,240	\$ 74,338,457	\$ 33,746,947

Safety Plan:

	Discount Rate - 1% (6.50%)	Current Discount Rate (7.50%)	Discount Rate + 1% (8.50%)
Plan's Net Pension Liability	\$ 192,913,419	\$ 125,976,332	\$ 70,930,031

IV. Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions

As of the start of the measurement period (July 1, 2013), the net pension liability was \$96,109,980 for the Miscellaneous Plan and \$149,983,134 for the Safety Plan.

For the measurement period ended June 30, 2014 (the measurement date), the City incurred a pension expense of \$5,195,114 for the Miscellaneous Plan and \$10,800,545 for the Safety Plan.

As of June 30, 2014, the City has deferred outflows and deferred inflows of resources related to pensions as follows:

Miscellaneous Plan:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions subsequent to the measurement date	\$ 5,612,263	\$ -
Net Difference between Projected and Actual Earnings on Pension Plan Investments	-	(22,312,582)
<b>Total</b>	<b>\$ 5,612,263</b>	<b>\$ (22,312,582)</b>

Safety Plan:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions subsequent to the measurement date	\$ 9,826,459	\$ -
Net Difference between Projected and Actual Earnings on Pension Plan Investments	-	(25,843,805)
<b>Total</b>	<b>\$ 9,826,459</b>	<b>\$ (25,843,805)</b>

The amounts above are net of outflows and inflows recognized in the 2013-2014 measurement period expense. The amounts above reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2016.

Other amounts reported as deferred inflows of resources related to pensions will be recognized in future pension expense as follows:

Fiscal Year Ended June 30	Miscellaneous Plan	Safety Plan
2015	\$ (5,578,145)	\$ (6,460,951)
2016	(5,578,145)	(6,460,951)
2017	(5,578,145)	(6,460,951)
2018	(5,578,147)	(6,460,952)
Total	\$ (22,312,582)	\$ (25,843,805)

H. PRIOR YEAR ADJUSTMENTS

Governmental Activities

A prior year adjustment was reported in the General Fund to decrease the fund balance in the amount of \$111,616 and \$805,437 in the Housing and Community Development Fund to account for expenditures not accrued in the prior fiscal year. The Capital Grants Fund reported a prior year adjustment in the amount of \$1,069 to correct an overstatement in a prior year expenditure accrual reported in the prior year. The prior year adjustments reported in other governmental funds were made to correct prior year unearned revenue, which should have been recognized as actual revenue and to account for property held for resale that had been sold in a prior year for a net total of \$11,825,552. Additionally, in other governmental funds an approved loans payable was reported for a long-term liability due over a year old in error on the governmental fund statements, which generated an increase of fund balance in the amount of \$575,000. The total amount for the prior year adjustment to increase fund balance for all governmental funds is \$11,484,568.

With the implementation of GASB Statement No. 68, the net pension liability offset by the related deferred outflows of

resources as of June 30, 2014 reduces the beginning net position for the Governmental Activities. The beginning net position decreased by \$184,460,226 for the amount related to the governmental funds and for Internal Service Funds by \$9,070,076. The prior year adjustment for the loans payable reported in the other governmental funds for \$575,000 was reversed due to the liability being reported in the Statement of Net Position for the Governmental Activities generating a decrease in net position. Additionally, there were some corrections to various governmental and Internal Service Funds capital assets that were identified as part of the annual inventory review, which generated a decrease in net position in the amount of \$3,402,733, \$467,125 of which was related to Internal Service Funds. For the Internal Service Funds, the compensated absence liability was overstated due to a miscalculation error generating an increase in net position in the amount of \$2,330,638. The Reimbursement Agreement between the City and Successor Agency associated with the obligations for the repayment of the 2008 Lease Revenue Bonds was not captured in prior year's financial statements. This correction generated an increase in net position in the amount of \$17,247,750. Finally, the recognition of revenue for the Neighborhood Stabilization program deferred loans was captured as unearned revenue on the Governmental Activities in error, which generated an increase in net position by \$28,677,805. The total amount reported for the Governmental Activities is a decrease in net position in the amount of \$137,767,274.

### Business-type Activities

With the implementation of GASB Statement No. 68, the net pension liability offset by the related deferred outflows of resources as of June 30, 2014 reduces the beginning net position for the Business-type Activities. The beginning net position decreased for the following funds:

Water	\$	(14,634,447)
Sewer		(14,034,031)
Bus		(2,336,381)
Other Enterprise Funds		(7,940,356)
Total Business-Type	\$	<u>(38,945,215)</u>

Additionally, there were some corrections to various capital projects, which were determined to be non-capital related and expenses not capitalized as part of prior year construction work in progress. The change in net position included a reduction for the Water Fund in the amount of \$972,654, a reduction for the Sewer Fund in the amount of \$5,477,852. In the Water Fund, the reimbursement agreement related to the MID 2013 G Bond refunding was accounted for incorrectly, which generated an increase in net position by \$4,783,179.

For the Water and Sewer Enterprise funds, a pollution remediation liability was reported based on the net recoveries received for the remediation and legal costs incurred in pursuit of mitigating damages from the manufacturers of perchlorethylene, or PCE. In prior years, only current year expenses were reported related to the remediation and legal cost. This correction generated a decrease in net position for the Water and Sewer Enterprise funds in the amount of \$9,988,781 and \$10,914,776.

In the Bus Fund, an error was made related to an increase in value to an existing asset record for improvements made to several buses. When the adjustment was made, it calculated depreciation expense based on the original acquisition date and not the date the improvement was made. This generated an overstatement in depreciation expense in 2014 increasing net position by \$686,553. Additionally, due to additional Bus expenses posting after year-end revenue accruals were posted the revenue accrual did not get factored into the calculation for recognizing revenue for the previous year generating an increase in net position by \$26,037.

For the other Enterprise Funds, there were also corrections similar to the Governmental Activities for various capital projects, which were determined to be non-capital related or expenses not capitalized as part of prior year construction work in progress. This amount resulted in a decrease in net position of \$206,774. There was a correction to account for property held for resale that had been sold in a prior year which generated a decrease in net position in the amount of \$630,000. The total amount reported for the business-type activities is a decrease in net position in the amount of \$61,640,283.

### Fiduciary Funds

The Private-Purpose Trust Fund reported a liability associated with the Governmental Activities Reimbursement Agreement receivable between the City and Successor Agency for the obligations for the repayment of the 2008 Lease Revenue Bonds, which was not captured in prior year's financial statements. This correction generated a decrease in

net position in the amount of \$17,247,750.

#### I. DEFICIENCY OF EXPENDITURES OVER APPROPRIATIONS

For the fiscal year ended June 30, 2015, expenditures exceeded appropriations as follows:

##### **General Fund**

<b><u>Expenditures</u></b>	<b><u>Amount</u></b>
Parks and Recreation and Public Works- Facilities	\$460
Public Safety – Fire Protection	938,616

##### **Housing and Community Development**

<b><u>Expenditures</u></b>	<b><u>Amount</u></b>
Housing and Community Development – Interest Expenditures	\$85,979

##### **Other Governmental Funds**

<b><u>Expenditures</u></b>	<b><u>Amount</u></b>
Operating Grants – Parks and Recreation	\$238,253

#### J. SUBSEQUENT EVENTS

On October 27, 2015, the City Council approved the execution in connection with the private sale and issuance of the City of Modesto Wastewater Revenue Refunding Bonds, Series 2015 for \$19.4 million, which will refund the City of Modesto Wastewater Series 2005A and 2006A bonds. This refunding will generate significant savings for the City, which will include a gross savings of approximately \$4.2 million with a net present value of \$2.3 million.

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RSI Section Tab

RSI Section Tab

## **REQUIRED SUPPLEMENTARY INFORMATION**



**City of Modesto**  
**Schedule of Changes in the Net Pension Liability and Related Ratios**  
**During the Measurement Period**

	<u>Miscellaneous Plan</u>	<u>Safety Plan</u>
Measurement Period <sup>(1)</sup>	2013-2014	2013-2014
<b>TOTAL PENSION LIABILITY</b>		
Service Cost	\$ 6,400,912	\$ 8,970,868
Interest	28,037,915	35,310,732
Changes of Benefit Terms	-	-
Difference Between Expected and Actual Experience	-	-
Changes of Assumptions	-	-
Benefit Payments, Including Refunds of Employee Contributions	(20,334,821)	(24,313,823)
<b>Net Change in Total Pension Liability</b>	<u>14,104,006</u>	<u>19,967,777</u>
<b>Total Pension Liability – Beginning</b>	<u>380,805,825</u>	<u>478,481,227</u>
<b>Total Pension Liability – Ending (a)</b>	<u>\$ 394,909,831</u>	<u>\$ 498,449,004</u>
<b>PLAN FIDUCIARY NET POSITION</b>		
Contributions – Employer	\$ 4,654,055	\$ 8,963,542
Contributions – Employee	2,853,492	2,939,117
Net Investment Income <sup>(2)</sup>	48,702,803	56,385,743
Benefit Payments, Including Refunds of Employee Contributions	(20,334,821)	(24,313,823)
Other Changes in Fiduciary Net Position	-	-
<b>Net Change in Fiduciary Net Position</b>	<u>35,875,529</u>	<u>43,974,579</u>
<b>Plan Fiduciary Net Position – Beginning</b>	<u>284,695,845</u>	<u>328,498,093</u>
<b>Plan Fiduciary Net Position – Ending (b)</b>	<u>\$ 320,571,374</u>	<u>\$ 372,472,672</u>
<b>Plan Net Pension Liability – Ending (a) - (b)</b>	<u>\$ 74,338,457</u>	<u>\$ 125,976,332</u>
<b>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</b>	81.18%	74.73%
<b>Covered-Employee Payroll</b>	\$ 44,125,963	\$ 31,090,551
<b>Plan Net Pension Liability as a Percentage of Covered-Employee Payroll</b>	168.47%	405.19%

(1) Historical information is required only for measurement periods for which GASB 68 is applicable.

(2) Net of administrative expenses.

Benefit Changes: The figures above do not include any liability impact that may have resulted from plan changes, which occurred after June 30, 2013. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit (a.k.a. Golden Handshakes).

Changes of Assumptions: There were no changes in assumptions.

**City of Modesto**  
**Schedule of Plan Contributions <sup>(1)</sup>**

	<u>Miscellaneous Plan</u>	<u>Safety Plan</u>
Fiscal Year	2013-2014	2013-2014
Actuarially Determined Contribution	\$ 4,654,055	\$ 8,963,542
Contributions in Relation to the Actuarially Determined Contribution	<u>(4,654,055)</u>	<u>(8,963,542)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>
Covered-Employee Payroll	\$ 44,125,963	\$ 31,090,551
Contributions as a Percentage of Covered-Employee Payroll	10.55%	28.83%

	<u>Miscellaneous Plan</u>	<u>Safety Plan</u>
Fiscal Year	2014-2015	2014-2015
Actuarially Determined Contribution	\$ 5,612,263	\$ 9,826,459
Contributions in Relation to the Actuarially Determined Contribution	<u>(5,612,263)</u>	<u>(9,826,459)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>
Covered-Employee Payroll	\$ 45,449,742	\$ 32,023,268
Contributions as a Percentage of Covered-Employee Payroll	12.35%	30.69%

(1) Historical information is required only for fiscal year for which GASB 68 is applicable.

Notes to schedule:

The actuarial methods and assumptions used to set the actuarially determined contributions for Fiscal Year 2013-14 and 2014-15 were as follows for both June 30, 2011 and June 30, 2012 actuarial valuations.

Actuarial Cost Method	Entry Age Normal
Amortization Method/Period	For details, see June 30, 2011 Funding Valuation Report.
Asset Valuation Method	Actuarial Value of Assets
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Payroll Growth	3.00%
Investment Rate of Return	7.50% Net of Pension Plan Investment and Administrative Expenses; includes Inflation.
Retirement Age	The probabilities of Retirement are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007.
Mortality	The probabilities of mortality are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007. Pre-retirement and Post-retirement mortality rates include 5 years of projected mortality improvement using Scale AA published by the Society of Actuaries.

**SCHEDULE OF FUNDING PROGRESS FOR OPEB**

Actuarial Valuation Date**	Actuarial Value of Assets (A)	Entry Age Actuarial Accrued Liability (B)	(Underfunded) Actuarial Accrued Liability (A-B)	Funded Ratio (A/B)	Covered Payroll (C)	(Underfunded) Actuarial Liability as Percentage of Covered Payroll [(A-B)/C]
6/30/2010	\$0	\$104,399,231	(\$104,399,231)	0.00%	\$81,027,934	-128.84%
1/1/2013	\$0	\$78,245,964	(\$78,245,964)	0.00%	\$77,058,743	-101.54%
1/1/2015	\$0	\$31,691,066	(\$31,691,066)	0.00%	\$46,576,754	(1) -68.04%

(1) Payroll decreased because it is limited to active participants with a liability.

**CITY OF MODESTO**  
**SCHEDULE OF REVENUES - BUDGET (GAAP BASIS) AND ACTUAL - GENERAL FUND**  
**FISCAL YEAR ENDED JUNE 30, 2015**

	Budget		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b><u>TAXES</u></b>				
Utility users tax	\$ 20,250,000	\$ 20,250,000	\$ 19,591,170	\$ (658,830)
Property tax	12,605,851	13,506,947	13,551,827	44,880
Transient occupancy tax	1,850,000	1,890,000	2,097,952	207,952
Franchise tax	4,251,200	4,300,000	4,642,212	342,212
Business license tax	10,250,000	10,847,412	11,421,759	574,347
<b>Total taxes</b>	<b>49,207,051</b>	<b>50,794,359</b>	<b>51,304,920</b>	<b>510,561</b>
<b><u>LICENSES AND PERMITS</u></b>	<b>70,316</b>	<b>70,316</b>	<b>86,411</b>	<b>16,095</b>
<b><u>INTERGOVERNMENTAL</u></b>				
Sales tax	20,733,507	20,793,298	20,880,850	87,552
In-lieu sales tax	7,561,886	7,561,886	7,556,744	(5,142)
Motor vehicle license fees	12,958,819	13,871,248	13,871,248	-
State	620,000	620,000	784,042	164,042
County	212,566	265,349	166,058	(99,291)
Federal	-	-	30,719	30,719
Other intergovernmental	2,095,521	2,750,521	5,113,239	2,362,718
<b>Total intergovernmental</b>	<b>44,182,299</b>	<b>45,862,302</b>	<b>48,402,900</b>	<b>2,540,598</b>
<b><u>CHARGES FOR SERVICES</u></b>				
General government	2,894,182	2,689,554	2,827,490	137,936
Community development	2,340,807	2,340,807	2,128,489	(212,318)
Public works	1,772,938	1,772,938	1,942,252	169,314
Parks and recreation	706,731	706,731	845,083	138,352
Public safety	872,247	2,127,115	2,863,016	735,901
Indirect cost recovery	3,107,633	3,107,633	3,107,631	(2)
<b>Total charges for services</b>	<b>11,694,538</b>	<b>12,744,778</b>	<b>13,713,961</b>	<b>969,183</b>
<b><u>INTEREST AND RENT</u></b>	<b>280,360</b>	<b>284,635</b>	<b>409,712</b>	<b>125,077</b>
<b><u>NET DECREASE IN FAIR VALUE OF INVESTMENTS</u></b>	<b>-</b>	<b>-</b>	<b>(53,513)</b>	<b>(53,513)</b>
<b><u>FINES AND FORFEITS</u></b>	<b>811,610</b>	<b>811,610</b>	<b>653,339</b>	<b>(158,271)</b>
<b><u>MISCELLANEOUS</u></b>				
Mandated cost recovery	121,000	713,576	1,467,296	753,720
Other	287,601	287,601	938,374	650,773
<b>Total miscellaneous</b>	<b>408,601</b>	<b>1,001,177</b>	<b>2,405,670</b>	<b>1,404,493</b>
<b>Total revenues</b>	<b>\$ 106,654,775</b>	<b>\$ 111,569,177</b>	<b>\$ 116,923,400</b>	<b>\$ 5,354,223</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**  
**FISCAL YEAR ENDED JUNE 30, 2015**

	Budget		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
General government:				
City council	\$ 406,016	\$ 410,446	\$ 391,539	\$ 18,907
Human resources	1,298,567	1,321,797	1,255,754	66,043
City manager	1,558,308	1,648,642	1,545,767	102,875
City attorney	2,372,480	2,383,592	2,268,086	115,506
City clerk/auditor	697,920	757,616	513,672	243,944
Finance	4,848,897	4,966,007	4,568,537	397,470
Other	716,000	718,996	554,567	164,429
Total general government	<u>11,898,188</u>	<u>12,207,096</u>	<u>11,097,922</u>	<u>1,109,174</u>
Community development:	<u>5,593,242</u>	<u>5,871,071</u>	<u>5,358,032</u>	<u>513,039</u>
Parks and recreation and public works:				
Operations and maintenance dept:				
Service and maintenance	4,793,794	4,783,851	4,510,512	273,339
Community services & neighborhood Connection:				
Administration	1,601,778	1,459,407	1,144,248	315,159
Culture	497,929	528,278	479,598	48,680
Recreation division	1,934,340	1,949,497	1,844,491	105,006
Facilities	806,874	817,273	817,733	(460)
Total parks and recreation and public works	<u>9,634,715</u>	<u>9,538,306</u>	<u>8,796,582</u>	<u>741,724</u>
Public safety:				
Fire protection	22,617,884	27,506,559	28,445,175	(938,616)
Police protection	52,644,194	54,167,616	53,264,543	903,073
Total public safety	<u>75,262,078</u>	<u>81,674,175</u>	<u>81,709,718</u>	<u>(35,543)</u>
Debt Service:				
Principal retirement	<u>-</u>	<u>73,336</u>	<u>73,335</u>	<u>1</u>
Total expenditures	<u>\$ 102,388,223</u>	<u>\$ 109,363,984</u>	<u>\$ 107,035,589</u>	<u>\$ 2,328,395</u>

NOTE: The expenditures by function amounts listed above include the capital outlay expenditures within each department.

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

**CITY OF MODESTO**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN**  
**FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL - HOUSING**  
**AND COMMUNITY DEVELOPMENT SPECIAL REVENUE FUND**  
**FISCAL YEAR ENDED JUNE 30, 2015**

	Budget		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Intergovernmental - federal grants	\$ 2,047,477	\$ 6,898,805	\$ 4,815,311	\$ (2,083,494)
Charges for services	160,520	170,520	139,782	(30,738)
Interest and rent - interest	-	-	378	378
Net decrease in fair value of investments	-	-	(71,656)	(71,656)
Miscellaneous	350,000	350,000	5,408	(344,592)
Total revenues	<u>2,557,997</u>	<u>7,419,325</u>	<u>4,889,223</u>	<u>(2,530,102)</u>
<b>EXPENDITURES</b>				
Community development	2,256,631	2,306,289	2,080,863	225,426
Debt service:				
Principal retirement	166,483	211,000	211,000	-
Interest	211,000	166,483	252,462	(85,979)
Other	-	10,702	10,702	-
Total expenditures	<u>2,634,114</u>	<u>2,694,474</u>	<u>2,555,027</u>	<u>139,447</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(76,117)</u>	<u>4,724,851</u>	<u>2,334,196</u>	<u>(2,390,655)</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	-	185,845	-	(185,845)
Transfers out	-	(242,630)	(51,003)	191,627
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>(56,785)</u>	<u>(51,003)</u>	<u>5,782</u>
CHANGES IN FUND BALANCE	(76,117)	4,668,066	2,283,193	(2,384,873)
FUND BALANCE, JULY 1	20,574,671	20,574,671	20,574,671	-
PRIOR PERIOD ADJUSTMENT	-	-	(805,437)	(805,437)
FUND BALANCE, JUNE 30	<u>\$ 20,498,554</u>	<u>\$ 25,242,737</u>	<u>\$ 22,052,427</u>	<u>\$ (3,190,310)</u>

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

**CITY OF MODESTO**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**FISCAL YEAR ENDED JUNE 30, 2015**

BUDGETARY INFORMATION - The City follows these procedures annually in establishing the budgetary data reflected in the budgetary comparison schedules for operating, non-capital multi-year, and capital budgets:

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 for operating, non-capital multi-year and capital projects.
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 all proposed budgets 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. Authority to approve any adjustment in the amount of \$25,000 or less is delegated to the Director of Finance.
  - b. Authority to approve any adjustment in an amount between \$25,000 and \$50,000 is delegated to the City Manager.
  - c. Authority for any budget adjustment more than \$50,000 is delegated to the parties described below:
    - a. Items requiring City Council Action – appropriation of undesignated reserves; appropriation of new revenues; transfers of appropriations between funds (inter-fund transfers); creation of inter-fund loans; creation of, or increase in, any multi-year appropriation.
    - b. Items delegated to the City Manager – transfer appropriations between departments within a fund; changing any capital equipment appropriation; appropriation of reserves for litigation on a case-by-case basis; appropriation of developer payments not previously budgeted.
    - c. Items delegated to the Director of Finance – appropriation of grant interest; revise the allocation of Internal Service Fund charges between departments provided that the total allocated amount does not increase; changing any capital improvement budget line item appropriation; make technical budget corrections to implement the intent of Council approved actions and resolutions.
    - d. Items delegated to Department Directors – transfer appropriations within a department, within a single fund.
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.

**CITY OF MODESTO**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (CONT)**  
**FISCAL YEAR ENDED JUNE 30, 2015**

7. For each legally adopted operating budget, expenditures may not exceed budgeted appropriations at the appropriation unit 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 complete the year within their legally authorized expenditures except the Local Transportation Fund due to a budget error. Encumbrance accounting, under which purchase orders, contracts and other commitments are recorded to reserve the applicable appropriations, is employed in the governmental funds.

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

**COMBINING AND INDIVIDUAL FUND  
STATEMENTS AND SCHEDULES**



## Nonmajor Governmental Funds

### Nonmajor Special Revenue Funds

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

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

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

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

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

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

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

### Nonmajor Capital Projects Funds

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

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

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

**SECURITIES FOR FUTURE IMPROVEMENTS FUND** – To account for the collection of impact fees for approved development projects to construct facilities needed for future development.

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

**SUCCESSOR REDEVELOPMENT HOUSING AGENCY FUND** – To account for the housing redevelopment capital projects financed by the Successor Redevelopment Housing Agency of the City of Modesto.

**CAPITAL FACILITY FEES FUND** – To account for special fees collected on new building permits to be used for construction of certain growth related projects. The fees and related capital projects include police department expansion, fire department expansion, expressway loop, street lights, street improvements, parks, new traffic signals, City downtown, wastewater treatment, public transportation, and air quality improvements.

### Nonmajor Debt Service Fund

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 Fund includes:

**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, 2015**

	Special Revenue					
	Operating Grants	Local Transportation	Traffic Safety	Downtown Improvement District	Strategic Planning and Development	Special Gas Tax Street Improvement
<b>ASSETS</b>						
Cash and cash equivalents	\$ 1,377,293	\$ 1,340,411	\$ -	\$ 40,884	\$ 970,336	\$ 13,804,751
Receivables:						
Accounts, net	52,819	-	5,727	-	12,569	6,494
Interest	5,504	5,873	-	71	2,013	26,373
Utilities, net	1,219	-	-	-	-	-
Taxes	-	-	-	-	-	282,002
Due from governments	234,806	312,826	-	-	-	286,824
Prepaid expenditures	3,100	-	-	-	25	2,231
Restricted assets:						
Cash and cash equivalents	2,108,133	418,734	2,098,179	-	-	-
Cash and cash equivalents with fiscal agent	629,540	-	-	-	-	-
Accounts receivable	-	-	-	-	-	-
Interest receivable	-	-	-	-	-	-
Due from governments	-	-	37,540	-	-	-
Notes receivable, net	70,179	-	-	-	-	-
<b>Total assets</b>	<b>\$ 4,482,593</b>	<b>\$ 2,077,844</b>	<b>\$ 2,141,446</b>	<b>\$ 40,955</b>	<b>\$ 984,943</b>	<b>\$ 14,408,675</b>
<b>LIABILITIES AND AND FUND BALANCES</b>						
Liabilities:						
Accounts payable	\$ 392,717	\$ 6,745	\$ 3,855	\$ 9	\$ 3,351	\$ 753,981
Accrued salaries and benefits	113,492	-	1,872	-	-	106,314
Interest payable	6	-	-	-	-	-
Due to other funds	-	-	-	-	-	-
Due to other governments	-	-	-	-	-	-
Unearned revenue	1,132,920	1,652,365	-	-	1,782	-
Refundable deposits	-	-	-	-	-	-
Advances from other funds	32,506	-	-	-	-	-
<b>Total liabilities</b>	<b>1,671,641</b>	<b>1,659,110</b>	<b>5,727</b>	<b>9</b>	<b>5,133</b>	<b>860,295</b>
Fund balances:						
Nonspendable	3,100	-	-	-	25	2,231
Restricted	2,807,852	418,734	2,135,719	-	-	-
Assigned	-	-	-	40,946	979,785	13,546,149
Unassigned	-	-	-	-	-	-
<b>Total fund balances</b>	<b>2,810,952</b>	<b>418,734</b>	<b>2,135,719</b>	<b>40,946</b>	<b>979,810</b>	<b>13,548,380</b>
<b>Total liabilities and fund balances</b>	<b>\$ 4,482,593</b>	<b>\$ 2,077,844</b>	<b>\$ 2,141,446</b>	<b>\$ 40,955</b>	<b>\$ 984,943</b>	<b>\$ 14,408,675</b>

Capital Projects

Special Fund for Capital Outlays	Parks	Securities for Future Improvements	Community Facilities Districts	Successor Redevelopment Housing Agency	Capital Facility Fees
\$ -	\$ -	\$ -	\$ 135,502	\$ -	\$ 252,810
3,250	-	-	-	-	600
-	-	-	25,773	-	56,920
-	-	-	-	-	-
-	-	-	12,040	1,192,004	1,071,328
-	-	-	-	-	-
-	602,173	66,397	16,421,088	-	27,163,511
-	-	-	-	-	-
-	4,247	-	-	-	-
-	1,109	-	-	-	-
-	-	-	-	-	-
-	-	-	-	2,211,000	-
<u>\$ 3,250</u>	<u>\$ 607,529</u>	<u>\$ 66,397</u>	<u>\$ 16,594,403</u>	<u>\$ 3,403,004</u>	<u>\$ 28,545,169</u>
\$ -	\$ 826	\$ -	\$ 147,258	\$ -	\$ 376,671
-	-	-	9,507	-	-
-	-	-	-	1,518	-
273	-	-	-	-	-
-	-	-	-	652,094	-
-	-	-	-	-	-
-	-	-	16,550	-	-
-	-	-	-	145,727	1,004,987
<u>273</u>	<u>826</u>	<u>-</u>	<u>173,315</u>	<u>799,339</u>	<u>1,381,658</u>
-	-	-	-	-	-
-	606,703	66,397	16,421,088	2,211,000	27,163,511
2,977	-	-	-	392,665	-
-	-	-	-	-	-
<u>2,977</u>	<u>606,703</u>	<u>66,397</u>	<u>16,421,088</u>	<u>2,603,665</u>	<u>27,163,511</u>
<u>\$ 3,250</u>	<u>\$ 607,529</u>	<u>\$ 66,397</u>	<u>\$ 16,594,403</u>	<u>\$ 3,403,004</u>	<u>\$ 28,545,169</u>

**CITY OF MODESTO**  
**COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS**  
**JUNE 30, 2015**

	Debt Service Public Financing Authority	Total
<u>ASSETS</u>		
Cash and cash equivalents	\$ 216,934	\$ 18,138,921
Receivables:		
Accounts, net	-	81,459
Interest	-	122,527
Utilities, net	-	1,219
Taxes	-	282,002
Due from governments	-	3,109,828
Prepaid expenditures	-	5,356
Restricted assets:		
Cash and cash equivalents	-	48,878,215
Cash and cash equivalents with fiscal agent	4,859,132	5,488,672
Accounts receivable	-	4,247
Interest receivable	-	1,109
Due from governments	-	37,540
Notes receivable, net	-	2,281,179
	<u>\$ 5,076,066</u>	<u>\$ 78,432,274</u>
<u>LIABILITIES AND FUND BALANCES</u>		
Liabilities:		
Accounts payable	\$ 225,954	\$ 1,911,367
Accrued salaries and benefits	-	231,185
Interest payable	-	1,524
Due to other funds	-	273
Due to other governments	-	652,094
Unearned revenue	-	2,787,067
Refundable deposits	-	16,550
Advances from other funds	-	1,183,220
	<u>225,954</u>	<u>6,783,280</u>
Fund balances:		
Nonspendable	-	5,356
Restricted	4,859,132	56,690,136
Assigned	-	14,962,522
Unassigned	(9,020)	(9,020)
	<u>4,850,112</u>	<u>71,648,994</u>
Total fund balances	<u>4,850,112</u>	<u>71,648,994</u>
Total liabilities and fund balances	<u>\$ 5,076,066</u>	<u>\$ 78,432,274</u>

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**CITY OF MODESTO**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS**  
**FISCAL YEAR ENDED JUNE 30, 2015**

	Special Revenue					
	Operating Grants	Local Transportation	Traffic Safety	Downtown Improvement District	Strategic Planning and Development	Special Gas Tax Street Improvement
<b>REVENUES:</b>						
Taxes	\$ -	\$ -	\$ -	\$ 188,247	\$ -	\$ 1,125,934
Licenses and permits	55,349	-	-	-	-	8,128
Intergovernmental	1,969,855	3,923,631	-	-	285,752	5,924,101
Charges for services	4,801,323	-	188,037	-	121,944	993,954
Special assessments levied	67,641	-	-	-	-	-
Interest and rent	13,826	21,902	-	187	101,564	102,608
Net increase (decrease) in fair value of investments	(9,833)	(8,792)	-	(66)	(3,045)	(45,635)
Fines and forfeits	-	-	517,737	-	-	-
Miscellaneous	257,630	-	-	-	-	80,454
Total revenues	<u>7,155,791</u>	<u>3,936,741</u>	<u>705,774</u>	<u>188,368</u>	<u>506,215</u>	<u>8,189,544</u>
<b>EXPENDITURES:</b>						
Current:						
General government	236,280	-	-	-	-	-
Community development	1,513,843	-	-	159,930	217,166	-
Highways and streets	-	17,962	-	-	-	9,431,186
Public works	3,692,929	-	-	-	-	-
Parks and recreation	1,013,248	-	-	-	-	-
Public safety	1,018,523	-	162,371	-	-	-
Capital outlay:						
General government	-	-	-	-	-	-
Community development	-	-	-	-	18,354	-
Highways and streets	-	1,578,090	-	-	-	3,288,506
Parks and recreation	-	-	-	-	-	-
Public safety	620,414	-	109,822	-	-	-
Debt service:						
Principal retirement	-	-	-	-	-	-
Interest	-	-	-	-	-	-
Other	-	-	-	-	-	-
Total expenditures	<u>8,095,237</u>	<u>1,596,052</u>	<u>272,193</u>	<u>159,930</u>	<u>235,520</u>	<u>12,719,692</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(939,446)</u>	<u>2,340,689</u>	<u>433,581</u>	<u>28,438</u>	<u>270,695</u>	<u>(4,530,148)</u>
<b>OTHER FINANCING SOURCES (USES):</b>						
Transfers in	568,078	207,337	-	-	-	2,851,186
Transfers out	(206,492)	(2,235,197)	(500,000)	-	-	(370,055)
Sale of assets	1,429	-	-	-	-	39,721
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>363,015</u>	<u>(2,027,860)</u>	<u>(500,000)</u>	<u>-</u>	<u>-</u>	<u>2,520,852</u>
<b>CHANGES IN FUND BALANCES</b>	(576,431)	312,829	(66,419)	28,438	270,695	(2,009,296)
FUND BALANCES, JULY 1	3,387,383	105,905	2,202,138	12,508	709,115	2,982,169
PRIOR PERIOD ADJUSTMENTS	-	-	-	-	-	12,575,507
FUND BALANCES, JUNE 30	<u>\$ 2,810,952</u>	<u>\$ 418,734</u>	<u>\$ 2,135,719</u>	<u>\$ 40,946</u>	<u>\$ 979,810</u>	<u>\$ 13,548,380</u>

Capital Projects

Special Fund for Capital Outlays	Parks	Securities for Future Improvements	Community Facilities Districts	Successor Redevelopment Housing Agency	Capital Facility Fees
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
1,478	19,344	-	4,570,403	10,448	1,413,948
-	-	-	315,577	-	2,062,779
-	-	-	1,856,982	-	-
10,286	2,582	-	99,347	(5,450)	198,179
(4,071)	(867)	-	(39,316)	2,561	(86,165)
-	-	-	-	-	-
-	35,133	-	-	-	-
<u>7,693</u>	<u>56,192</u>	<u>-</u>	<u>6,802,993</u>	<u>7,559</u>	<u>3,588,741</u>
-	-	-	-	-	-
-	-	-	2,188,173	525	-
-	-	-	-	-	-
-	13,492	-	-	-	-
-	-	-	-	-	-
2	-	-	-	-	-
-	-	-	-	-	-
-	-	-	376,353	-	2,758,552
-	24,106	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>2</u>	<u>37,598</u>	<u>-</u>	<u>2,564,526</u>	<u>525</u>	<u>2,758,552</u>
7,691	18,594	-	4,238,467	7,034	830,189
-	111,160	-	-	-	77,550
-	-	-	(21,047)	-	(294,000)
-	-	-	-	-	-
-	111,160	-	(21,047)	-	(216,450)
7,691	129,754	-	4,217,420	7,034	613,739
(38,759)	476,949	66,397	12,203,668	2,805,631	26,549,772
34,045	-	-	-	(209,000)	-
<u>\$ 2,977</u>	<u>\$ 606,703</u>	<u>\$ 66,397</u>	<u>\$ 16,421,088</u>	<u>\$ 2,603,665</u>	<u>\$ 27,163,511</u>

**CITY OF MODESTO**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS**  
**FISCAL YEAR ENDED JUNE 30, 2015**

	Debt Service Public Financing Authority	Total
REVENUES:		
Taxes	\$ -	\$ 1,314,181
Licenses and permits	-	63,477
Intergovernmental	1,363,146	19,482,106
Charges for services	-	8,483,614
Special assessments levied	-	1,924,623
Interest and rent	2,725	547,756
Net increase (decrease) in fair value of investments	-	(195,229)
Fines and forfeits	-	517,737
Miscellaneous	-	373,217
Total revenues	1,365,871	32,511,482
EXPENDITURES:		
Current:		
General government	-	236,280
Community development	-	4,079,637
Highways and streets	-	9,449,148
Public works	-	3,692,929
Parks and recreation	-	1,026,740
Public safety	-	1,180,894
Capital outlay:		
General government	-	2
Community development	-	18,354
Highways and streets	-	8,001,501
Parks and recreation	-	24,106
Public safety	-	730,236
Debt service:		
Principal retirement	1,505,000	1,505,000
Interest	2,165,378	2,165,378
Other	772,562	772,562
Total expenditures	4,442,940	32,882,767
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(3,077,069)	(371,285)
OTHER FINANCING SOURCES (USES):		
Transfers in	3,077,069	6,892,380
Transfers out	-	(3,626,791)
Sale of assets	-	41,150
TOTAL OTHER FINANCING SOURCES (USES)	3,077,069	3,306,739
CHANGES IN FUND BALANCES	-	2,935,454
FUND BALANCES, JULY 1	4,850,112	56,312,988
PRIOR PERIOD ADJUSTMENTS	-	12,400,552
FUND BALANCES, JUNE 30	\$ 4,850,112	\$ 71,648,994

**CITY OF MODESTO**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -**  
**BUDGET (GAAP BASIS) AND ACTUAL - OPERATING GRANTS SPECIAL REVENUE FUND**  
**FISCAL YEAR ENDED JUNE 30, 2015**

	Budget		Actual	Variance with
	Original	Final		Final Budget - Positive (Negative)
<b>REVENUES:</b>				
Licenses and permits	\$ 50,000	\$ 50,000	\$ 55,349	\$ 5,349
Intergovernmental	8,908,005	8,908,005	1,969,855	(6,938,150)
Charges for services	5,955,802	6,308,312	4,801,323	(1,506,989)
Special assessments	-	-	67,641	67,641
Interest and rent - interest	2,671	3,139	13,826	10,687
Net decrease in fair value of investments	-	-	(9,833)	(9,833)
Fines and forfeits	30,592	30,592	-	(30,592)
Miscellaneous	222,285	261,153	257,630	(3,523)
Total revenues	<u>15,169,355</u>	<u>15,561,201</u>	<u>7,155,791</u>	<u>(8,405,410)</u>
<b>EXPENDITURES:</b>				
General government	284,720	284,945	236,280	48,665
Community development	2,851,191	2,851,191	1,513,843	1,337,348
Public works	5,528,250	5,595,319	3,692,929	1,902,390
Parks and recreation	774,995	774,995	1,013,248	(238,253)
Public safety	8,550,351	8,550,351	1,638,937	6,911,414
Total expenditures	<u>17,989,507</u>	<u>18,056,801</u>	<u>8,095,237</u>	<u>9,961,564</u>
DEFICIENCY OF REVENUES UNDER EXPENDITURES	<u>(2,820,152)</u>	<u>(2,495,600)</u>	<u>(939,446)</u>	<u>1,556,154</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	1,312,803	1,774,690	568,078	(1,206,612)
Transfers out	-	(211,540)	(206,492)	5,048
Sale of assets	-	-	1,429	1,429
TOTAL OTHER FINANCING SOURCES (USES)	<u>1,312,803</u>	<u>1,563,150</u>	<u>363,015</u>	<u>(1,200,135)</u>
CHANGES IN FUND BALANCE	(1,507,349)	(932,450)	(576,431)	356,019
FUND BALANCE, JULY 1	3,387,383	3,387,383	3,387,383	-
FUND BALANCE, JUNE 30	<u>\$ 1,880,034</u>	<u>\$ 2,454,933</u>	<u>\$ 2,810,952</u>	<u>\$ 356,019</u>

NOTE: The expenditures by function amounts listed above include the capital outlay expenditures within each department.

**CITY OF MODESTO**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -**  
**BUDGET (GAAP BASIS) AND ACTUAL - LOCAL TRANSPORTATION SPECIAL REVENUE FUND**  
**FISCAL YEAR ENDED JUNE 30, 2015**

	Budget		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Intergovernmental	\$ 1,739,188	\$ 1,739,188	\$ 3,923,631	\$ 2,184,443
Interest and rent - interest	-	-	21,902	21,902
Net decrease in fair value of investments	-	-	(8,792)	(8,792)
Total revenues	<u>1,739,188</u>	<u>1,739,188</u>	<u>3,936,741</u>	<u>2,197,553</u>
<b>EXPENDITURES:</b>				
Highways and streets	<u>2,001,048</u>	<u>2,001,048</u>	<u>1,596,052</u>	<u>404,996</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(261,860)</u>	<u>(261,860)</u>	<u>2,340,689</u>	<u>2,602,549</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	-	78,675	207,337	128,662
Transfers out	(370,499)	(370,499)	(2,235,197)	(1,864,698)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(370,499)</u>	<u>(291,824)</u>	<u>(2,027,860)</u>	<u>(1,736,036)</u>
<b>CHANGES IN FUND BALANCE</b>	(632,359)	(553,684)	312,829	866,513
<b>FUND BALANCE, JULY 1</b>	<u>105,905</u>	<u>105,905</u>	<u>105,905</u>	-
<b>FUND BALANCE (DEFICIT), JUNE 30</b>	<u>\$ (526,454)</u>	<u>\$ (447,779)</u>	<u>\$ 418,734</u>	<u>\$ 866,513</u>

NOTE: The expenditures by function amounts listed above include the capital outlay expenditures within each department.

**CITY OF MODESTO**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -**  
**BUDGET (GAAP BASIS) AND ACTUAL - TRAFFIC SAFETY SPECIAL REVENUE FUND**  
**FISCAL YEAR ENDED JUNE 30, 2015**

	Budget		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Charges for services	\$ 198,360	\$ 198,360	\$ 188,037	\$ (10,323)
Motor vehicle fines	825,000	825,000	517,737	(307,263)
Total revenues	<u>1,023,360</u>	<u>1,023,360</u>	<u>705,774</u>	<u>(317,586)</u>
EXPENDITURES:				
Public safety	<u>877,520</u>	<u>877,520</u>	<u>272,193</u>	<u>605,327</u>
EXPENDITURES	145,840	145,840	433,581	287,741
OTHER FINANCING USES:				
Transfers out	<u>(500,000)</u>	<u>(500,000)</u>	<u>(500,000)</u>	<u>-</u>
CHANGES IN FUND BALANCE	(354,160)	(354,160)	(66,419)	287,741
FUND BALANCE, JULY 1	<u>2,202,138</u>	<u>2,202,138</u>	<u>2,202,138</u>	<u>-</u>
FUND BALANCE, JUNE 30	<u>\$ 1,847,978</u>	<u>\$ 1,847,978</u>	<u>\$ 2,135,719</u>	<u>\$ 287,741</u>

NOTE: The expenditures by function amounts listed above include the capital outlay expenditures within each department.

**CITY OF MODESTO**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND**  
**BALANCE - BUDGET (GAAP BASIS) AND ACTUAL - DOWNTOWN**  
**IMPROVEMENT DISTRICT SPECIAL REVENUE FUND**  
**FISCAL YEAR ENDED JUNE 30, 2015**

	Budget		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Taxes - business license tax	\$ 176,010	\$ 176,010	\$ 188,247	\$ 12,237
Interest and rent - interest	(10)	(10)	187	197
Net decrease in fair value of investments	-	-	(66)	(66)
Total revenues	<u>176,000</u>	<u>176,000</u>	<u>188,368</u>	<u>12,368</u>
<b>EXPENDITURES:</b>				
Community development	<u>172,470</u>	<u>172,470</u>	<u>159,930</u>	<u>12,540</u>
<b>CHANGES IN FUND BALANCE</b>	3,530	3,530	28,438	24,908
<b>FUND BALANCE, JULY 1</b>	<u>12,508</u>	<u>12,508</u>	<u>12,508</u>	<u>-</u>
<b>FUND BALANCE, JUNE 30</b>	<u>\$ 16,038</u>	<u>\$ 16,038</u>	<u>\$ 40,946</u>	<u>\$ 24,908</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**  
**FISCAL YEAR ENDED JUNE 30, 2015**

	Budget		Actual	Variance with
	Original	Final		Final Budget - Positive (Negative)
<b>REVENUES:</b>				
Charges for services	\$ 8,600	\$ 305,851	\$ 121,944	\$ (183,907)
Intergovernmental	-	100,000	285,752	185,752
Interest and rent - interest	-	-	101,564	101,564
Net decrease in fair value of investments	-	-	(3,045)	(3,045)
Total revenues	<u>8,600</u>	<u>405,851</u>	<u>506,215</u>	<u>100,364</u>
<b>EXPENDITURES:</b>				
Community development	<u>8,600</u>	<u>805,851</u>	<u>235,520</u>	<u>570,331</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	-	(400,000)	270,695	670,695
<b>OTHER FINANCING SOURCES:</b>				
Transfers in	-	500,000	-	(500,000)
<b>CHANGES IN FUND BALANCE</b>	-	100,000	270,695	170,695
<b>FUND BALANCE, JULY 1</b>	<u>709,115</u>	<u>709,115</u>	<u>709,115</u>	<u>-</u>
<b>FUND BALANCE, JUNE 30</b>	<u>\$ 709,115</u>	<u>\$ 809,115</u>	<u>\$ 979,810</u>	<u>\$ 170,695</u>

NOTE: The expenditures by function amounts listed above include the capital outlay expenditures within each department.

**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**  
**FISCAL YEAR ENDED JUNE 30, 2015**

	Budget		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Intergovernmental:				
Federal grants	\$ 5,992,105	\$ 5,992,105	\$ 5,924,101	\$ (68,004)
Taxes	900,000	900,000	1,125,934	225,934
Licenses and permits	-	-	8,128	8,128
Charges for services	845,208	845,208	993,954	148,746
Interest and rent	70,000	70,000	102,608	32,608
Net decrease in fair value of investments	-	-	(45,635)	(45,635)
Miscellaneous	61,750	61,750	80,454	18,704
Total revenues	<u>7,869,063</u>	<u>7,869,063</u>	<u>8,189,544</u>	<u>320,481</u>
<b>EXPENDITURES:</b>				
Highway and streets	<u>9,875,459</u>	<u>16,509,703</u>	<u>12,719,692</u>	<u>3,790,011</u>
<b>DEFICIENCY OF REVENUES UNDER</b>				
<b>EXPENDITURES</b>	<u>(2,006,396)</u>	<u>(8,640,640)</u>	<u>(4,530,148)</u>	<u>4,110,492</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	125,000	6,525,000	2,851,186	(3,673,814)
Transfers out	-	(222,075)	(370,055)	(147,980)
Sale of assets	-	-	39,721	39,721
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>125,000</u>	<u>6,302,925</u>	<u>2,520,852</u>	<u>(3,782,073)</u>
<b>CHANGES IN FUND BALANCE</b>	(1,881,396)	(2,337,715)	(2,009,296)	328,419
<b>FUND BALANCE, JULY 1</b>	2,982,169	2,982,169	2,982,169	-
<b>PRIOR PERIOD ADJUSTMENTS</b>	<u>-</u>	<u>-</u>	<u>12,575,507</u>	<u>12,575,507</u>
<b>FUND BALANCE, JUNE 30</b>	<u>\$ 1,100,773</u>	<u>\$ 644,454</u>	<u>\$ 13,548,380</u>	<u>\$ 12,903,926</u>

NOTE: The expenditures by function amounts listed above include the capital outlay expenditures within each department.

## 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.

**ABATEMENT AND PUBLIC NUISANCE FUND** – To account the activity for expenses and recovery for the cost for both dangerous and unsafe building and property abatements.

**CITY OF MODESTO**  
**COMBINING STATEMENT OF NET POSITION - NONMAJOR ENTERPRISE FUNDS**  
**JUNE 30, 2015**

	Parking	Storm Drain	Compost
<u>ASSETS</u>			
Current assets:			
Cash and cash equivalents	\$ 316,725	\$ 9,955,212	\$ 4,671,897
Receivables:			
Accounts	11,477	-	825,635
Interest	592	18,472	10,401
Utilities, net	-	431,681	135,492
Prepaid expenses	2,660	557	867
Due from governments	-	4,538	85,808
Inventories	-	-	-
	<u>331,454</u>	<u>10,410,460</u>	<u>5,730,100</u>
Total current assets			
Noncurrent assets:			
Restricted cash and cash equivalents with fiscal agent	-	-	-
Land and construction in progress	3,142,479	1,088,444	1,140,000
Other capital assets, net of accumulated depreciation	5,848,238	13,075,696	1,556,239
Total noncurrent assets	<u>8,990,717</u>	<u>14,164,140</u>	<u>2,696,239</u>
Total assets	<u>9,322,171</u>	<u>24,574,600</u>	<u>8,426,339</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>			
Deferred pensions	33,968	57,739	331,525
Total assets and deferred outflows of resources	<u>\$ 9,356,139</u>	<u>\$ 24,632,339</u>	<u>\$ 8,757,864</u>
<u>LIABILITIES</u>			
Current liabilities:			
Accounts payable	\$ 30,524	\$ 227,741	\$ 105,764
Accrued salaries and benefits	14,682	20,506	139,336
Interest payable	-	-	252
Due to other funds	-	-	-
Unearned revenue	-	-	-
Current portion - long-term debt	-	-	-
Total current liabilities	<u>45,206</u>	<u>248,247</u>	<u>245,352</u>
Noncurrent liabilities:			
Certificates of participation	-	-	-
Advances from other funds	-	1,324,704	957,600
Net pension liability	449,932	764,788	4,391,292
Total liabilities	<u>495,138</u>	<u>2,337,739</u>	<u>5,594,244</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>			
Deferred pensions	<u>135,047</u>	<u>229,550</u>	<u>1,318,040</u>
<u>NET POSITION</u>			
Net investment in capital assets	8,990,717	14,164,140	2,696,239
Unrestricted	<u>(264,763)</u>	<u>7,900,910</u>	<u>(850,659)</u>
Total net position	<u>8,725,954</u>	<u>22,065,050</u>	<u>1,845,580</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 9,356,139</u>	<u>\$ 24,632,339</u>	<u>\$ 8,757,864</u>

Airport	Golf	Community Center	Abatement and Public Nuisance Fund	Total
\$ 1,312,899	\$ -	\$ 37,553	\$ 522,143	\$ 16,816,429
10,123	386,844	64,379	168,546	1,467,004
3,182	-	86	993	33,726
-	-	-	-	567,173
11,210	1,879	183	-	17,356
778,511	-	-	-	868,857
-	31,392	-	-	31,392
<u>2,115,925</u>	<u>420,115</u>	<u>102,201</u>	<u>691,682</u>	<u>19,801,937</u>
-	604,762	-	-	604,762
1,898,131	275,741	3,667,020	-	11,211,815
8,049,849	1,266,431	4,962,974	-	34,759,427
<u>9,947,980</u>	<u>2,146,934</u>	<u>8,629,994</u>	<u>-</u>	<u>46,576,004</u>
12,063,905	2,567,049	8,732,195	691,682	66,377,941
31,977	-	32,057	-	487,266
<u>\$ 12,095,882</u>	<u>\$ 2,567,049</u>	<u>\$ 8,764,252</u>	<u>\$ 691,682</u>	<u>\$ 66,865,207</u>
\$ 551,493	\$ 77,662	\$ 31,654	\$ 10,567	\$ 1,035,405
14,871	2,531	19,729	-	211,655
-	30,210	1,038	-	31,500
-	17,786	-	-	17,786
275	407,658	-	169,396	577,329
-	325,000	-	-	325,000
<u>566,639</u>	<u>860,847</u>	<u>52,421</u>	<u>179,963</u>	<u>2,198,675</u>
-	3,260,000	-	-	3,260,000
-	-	-	-	2,282,304
<u>423,556</u>	<u>-</u>	<u>424,620</u>	<u>-</u>	<u>6,454,188</u>
<u>990,195</u>	<u>4,120,847</u>	<u>477,041</u>	<u>179,963</u>	<u>14,195,167</u>
<u>127,130</u>	<u>-</u>	<u>127,449</u>	<u>-</u>	<u>1,937,216</u>
9,947,980	(1,438,066)	8,629,994	-	42,991,004
<u>1,030,577</u>	<u>(115,732)</u>	<u>(470,232)</u>	<u>511,719</u>	<u>7,741,820</u>
<u>10,978,557</u>	<u>(1,553,798)</u>	<u>8,159,762</u>	<u>511,719</u>	<u>50,732,824</u>
<u>\$ 12,095,882</u>	<u>\$ 2,567,049</u>	<u>\$ 8,764,252</u>	<u>\$ 691,682</u>	<u>\$ 66,865,207</u>

**CITY OF MODESTO**  
**COMBINING STATEMENT OF REVENUES, EXPENSES, AND**  
**CHANGES IN FUND NET POSITION - NONMAJOR ENTERPRISE FUNDS**  
**FISCAL YEAR ENDED JUNE 30, 2015**

	<u>Parking</u>	<u>Storm Drain</u>	<u>Compost</u>
<b>OPERATING REVENUES:</b>			
Charges for services	\$ 1,228,171	\$ 5,874,349	\$ 7,178,668
Miscellaneous	<u>11,268</u>	<u>-</u>	<u>12,477</u>
Total operating revenues	<u>1,239,439</u>	<u>5,874,349</u>	<u>7,191,145</u>
<b>OPERATING EXPENSES:</b>			
Salaries and wages	318,726	458,540	2,915,385
Contractual services	298,139	332,598	717,329
Utilities	155,014	26,073	21,035
Maintenance and supplies	57,006	1,079,799	1,879,946
Insurance	93,188	16,360	150,748
Employee benefits	117,795	193,023	1,125,973
Administration services	37,639	1,429,207	853,634
Allocated indirect administrative costs	30,161	132,377	153,625
Depreciation	<u>440,058</u>	<u>565,170</u>	<u>206,871</u>
Total operating expenses	<u>1,547,726</u>	<u>4,233,147</u>	<u>8,024,546</u>
<b>OPERATING INCOME (LOSS)</b>	<u>(308,287)</u>	<u>1,641,202</u>	<u>(833,401)</u>
<b>NONOPERATING REVENUES (EXPENSES):</b>			
Gain (loss) on disposition of capital assets	-	-	8,965
Operating grants	-	-	380,305
Tax revenue	-	-	-
Tax expense	(20,909)	-	-
Interest income	2,041	43,531	35,621
Net increase (decrease) in fair value of investments	(906)	(27,606)	(9,308)
Rental income	-	-	-
Interest expense	-	-	-
Trustee fees	<u>-</u>	<u>-</u>	<u>-</u>
Total nonoperating revenues (expenses)	<u>(19,774)</u>	<u>15,925</u>	<u>415,583</u>
<b>INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS</b>	<u>(328,061)</u>	<u>1,657,127</u>	<u>(417,818)</u>
Capital contributions	-	-	-
Transfers in	-	700,000	559,251
Transfers out	<u>(40,728)</u>	<u>(48,010)</u>	<u>(282,654)</u>
<b>CHANGES IN NET POSITION</b>	<u>(368,789)</u>	<u>2,309,117</u>	<u>(141,221)</u>
<b>NET POSITION (DEFICIT), JULY 1</b>	<u>9,988,958</u>	<u>21,215,962</u>	<u>7,399,866</u>
<b>PRIOR PERIOD ADJUSTMENTS</b>	<u>(894,215)</u>	<u>(1,460,029)</u>	<u>(5,413,065)</u>
<b>NET POSITION (DEFICIT), JUNE 30</b>	<u>\$ 8,725,954</u>	<u>\$ 22,065,050</u>	<u>\$ 1,845,580</u>

	Airport	Golf	Community Center	Abatement and Public Nuisance Fund	Total
\$	543,071	\$ 2,574,243	\$ 251,754	\$ 128,636	\$ 17,778,892
	8,302	253	6,237	-	38,537
	<u>551,373</u>	<u>2,574,496</u>	<u>257,991</u>	<u>128,636</u>	<u>17,817,429</u>
	266,607	-	487,240	-	4,446,498
	483,727	2,357,943	102,847	95,268	4,387,851
	107,197	51,616	213,198	-	574,133
	100,486	267,122	143,529	-	3,527,888
	20,588	32,711	73,183	-	386,778
	126,321	-	130,516	-	1,693,628
	312,235	54,845	20,149	-	2,707,709
	31,230	41,820	-	-	389,213
	680,509	56,477	747,302	-	2,696,387
	<u>2,128,900</u>	<u>2,862,534</u>	<u>1,917,964</u>	<u>95,268</u>	<u>20,810,085</u>
	<u>(1,577,527)</u>	<u>(288,038)</u>	<u>(1,659,973)</u>	<u>33,368</u>	<u>(2,992,656)</u>
	31,120	-	780	-	40,865
	568,656	-	-	-	948,961
	237,546	-	-	-	237,546
	(473)	-	-	-	(21,382)
	9,432	(36,313)	(3,722)	3,476	54,066
	(4,189)	2,155	1,116	(1,600)	(40,338)
	152,436	101,465	323,109	-	577,010
	-	(185,725)	-	-	(185,725)
	-	(2,950)	-	-	(2,950)
	<u>994,528</u>	<u>(121,368)</u>	<u>321,283</u>	<u>1,876</u>	<u>1,608,053</u>
	(582,999)	(409,406)	(1,338,690)	35,244	(1,384,603)
	865,406	-	-	-	865,406
	-	1,197,823	642,158	-	3,099,232
	-	-	-	-	(371,392)
	282,407	788,417	(696,532)	35,244	2,208,643
	11,299,952	(2,435,260)	9,355,358	476,475	57,301,311
	<u>(603,802)</u>	<u>93,045</u>	<u>(499,064)</u>	<u>-</u>	<u>(8,777,130)</u>
\$	<u>10,978,557</u>	<u>(1,553,798)</u>	<u>8,159,762</u>	<u>511,719</u>	<u>50,732,824</u>

**CITY OF MODESTO**  
**COMBINING STATEMENT OF CASH FLOWS - NONMAJOR ENTERPRISE FUNDS**  
**FISCAL YEAR ENDED JUNE 30, 2015**

	Parking	Storm Drain	Compost
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Receipts from customers and users	\$ 1,225,302	\$ 5,909,986	\$ 6,931,483
Receipts from interfund services provided	-	15,810	-
Payments to suppliers	(400,514)	(239,718)	(1,015,387)
Payments to employees	(433,927)	(646,332)	(3,971,829)
Payments for interfund services used	(296,714)	(2,601,508)	(2,712,375)
Net cash provided (used) by operating activities	94,147	2,438,238	(768,108)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>			
Operating grants received	-	-	358,382
Taxes received	-	-	-
Transfers in	-	700,000	559,251
Transfers out	(40,728)	(48,010)	(282,654)
Advances to other funds	-	-	(34,200)
Net cash provided (used) by noncapital financing activities	(40,728)	651,990	600,779
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>			
Acquisition and construction of capital assets	-	(176,849)	(16,258)
Proceeds from sale of capital assets	-	-	8,965
Principal repayments	-	-	-
Interest paid	-	-	(89)
Trustee fees	-	-	-
Capital contributions	-	-	-
Net cash provided (used) by capital and related financing activities	-	(176,849)	(7,382)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Interest received (paid)	1,836	35,994	34,038
Net increase (decrease) in the fair value of investments	(906)	(27,606)	(9,308)
Net cash provided (used) by investing activities	930	8,388	24,730
Net increase (decrease) in cash and cash equivalents	54,349	2,921,767	(149,981)
CASH AND CASH EQUIVALENTS, JULY 1	262,376	7,033,445	4,821,878
CASH AND CASH EQUIVALENTS, JUNE 30	\$ 316,725	\$ 9,955,212	\$ 4,671,897
<b>RECONCILIATION TO STATEMENT OF NET POSITION:</b>			
Cash and cash equivalents	\$ 316,725	\$ 9,955,212	\$ 4,671,897
Restricted cash and cash equivalents with fiscal agent	-	-	-
<b>TOTAL CASH AND CASH EQUIVALENTS</b>	<b>\$ 316,725</b>	<b>\$ 9,955,212</b>	<b>\$ 4,671,897</b>

<u>Airport</u>	<u>Golf</u>	<u>Community Center</u>	<u>Abatement and Public Nuisance Fund</u>	<u>Total</u>
\$ 727,812	\$ 2,678,364	\$ 538,143	\$ 130,336	\$ 18,141,426
-	-	-	-	15,810
(128,330)	(3,256,789)	(351,372)	(87,001)	(5,479,111)
(388,326)	-	(613,485)	-	(6,053,899)
(511,447)	(171,893)	(199,528)	-	(6,493,465)
<u>(300,291)</u>	<u>(750,318)</u>	<u>(626,242)</u>	<u>43,335</u>	<u>130,761</u>
-	-	-	-	358,382
237,546	-	-	-	237,546
-	1,197,823	642,158	-	3,099,232
-	-	-	-	(371,392)
-	-	-	-	(34,200)
<u>237,546</u>	<u>1,197,823</u>	<u>642,158</u>	<u>-</u>	<u>3,289,568</u>
(962,230)	-	-	-	(1,155,337)
31,120	-	24,109	-	64,194
-	(310,000)	-	-	(310,000)
-	(191,931)	-	-	(192,020)
-	(2,950)	-	-	(2,950)
<u>969,398</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>969,398</u>
<u>38,288</u>	<u>(504,881)</u>	<u>24,109</u>	<u>-</u>	<u>(626,715)</u>
8,417	(35,290)	(3,588)	3,285	44,692
(4,189)	2,155	1,116	(1,600)	(40,338)
<u>4,228</u>	<u>(33,135)</u>	<u>(2,472)</u>	<u>1,685</u>	<u>4,354</u>
(20,229)	(90,511)	37,553	45,020	2,797,968
<u>1,333,128</u>	<u>695,273</u>	<u>-</u>	<u>477,123</u>	<u>14,623,223</u>
\$ <u><u>1,312,899</u></u>	\$ <u><u>604,762</u></u>	\$ <u><u>37,553</u></u>	\$ <u><u>522,143</u></u>	\$ <u><u>17,421,191</u></u>
\$ 1,312,899	\$ -	\$ 37,553	\$ 522,143	\$ 16,816,429
-	604,762	-	-	604,762
\$ <u><u>1,312,899</u></u>	\$ <u><u>604,762</u></u>	\$ <u><u>37,553</u></u>	\$ <u><u>522,143</u></u>	\$ <u><u>17,421,191</u></u>

(continued)

**CITY OF MODESTO**  
**COMBINING STATEMENT OF CASH FLOWS - NONMAJOR ENTERPRISE FUNDS (Continued)**  
**FISCAL YEAR ENDED JUNE 30, 2015**

	<u>Parking</u>	<u>Storm Drain</u>	<u>Compost</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
Operating income (loss)	\$ (308,287)	\$ 1,641,202	\$ (833,401)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	440,058	565,170	206,871
Rental income	-	-	-
Taxes paid	(20,909)	-	-
Change in assets, liabilities, and deferred resources:			
(Increase) decrease in accounts receivable	(11,477)	-	(344,941)
Decrease in utilities receivable	-	51,645	89,098
Increase (decrease) in accounts payable	(5,172)	175,188	48,555
Decrease in inventories	-	-	-
(Increase) decrease in prepaid expenses	(2,660)	(198)	(867)
Increase in accrued salaries and benefits	5,119	9,523	94,171
Decrease in net pension liability and deferred resources	(2,525)	(4,292)	(24,642)
Decrease in due to other funds	-	-	-
Increase (decrease) in unearned revenue	-	-	(2,952)
Total adjustments	<u>402,434</u>	<u>797,036</u>	<u>65,293</u>
Net cash provided (used) by operating activities	<u>\$ 94,147</u>	<u>\$ 2,438,238</u>	<u>\$ (768,108)</u>

<u>Airport</u>	<u>Golf</u>	<u>Community Center</u>	<u>Abatement and Public Nuisance Fund</u>	<u>Total</u>
\$ <u>(1,577,527)</u>	\$ <u>(288,038)</u>	\$ <u>(1,659,973)</u>	\$ <u>33,368</u>	\$ <u>(2,992,656)</u>
680,509	56,477	747,302	-	2,696,387
152,436	101,465	323,109	-	577,010
(473)	-	-	-	(21,382)
33,343	(332,087)	(42,957)	(138,742)	(836,861)
-	-	-	-	140,743
426,547	233	2,189	8,267	655,807
-	7,313	-	-	7,313
(10,663)	1,254	(183)	-	(13,317)
6,979	2,531	6,653	-	124,976
(2,377)	-	(2,382)	-	(36,218)
-	(631,425)	-	-	(631,425)
(9,065)	331,959	-	140,442	460,384
<u>1,277,236</u>	<u>(462,280)</u>	<u>1,033,731</u>	<u>9,967</u>	<u>3,123,417</u>
\$ <u><u>(300,291)</u></u>	\$ <u><u>(750,318)</u></u>	\$ <u><u>(626,242)</u></u>	\$ <u><u>43,335</u></u>	\$ <u><u>130,761</u></u>

## Internal Service Funds

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

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

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

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

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

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

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

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**CITY OF MODESTO**  
**COMBINING STATEMENT OF NET POSITION - INTERNAL SERVICE FUNDS**  
**JUNE 30, 2015**

	Fleet Management	Central Services	Information & Technology Services
<u>ASSETS</u>			
Current assets:			
Cash and cash equivalents	\$ 9,181,767	\$ 1,318,537	\$ 5,317,741
Receivables:			
Accounts	524	-	-
Interest	16,193	3,251	9,888
Prepaid expenses	1,073	921	7,307
Due from governments	-	-	-
Inventories	-	443,452	-
Total current assets	9,199,557	1,766,161	5,334,936
Noncurrent assets:			
Advances to other funds	-	-	-
Restricted assets - cash and cash equivalents	-	-	-
Restricted assets - cash from fiscal agent	-	-	-
Land and construction in progress	1,198,587	-	-
Other capital assets, net of accumulated depreciation	12,164,117	71,866	5,069,579
Total noncurrent assets	13,362,704	71,866	5,069,579
Total assets	22,562,261	1,838,027	10,404,515
<u>DEFERRED OUTFLOWS OF RESOURCES</u>			
Deferred pensions	166,803	25,997	278,189
Total assets and deferred outflows of resources	\$ 22,729,064	\$ 1,864,024	\$ 10,682,704
<u>LIABILITIES</u>			
Current liabilities:			
Accounts payable	\$ 309,755	\$ 203,133	\$ 163,446
Accrued salaries and benefits	51,401	7,304	79,670
Interest payable	2,616	-	-
Current portion - compensated absences	-	-	-
Current portion - claims liability	-	-	-
Total current liabilities	363,772	210,437	243,116
Noncurrent liabilities:			
Compensated absences	-	-	-
Claims liability	-	-	-
Net OPEB obligation	-	-	-
Net pension liability	2,209,422	344,343	3,684,815
Total liabilities	2,573,194	554,780	3,927,931
<u>DEFERRED INFLOWS OF RESOURCES</u>			
Deferred pensions	663,155	103,354	1,105,992
<u>NET POSITION</u>			
Net investment in capital assets	13,362,704	71,866	5,069,579
Restricted	-	-	-
Unrestricted	6,130,011	1,134,024	579,202
Total net position	19,492,715	1,205,890	5,648,781
Total liabilities, deferred inflows of resources, and net position	\$ 22,729,064	\$ 1,864,024	\$ 10,682,704

<u>Insurance</u>	<u>Employee Benefits Management</u>	<u>Building Services</u>	<u>Total</u>
\$ 19,296,776	\$ -	\$ 1,129,384	\$ 36,244,205
1,856,812	33,750	-	1,891,086
46,139	21,571	2,088	99,130
174,559	-	209	184,069
-	-	49,156	49,156
-	-	-	443,452
<u>21,374,286</u>	<u>55,321</u>	<u>1,180,837</u>	<u>38,911,098</u>
-	856,738	-	856,738
-	11,534,029	-	11,534,029
195,332	-	-	195,332
-	-	-	1,198,587
-	-	87,281	17,392,843
<u>195,332</u>	<u>12,390,767</u>	<u>87,281</u>	<u>31,177,529</u>
21,569,618	12,446,088	1,268,118	70,088,627
<u>31,717</u>	<u>19,523</u>	<u>34,364</u>	<u>556,593</u>
<u>\$ 21,601,335</u>	<u>\$ 12,465,611</u>	<u>\$ 1,302,482</u>	<u>\$ 70,645,220</u>
\$ 1,523,043	\$ 877,892	\$ 182,730	\$ 3,259,999
7,623	8,216	14,077	168,291
470	1,027	-	4,113
-	3,150,067	-	3,150,067
<u>4,754,729</u>	<u>-</u>	<u>-</u>	<u>4,754,729</u>
6,285,865	4,037,202	196,807	11,337,199
-	5,796,014	-	5,796,014
17,775,902	-	-	17,775,902
-	56,951,862	-	56,951,862
<u>420,113</u>	<u>258,600</u>	<u>455,172</u>	<u>7,372,465</u>
<u>24,481,880</u>	<u>67,043,678</u>	<u>651,979</u>	<u>99,233,442</u>
<u>126,096</u>	<u>77,618</u>	<u>136,619</u>	<u>2,212,834</u>
-	-	87,281	18,591,430
-	11,534,029	-	11,534,029
<u>(3,006,641)</u>	<u>(66,189,714)</u>	<u>426,603</u>	<u>(60,926,515)</u>
<u>(3,006,641)</u>	<u>(54,655,685)</u>	<u>513,884</u>	<u>(30,801,056)</u>
<u>\$ 21,601,335</u>	<u>\$ 12,465,611</u>	<u>\$ 1,302,482</u>	<u>\$ 70,645,220</u>

**CITY OF MODESTO**  
**COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES**  
**IN FUND NET POSITION - INTERNAL SERVICE FUNDS**  
**FISCAL YEAR ENDED JUNE 30, 2015**

	<u>Fleet Management</u>	<u>Central Services</u>
<b>OPERATING REVENUES:</b>		
Charges for services	\$ 6,486,724	\$ 38,892
Sales	-	3,495,238
Total operating revenues	<u>6,486,724</u>	<u>3,534,130</u>
<b>OPERATING EXPENSES:</b>		
Salaries and wages	1,111,763	208,118
Cost of sales	-	2,947,388
Contractual services	1,395,222	108,785
Utilities	5,815	1,018
Maintenance and supplies	1,806,890	127,277
Insurance	70,698	4,580
Claims	-	-
Employee benefits	513,009	99,806
Administration services	661,715	41,496
Allocated indirect administrative costs	269,379	-
Depreciation	2,468,882	10,753
Total operating expenses	<u>8,303,373</u>	<u>3,549,221</u>
<b>OPERATING INCOME (LOSS)</b>	<u>(1,816,649)</u>	<u>(15,091)</u>
<b>NONOPERATING REVENUES (EXPENSES):</b>		
Loss on Modesto Regional Fire Agency dissolution	-	-
Gain (loss) on disposition of capital assets	42,292	-
Interest income	48,984	11,179
Net decrease in fair value of investments	(22,349)	(4,881)
Total nonoperating revenues (expenses)	<u>68,927</u>	<u>6,298</u>
<b>INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS</b>	<u>(1,747,722)</u>	<u>(8,793)</u>
Capital contributions	30,428	-
Transfers in	2,019,930	-
Transfers out	(1,697)	-
<b>CHANGES IN NET POSITION</b>	<u>300,939</u>	<u>(8,793)</u>
<b>NET POSITION (DEFICIT), JULY 1</b>	21,909,948	1,638,315
<b>PRIOR PERIOD ADJUSTMENTS</b>	<u>(2,718,172)</u>	<u>(423,632)</u>
<b>NET POSITION (DEFICIT), JUNE 30</b>	<u>\$ 19,492,715</u>	<u>\$ 1,205,890</u>

Information & Technology Services	Insurance	Employee Benefits Management	Building Services	Total
\$ 6,030,601	\$ 25,535,872	\$ 4,943,751	\$ 2,419,254	\$ 45,455,094
-	-	5,842	-	3,501,080
<u>6,030,601</u>	<u>25,535,872</u>	<u>4,949,593</u>	<u>2,419,254</u>	<u>48,956,174</u>
2,111,787	260,814	178,322	272,813	4,143,617
-	-	-	-	2,947,388
431,255	446,022	244,266	1,448,968	4,074,518
110,356	546	-	127,304	245,039
857,201	6,773	16,618	53,790	2,868,549
31,613	16,285,790	2,354	10,685	16,405,720
-	5,668,065	-	-	5,668,065
756,054	100,403	1,441,629	151,224	3,062,125
616	862,870	73,885	184,844	1,825,426
-	-	-	-	269,379
986,988	-	-	3,119	3,469,742
<u>5,285,870</u>	<u>23,631,283</u>	<u>1,957,074</u>	<u>2,252,747</u>	<u>44,979,568</u>
<u>744,731</u>	<u>1,904,589</u>	<u>2,992,519</u>	<u>166,507</u>	<u>3,976,606</u>
-	(1,369,525)	(1,073,834)	-	(2,443,359)
(7,591)	-	-	-	34,701
33,038	214,404	77,786	6,206	391,597
<u>(14,665)</u>	<u>(63,720)</u>	<u>(32,273)</u>	<u>(3,240)</u>	<u>(141,128)</u>
<u>10,782</u>	<u>(1,218,841)</u>	<u>(1,028,321)</u>	<u>2,966</u>	<u>(2,158,189)</u>
755,513	685,748	1,964,198	169,473	1,818,417
-	-	-	-	30,428
21,047	-	-	-	2,040,977
<u>(289,396)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(291,093)</u>
487,164	685,748	1,964,198	169,473	3,598,729
10,188,562	(3,202,065)	(58,632,374)	904,392	(27,193,222)
<u>(5,026,945)</u>	<u>(490,324)</u>	<u>2,012,491</u>	<u>(559,981)</u>	<u>(7,206,563)</u>
<u>\$ 5,648,781</u>	<u>\$ (3,006,641)</u>	<u>\$ (54,655,685)</u>	<u>\$ 513,884</u>	<u>\$ (30,801,056)</u>

**CITY OF MODESTO**  
**COMBINING STATEMENT OF CASH FLOWS - INTERNAL SERVICE FUNDS**  
**FISCAL YEAR ENDED JUNE 30, 2015**

	Fleet Management	Central Services	Information & Technology Services
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Receipts from customers and users	\$ 241,951	\$ -	\$ 17,005
Receipts from interfund services provided	6,367,900	3,486,042	6,013,596
Payments to suppliers	(2,857,668)	(3,127,556)	(1,200,673)
Payment of insurance claims	-	-	-
Payments to employees	(1,625,893)	(308,606)	(2,872,553)
Payments for interfund services used	(1,518,480)	(149,462)	(84,271)
Net cash provided (used) by operating activities	607,810	(99,582)	1,873,104
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>			
Transfers in	2,019,930	-	21,047
Transfers out	(1,697)	-	(289,396)
Proceeds from Modesto Regional Fire Agency dissolution	-	-	-
Interest paid	248	-	-
Net cash provided (used) by noncapital financing activities	2,018,481	-	(268,349)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>			
Acquisition and construction of capital assets	(2,215,340)	(16,531)	(65,911)
Capital contributions	30,428	-	-
Proceeds from sale of capital assets	74,379	-	-
Principal repayments	-	-	(183,610)
Net cash provided (used) by capital and related financing activities	(2,110,533)	(16,531)	(249,521)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Interest received	46,324	10,111	30,189
Net decrease in the fair value of investments	(22,349)	(4,881)	(14,665)
Net cash provided by investing activities	23,975	5,230	15,524
Net increase (decrease) in cash and cash equivalents	539,733	(110,883)	1,370,758
CASH AND CASH EQUIVALENTS, JULY 1	8,642,034	1,429,420	3,946,983
CASH AND CASH EQUIVALENTS, JUNE 30	\$ 9,181,767	\$ 1,318,537	\$ 5,317,741
<b>RECONCILIATION TO STATEMENT OF NET POSITION:</b>			
Cash and cash equivalents	\$ 9,181,767	\$ 1,318,537	\$ 5,317,741
Restricted cash and cash equivalents	-	-	-
Restricted cash and cash equivalents with fiscal agent	-	-	-
TOTAL CASH AND CASH EQUIVALENTS	\$ 9,181,767	\$ 1,318,537	\$ 5,317,741

	Insurance	Employee Benefits Management	Building Services	Total
\$	-	\$ 4,819,336	\$ 319,959	\$ 5,398,251
	25,609,246	213,715	2,079,030	43,769,529
	(15,405,639)	(236,164)	(1,354,206)	(24,181,906)
	(8,108,477)	-	-	(8,108,477)
	(364,660)	(3,413,030)	(420,217)	(9,004,959)
	(898,232)	(100,959)	(332,802)	(3,084,206)
	<u>832,238</u>	<u>1,282,898</u>	<u>291,764</u>	<u>4,788,232</u>
	-	-	-	2,040,977
	-	-	-	(291,093)
	1,287,097	71,926	-	1,359,023
	(1,999)	131	-	(1,620)
	<u>1,285,098</u>	<u>72,057</u>	<u>-</u>	<u>3,107,287</u>
	-	-	-	(2,297,782)
	-	-	-	30,428
	-	-	-	74,379
	-	-	-	(183,610)
	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,376,585)</u>
	176,144	68,094	5,630	336,492
	(63,720)	(32,273)	(3,240)	(141,128)
	<u>112,424</u>	<u>35,821</u>	<u>2,390</u>	<u>195,364</u>
	2,229,760	1,390,776	294,154	5,714,298
	17,262,348	10,143,253	835,230	42,259,268
\$	<u>19,492,108</u>	<u>11,534,029</u>	<u>1,129,384</u>	<u>47,973,566</u>
\$	19,296,776	\$ -	\$ 1,129,384	\$ 36,244,205
	-	11,534,029	-	11,534,029
	195,332	-	-	195,332
\$	<u>19,492,108</u>	<u>11,534,029</u>	<u>1,129,384</u>	<u>47,973,566</u>

**CITY OF MODESTO**  
**COMBINING STATEMENT OF CASH FLOWS - INTERNAL SERVICE FUNDS (Continued)**  
**FISCAL YEAR ENDED JUNE 30, 2015**

	Fleet Management	Central Services
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating income (loss)	\$ (1,816,649)	\$ (15,091)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	2,468,882	10,753
Change in assets, liabilities, and deferred resources:		
Decrease in accounts receivable	23,127	-
(Increase) decrease in due from governments	100,000	-
(Increase) decrease in prepaid expenses	(821)	(282)
Increase in inventories	-	(48,088)
Increase (decrease) in accounts payable	(166,429)	(46,192)
Increase (decrease) in accrued salaries and benefits	12,098	1,250
Increase in compensated absences	-	-
Decrease in net OPEB obligation	-	-
Decrease in net pension liability and deferred resources	(12,398)	(1,932)
Increase in claims liability	-	-
Total adjustments	2,424,459	(84,491)
Net cash provided (used) by operating activities	\$ 607,810	\$ (99,582)

Information & Technology Services	Insurance	Employee Benefits Management	Building Services	Total
\$ 744,731	\$ 1,904,589	\$ 2,992,519	\$ 166,507	\$ 3,976,606
986,988	-	-	3,119	3,469,742
-	99,899	-	-	123,026
-	-	-	(20,056)	79,944
204,309	(29,742)	-	(209)	173,255
-	-	-	-	(48,088)
(58,212)	1,271,605	83,458	138,583	1,222,813
15,965	(1,086)	3,971	6,374	38,572
-	-	822,280	-	822,280
-	-	(2,617,878)	-	(2,617,878)
(20,677)	(2,357)	(1,452)	(2,554)	(41,370)
-	(2,410,670)	-	-	(2,410,670)
1,128,373	(1,072,351)	(1,709,621)	125,257	811,626
\$ 1,873,104	\$ 832,238	\$ 1,282,898	\$ 291,764	\$ 4,788,232

## 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.

**STANISLAUS DRUG ENFORCEMENT AGENCY** - To account for cash and investments of the Stanislaus Drug Enforcement Agency, a joint powers agency between Stanislaus County and the cities of Modesto, Oakdale, Turlock, Ceres, Hughson, Newman, Patterson, and Waterford. The agency's purpose is to maintain a specially trained police unit to assist each of the participating agencies in the enforcement of drug control laws, and to study, plan, and set priorities for effective enforcement of such laws throughout Stanislaus County. Cash and investments of the Agency are invested in the City's investment pool.

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

**STANISLAUS REGIONAL WATER AUTHORITY** - To account for cash and investments of the Stanislaus Regional Water Authority, a joint powers agency between the City of Modesto, City of Turlock and City of Ceres. The agency provides direction for the future of the proposed Regional Surface Water Supply Project. The cash and investments of this agency are invested as part of the City's investment pool.

**MODESTO REGIONAL FIRE AUTHORITY** - To account for cash and investments of the Modesto Regional Fire Authority, a joint powers agency between the City of Modesto, Stanislaus County and Salida Fire Protection District. The agency provides fire suppression, protection and prevention, emergency management and related services. The cash and investments of this agency are invested as part of the City's investment pool.

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

**CITY OF MODESTO**  
**STATEMENT OF CHANGES IN ASSETS AND LIABILITIES - AGENCY FUNDS**  
**FISCAL YEAR ENDED JUNE 30, 2015**

	Balance June 30, 2014	Additions	Deletions	Balance June 30, 2015
<u>Special Districts</u>				
<u>ASSETS</u>				
Cash and cash equivalents	\$ 4,784,821	\$ 3,350,041	\$ 7,706,387	\$ 428,475
Cash and cash equivalents with fiscal agent	3,676,780	44,940,731	45,673,953	2,943,558
	<u>\$ 8,461,601</u>	<u>\$ 48,290,772</u>	<u>\$ 53,380,340</u>	<u>\$ 3,372,033</u>
<u>LIABILITIES</u>				
Due to special district bondholders	\$ 8,461,601	\$ 48,290,772	\$ 53,380,340	\$ 3,372,033
<u>Tuolumne River Regional Park</u>				
<u>ASSETS</u>				
Cash and cash equivalents	\$ 195,790	\$ 337,405	\$ 529,457	\$ 3,738
<u>LIABILITIES</u>				
Deposits held as agent for others	\$ 195,790	\$ 337,405	\$ 529,457	\$ 3,738
<u>Stanislaus Drug Enforcement Agency</u>				
<u>ASSETS</u>				
Cash and cash equivalents	\$ 2,684,932	\$ 2,613,228	\$ 2,129,565	\$ 3,168,595
<u>LIABILITIES</u>				
Deposits held as agent for others	\$ 2,684,932	\$ 2,613,228	\$ 2,129,565	\$ 3,168,595
<u>Industrial Fire District</u>				
<u>ASSETS</u>				
Cash and cash equivalents	\$ 472,126	\$ 545,053	\$ 806,330	\$ 210,849
<u>LIABILITIES</u>				
Deposits held as agent for others	\$ 472,126	\$ 545,053	\$ 806,330	\$ 210,849
<u>Stanislaus Regional Water Authority</u>				
<u>ASSETS</u>				
Cash and cash equivalents	\$ -	\$ 244,461	\$ 244,461	\$ -
<u>LIABILITIES</u>				
Deposits held as agent for others	\$ -	\$ 244,461	\$ 244,461	\$ -
<u>Modesto Regional Fire Authority</u>				
<u>ASSETS</u>				
Cash and cash equivalents	\$ 1,505,675	\$ 1,347,493	\$ 2,852,214	\$ 954
Cash and cash equivalents with fiscal agent	5,669	-	5,669	-
	<u>1,511,344</u>	<u>1,347,493</u>	<u>2,857,883</u>	<u>954</u>
<u>LIABILITIES</u>				
Deposits held as agent for others	\$ 1,511,344	\$ 1,347,493	\$ 2,857,883	\$ 954
<u>City/County Joint Powers Financing Authority</u>				
<u>ASSETS</u>				
Cash and cash equivalents	\$ 14,694	\$ 2,270	\$ 345	\$ 16,619
<u>LIABILITIES</u>				
Deposits held as agent for others	\$ 14,694	\$ 2,270	\$ 345	\$ 16,619
<u>Totals - All Agency Funds</u>				
<u>ASSETS</u>				
Cash and cash equivalents	\$ 9,658,038	\$ 8,439,951	\$ 14,268,759	\$ 3,829,230
Cash and cash equivalents with fiscal agent	3,682,449	44,940,731	45,679,622	2,943,558
	<u>\$ 13,340,487</u>	<u>\$ 53,380,682</u>	<u>\$ 59,948,381</u>	<u>\$ 6,772,788</u>
<u>LIABILITIES</u>				
Due to special district bondholders	\$ 8,461,601	\$ 48,290,772	\$ 53,380,340	\$ 3,372,033
Deposits held as agent for others	4,878,886	5,089,910	6,568,041	3,400,755
	<u>\$ 13,340,487</u>	<u>\$ 53,380,682</u>	<u>\$ 59,948,381</u>	<u>\$ 6,772,788</u>

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Statistical Section Tab

Statistical Section Tab

## **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 Position by Component
2. Changes in Net Position
3. Fund Balances of Governmental Funds
4. Changes in Fund Balances of Governmental Funds

### Revenue Capacity

This schedule gives information on the City's most significant local revenue source, the water usage 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 Debt Margin
4. Revenue Bond Coverage, Wastewater 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
3. Principal Property Taxpayers

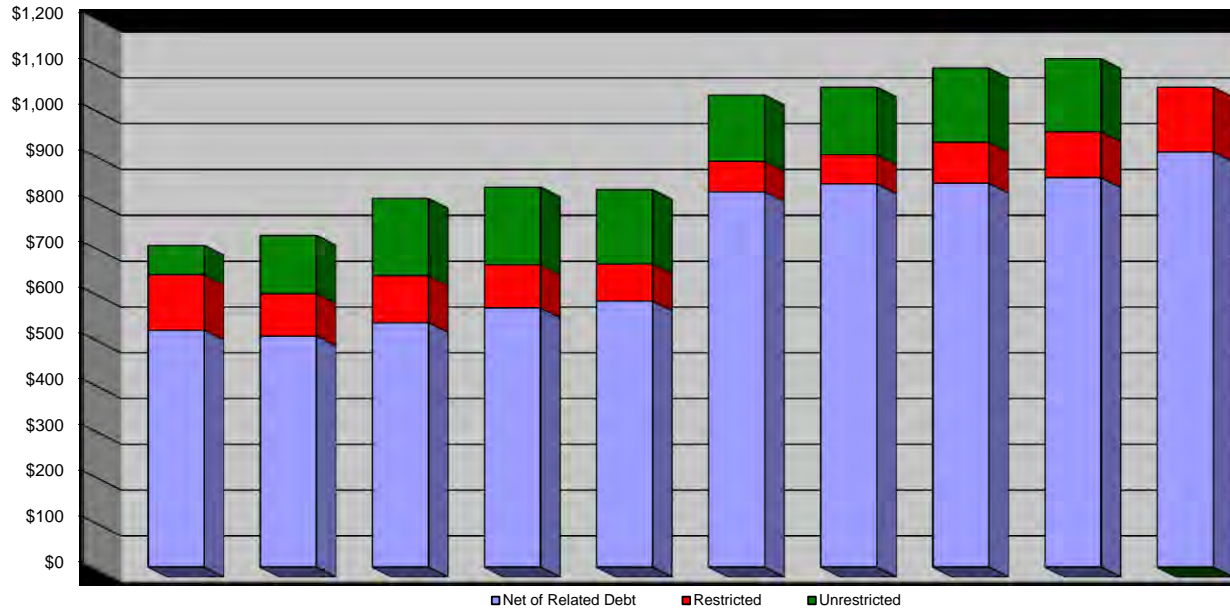
### Operating Information

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 City Government Employees by Function
2. Operating Indicators by Function
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.

**CITY OF MODESTO  
NET POSITION BY COMPONENT  
LAST TEN FISCAL YEARS  
(ACCRUAL BASIS OF ACCOUNTING)**



	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015 (2)
<b>Governmental activities</b>										
Net investment in capital assets	\$296,401,824	\$333,409,532	\$339,396,266	\$347,357,492	\$329,592,169	\$338,010,133	\$362,755,958	\$361,582,237	\$347,647,419	\$378,145,625
Restricted	120,937,678	93,168,664	102,602,698	94,819,773	81,528,516	66,570,581	63,498,187	63,381,356	77,564,677	121,105,182
Unrestricted	(2,303,306)	(12,566,297)	4,627,884	(472,402)	14,399,778	6,540,870	(4,326,456)	(1,102,658)	9,167,253	(179,570,210)
Total governmental activities net position	<u>\$415,036,196</u>	<u>\$414,011,899</u>	<u>\$446,626,848</u>	<u>\$441,704,863</u>	<u>\$425,520,463</u>	<u>\$411,121,584</u>	<u>\$421,927,689</u>	<u>\$423,860,935</u>	<u>\$434,379,349</u>	<u>\$319,680,597</u>
<b>Business-type activities</b>										
Net investment in capital assets	\$220,881,691	\$170,791,021	\$194,435,373	\$218,432,739	\$251,025,494	\$481,186,894	\$473,757,198	\$476,681,835	\$502,684,950	\$527,784,338
Restricted	-	-	-	-	-	-	-	25,571,860	22,398,957	20,622,619
Unrestricted	66,550,276	139,613,374	163,792,245	169,639,845	147,661,517	138,033,147	152,003,655	162,882,299	150,187,831	99,450,370
Total business-type activities net position	<u>\$287,431,967</u>	<u>\$310,404,395</u>	<u>\$358,227,618</u>	<u>\$388,072,584</u>	<u>\$398,687,011</u>	<u>\$619,220,041</u>	<u>\$625,760,853</u>	<u>\$665,135,994</u>	<u>\$675,271,738</u>	<u>\$647,857,327</u>
<b>Primary government</b>										
Net investment in capital assets	\$517,283,515	\$504,200,553	\$533,831,639	\$565,790,231	\$580,617,663	\$819,197,027	\$836,513,156	\$838,264,072	\$850,332,369	\$905,929,963
Restricted	120,937,678	93,168,664	102,602,698	94,819,773	81,528,516	66,570,581	63,498,187	88,953,216	99,963,634	141,727,801
Unrestricted	64,246,970	127,047,077	168,420,129	169,167,443	162,061,295	144,574,017	147,677,199	161,779,641	159,355,084	(80,119,840)
Total primary government net position	<u>\$702,468,163</u>	<u>\$724,416,294</u>	<u>\$804,854,466</u>	<u>\$829,777,447</u>	<u>\$824,207,474</u>	<u>\$1,030,341,625</u>	<u>\$1,047,688,542</u>	<u>\$1,088,996,929</u>	<u>\$1,109,651,087</u>	<u>\$967,537,924</u>

1) Accounting standards require that net position be reported in three components in the financial statements: net investment in capital assets; restricted; and unrestricted. Net position is considered restricted when a) externally imposed by creditors (such as debt covenants), grantors, contributors, or laws or regulations of other governments or b) imposed by law through constitutional provisions or enabling legislation.

2) The significant decrease in net position was due to the implementation of GASB 68 related to the City's net pension liability.

**CITY OF MODESTO**  
**CHANGES IN NET POSITION**  
**LAST TEN FISCAL YEARS**  
**(ACCRUAL BASIS OF ACCOUNTING)**

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Expenses										
Governmental activities:										
General government	\$15,529,735	\$17,227,876	\$15,997,582	\$12,700,264	\$12,093,091	\$12,473,794	\$14,236,573	\$12,041,953	\$11,221,704	\$12,085,051
Community development	12,241,213	12,025,105	14,619,525	14,694,997	18,912,766	28,301,160	14,206,876	25,162,533	13,002,466	11,888,475
Highways and streets	26,025,311	26,246,306	26,436,475	23,682,253	23,668,779	24,114,799	21,009,521	20,525,496	21,316,315	21,269,704
Public works	6,491,062	12,557,512	11,471,344	9,151,786	6,759,562	7,393,809	6,780,882	4,064,497	3,241,135	9,810,989
Parks and recreation	11,733,698	14,568,192	14,264,334	15,070,007	13,268,871	10,310,549	11,741,352	13,036,579	11,659,816	4,641,611
Public safety	74,500,043	83,793,361	88,651,249	84,395,987	80,254,834	83,381,310	83,568,633	83,857,207	72,301,682	86,782,741
Interest on long-term debt	5,178,130	7,286,026	4,998,482	6,114,875	5,766,421	3,609,345	3,066,897	3,193,997	2,958,471	3,204,203
Total governmental activities expenses	151,699,192	173,704,378	176,438,991	165,810,169	160,724,324	169,584,766	154,610,734	161,882,262	135,701,589	149,682,774
Business-type activities:										
Water	1,287,450	1,475,340	1,982,066	2,011,386	1,826,401	1,518,955	1,482,640	1,252,660	1,605,829	54,718,239
Sewer	29,989,775	35,540,918	36,713,351	38,190,214	43,619,704	36,305,860	53,730,665	48,656,862	63,498,896	30,281,361
Bus	22,716,100	24,156,577	23,974,989	22,416,713	28,055,056	28,497,430	29,366,025	24,155,935	31,895,568	18,614,175
Parking	5,795,746	6,924,335	6,349,113	6,140,963	5,201,741	7,619,939	6,674,100	4,239,567	6,372,418	1,513,185
Storm drain	941,919	1,225,462	1,312,511	1,130,816	1,480,068	4,112,837	4,426,031	4,350,079	4,951,441	3,913,204
Compost	1,342,645	2,039,988	1,444,667	1,682,644	1,918,113	2,157,180	1,640,733	1,534,242	2,291,222	7,841,048
Airport	12,119,311	13,758,421	14,834,612	15,210,224	15,671,731	16,064,104	16,944,803	18,025,010	19,618,547	2,025,146
Golf	2,461,470	2,479,447	2,497,161	2,440,599	2,473,968	2,366,052	2,279,650	2,197,368	2,845,109	2,998,505
Community center	2,465,644	2,543,121	2,465,825	2,303,256	2,346,175	2,284,082	2,352,173	1,864,996	2,031,928	1,852,585
Abatement and public nuisance	-	-	-	-	-	-	34,609	42,879	31,877	93,067
Total business-type activities expenses	79,120,060	90,143,609	91,574,295	91,526,815	102,592,957	100,926,439	118,931,429	106,319,598	135,142,835	123,850,515
Total primary government expenses	\$230,819,252	\$263,847,987	\$268,013,286	\$257,336,984	\$263,317,281	\$270,511,205	\$273,542,163	\$268,201,860	\$270,844,424	\$273,533,289
Program revenues										
Governmental activities:										
Charges for services:										
General government	\$4,179,505	\$3,775,368	\$6,726,893	\$6,987,127	\$6,323,865	\$6,804,398	\$6,799,202	\$6,262,963	\$5,825,407	\$5,912,157
Community development	9,466,082	10,873,541	7,869,742	4,788,324	2,941,932	4,730,263	4,430,690	4,123,811	4,537,984	3,385,050
Highway and streets	12,104,089	10,719,009	5,804,342	8,222,178	2,801,213	3,179,788	4,178,567	761,394	873,566	1,744,505
Public works	1,986,957	1,757,648	5,110,428	1,349,956	3,344,967	2,909,677	2,936,299	3,565,048	4,146,641	6,621,704
Parks and recreation	4,928,366	4,437,320	5,590,196	4,006,123	6,038,468	3,105,490	3,221,072	3,623,647	3,004,001	1,344,923
Public safety	7,124,387	8,414,456	4,868,612	4,625,935	4,325,231	4,977,440	3,338,783	3,668,302	3,123,758	4,218,000
Operating grants and contributions	11,892,511	12,701,177	14,221,390	11,424,548	14,559,357	19,861,492	10,270,642	16,477,474	5,868,684	5,862,566
Capital grants and contributions	38,484,548	4,207,389	17,930,957	6,595,213	10,876,018	7,334,967	9,509,584	9,046,762	8,206,154	5,878,550
Total governmental activities program revenues	\$90,166,445	\$56,885,908	\$68,122,560	\$47,999,404	\$51,211,051	\$52,903,515	\$44,684,839	\$47,529,401	\$35,586,195	\$34,967,455
Business-type activities:										
Charges for services:										
Water	\$1,176,061	\$1,128,755	\$1,297,484	\$1,256,360	\$1,239,995	\$1,274,482	\$1,291,401	\$1,169,293	\$1,092,347	\$59,800,535
Sewer	42,639,348	49,305,033	51,679,042	53,218,692	54,670,041	55,345,414	57,534,190	61,474,235	60,254,110	46,193,997
Bus	23,083,280	24,833,019	29,340,615	35,854,857	37,310,731	39,142,045	41,825,928	43,414,773	46,046,304	3,424,662
Parking	5,277,304	5,403,474	5,338,838	5,301,150	5,428,291	6,152,211	5,783,694	5,780,644	5,831,133	1,239,439
Storm drain	1,317,105	1,254,137	1,075,032	1,397,708	1,706,189	4,490,110	4,672,517	8,012,611	4,853,133	5,874,349
Compost	577,688	604,214	593,349	661,524	675,565	1,019,177	619,689	619,904	634,530	7,191,145
Airport	2,645,622	2,545,790	3,182,762	2,944,108	2,769,814	2,877,492	2,892,539	2,946,937	2,989,504	551,373
Golf	2,222,738	2,189,384	2,124,672	1,984,769	1,924,015	1,647,400	1,759,818	1,568,532	2,196,280	2,574,496
Community center	543,085	552,878	532,471	492,989	489,562	433,460	420,059	263,581	230,801	257,991
Abatement and public nuisance	-	-	-	-	-	-	71,567	302,563	201,825	128,636
Operating grants and contributions	8,317,889	11,059,129	12,459,707	11,462,346	13,706,512	12,629,219	12,694,058	13,766,061	13,721,179	14,223,954
Capital grants and contributions	10,467,873	7,962,675	9,793,356	4,527,875	2,898,489	4,856,649	12,021,793	4,282,549	4,971,940	13,820,127
Total business-type activities program revenues	98,267,993	106,838,488	117,417,328	119,102,378	122,819,204	129,867,659	141,587,253	143,601,683	143,023,086	155,280,704
Total primary government program revenues	\$188,434,438	\$163,724,396	\$185,539,888	\$167,101,782	\$174,030,255	\$182,771,174	\$186,272,092	\$191,131,084	\$178,609,281	\$190,248,159
Net (Expense)/Revenue										
Governmental activities	(\$61,532,747)	(\$116,818,470)	(\$108,316,431)	(\$117,810,765)	(\$109,513,273)	(\$116,681,251)	(\$109,925,895)	(\$114,352,861)	(\$100,115,394)	(\$114,715,319)
Business-type activities	19,147,933	16,694,879	25,843,033	27,575,563	20,226,247	28,941,220	22,655,824	37,282,085	7,880,251	31,430,189
Total primary government net expense	(\$42,384,814)	(\$100,123,591)	(\$82,473,398)	(\$90,235,202)	(\$89,287,026)	(\$87,740,031)	(\$87,270,071)	(\$77,070,776)	(\$92,235,143)	(\$83,285,130)

**City of Modesto**  
**CHANGES IN NET POSITION**  
**LAST TEN FISCAL YEARS**  
**(ACCRUAL BASIS OF ACCOUNTING)**

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011 (1)</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015 (5)</u>
General Revenues and Other Changes in Net Position										
Governmental activities:										
Taxes:										
Utility users tax	\$17,583,690	\$18,319,573	\$ 19,173,295	\$ 19,093,222	\$ 19,117,518	\$ 19,119,037	\$ 19,230,879	\$ 20,399,116	\$ 20,153,653	\$ 19,591,170
Property taxes, levied for general purposes	14,318,747	16,456,379	16,202,587	13,863,471	12,306,702	12,107,226	11,863,902	11,618,481	12,304,010	13,551,827
Property taxes, generated by and allocated to the airport	4,450,836	5,303,521	5,813,822	6,228,634	6,521,515	5,750,235	2,884,357	-	-	-
Transient occupancy tax	2,181,467	2,264,699	2,038,255	1,853,732	1,460,613	1,639,761	1,769,106	1,884,188	1,879,825	2,097,952
Franchise tax	3,693,307	3,823,216	7,735,131	4,779,854	3,962,159	3,940,364	4,236,705	5,785,355	5,003,130	5,768,146
Business license tax, levied for general purposes	10,374,157	10,359,058	9,680,721	9,330,563	9,068,219	9,339,077	9,694,722	10,176,791	10,573,820	11,421,759
Business license tax, levied for downtown improvement district	214,022	221,487	202,100	196,253	169,471	172,520	177,026	170,222	181,689	188,247
Grants and contributions not restricted to specific programs:										
Sales tax (state appropriation)	29,627,835	27,884,852	26,305,982	24,578,230	22,301,060	24,110,596	25,958,263	27,110,911	27,651,939	28,437,594
Motor vehicle license fee	14,986,883	16,233,262	16,856,108	15,255,503	13,945,172	13,419,232	13,072,804	12,038,983	12,494,642	13,871,248
Gas tax funding	-	-	-	-	-	-	-	-	-	5,924,101
Community facilities district fees	-	-	-	-	-	-	-	-	-	4,570,403
Special assessments, levied	-	-	-	-	-	-	-	-	-	1,924,623
Proceeds from Modesto Regional Fire Authority dissolution	-	-	-	-	-	-	-	-	-	2,500,721
Other	4,070,593	4,169,354	917,347	3,285,651	1,286,466	9,718,308	11,794,261	12,844,926	15,269,250	25,866,105
Unrestricted investment earnings	3,255,401	8,330,079	9,960,367	5,247,506	1,211,702	696,848	(411,571)	52,893	441,383	564,314
Miscellaneous	2,827,161	3,582,325	3,469,916	5,809,581	2,502,397	1,630,466	1,821,336	1,861,660	5,402,480	2,281,008
Settlements	-	-	-	-	-	-	-	-	-	-
Transfers	(1,416,790)	(1,153,632)	(779,437)	(5,490,881)	402,303	1,503,170	2,838,873	1,055,670	(41,312)	(775,377)
Special item - PCE legal fees	-	-	-	-	-	-	-	-	-	-
Total government activities	<u>106,167,309</u>	<u>115,794,173</u>	<u>117,576,194</u>	<u>104,031,319</u>	<u>94,255,297</u>	<u>103,146,840</u>	<u>104,930,663</u>	<u>104,999,196</u>	<u>111,314,509</u>	<u>137,783,841</u>
Business-type activities:										
Taxes:										
Property taxes, generated by and allocated to the airport	166,641	209,722	182,031	202,460	265,587	309,699	253,974	257,687	254,200	237,546
Business license tax, generated by and allocated to the airport	41,108	13,054	19,188	-	-	-	-	-	-	-
Unrestricted investment earnings	2,504,291	5,406,639	7,099,765	6,227,615	3,155,954	1,947,417	2,095,947	1,184,422	2,726,148	554,180
Connection fees (3)	-	-	-	-	-	-	-	1,200,800	524,914	-
Miscellaneous	-	-	-	253,032	-	-	-	-	-	1,214,729
Settlements	1,416,790	1,153,632	779,437	5,490,881	(402,303)	(1,503,170)	(2,838,873)	(1,055,670)	41,317	13,851
Transfers, net	3,784,295	-	14,525,389	-	447,102	187,096	222,379	116,711	110,376	775,377
Special item (4)	(1,736,054)	(505,498)	(625,620)	(2,211,514)	(1,326,309)	(727,310)	(826,133)	(1,143,257)	(1,356,418)	-
Total business-type activities	<u>6,177,071</u>	<u>6,277,549</u>	<u>21,980,190</u>	<u>9,962,474</u>	<u>2,140,031</u>	<u>213,732</u>	<u>(1,092,706)</u>	<u>560,693</u>	<u>2,300,537</u>	<u>2,795,683</u>
Total primary government	<u>\$112,344,380</u>	<u>\$122,071,722</u>	<u>\$139,556,384</u>	<u>\$113,993,793</u>	<u>\$96,395,328</u>	<u>\$103,360,572</u>	<u>\$103,837,957</u>	<u>\$105,559,889</u>	<u>\$113,615,046</u>	<u>\$140,579,524</u>
Change in Net Position										
Governmental activities	\$44,634,562	(\$1,024,297)	\$9,259,763	(\$13,779,446)	(\$15,257,976)	(\$13,534,411)	(\$4,995,232)	(\$9,353,665)	\$11,199,115	\$23,068,522
Business-type activities	25,325,004	22,972,428	47,823,223	37,538,037	22,366,278	29,154,952	21,563,118	37,842,778	10,180,788	34,225,872
Total primary government	<u>\$69,959,566</u>	<u>\$21,948,131</u>	<u>\$57,082,986</u>	<u>\$23,758,591</u>	<u>\$7,108,302</u>	<u>\$15,620,541</u>	<u>\$16,567,886</u>	<u>\$28,489,113</u>	<u>\$21,379,903</u>	<u>\$57,294,394</u>

(1) The amount reported under utility users taxes and property taxes were keyed backwards in 2011. The amounts have been fixed to reflect the correct numbers in these two categories.

(2) Due to the dissolution of the Redevelopment agencies, no tax increments will be reported on the entity-wide statements.

(3) Starting in 2015, connection fee revenues were reported as part of program revenues for the Water fund.

(4) Starting in 2015, the special item related to pollution remediation has been reported as a liability. Any expenses incurred will be accounted for as a reduction to the liability.

(5) Starting in 2015, general revenues for grants and contributions not restricted to specific programs other related governmental activities were reclassified to provide more specific category revenue types.

**CITY OF MODESTO  
FUND BALANCES OF GOVERNMENTAL FUNDS  
LAST TEN FISCAL YEARS  
(MODIFIED ACCRUAL BASIS OF ACCOUNTING)**

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011 (b)</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
General Fund										
Reserved	\$ 2,702,381	\$ 3,734,973	\$ 3,816,559	\$ 3,568,273	\$ 2,871,715	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved	20,607,134	10,713,910	11,942,168	11,185,485	10,103,645	-	-	-	-	-
Nonspendable	-	-	-	-	-	-	123,061	126,603	102,152	2,770,844
Restricted	-	-	-	-	-	4,313,287	3,998,539	3,713,640	3,718,682	1,341,972
Committed	-	-	-	-	-	-	-	-	3,000,000	3,000,000
Assigned	-	-	-	-	-	458,415	519,051	1,173,377	1,024,149	3,119,753
Unassigned	-	-	-	-	-	10,215,682	10,806,111	11,758,746	12,069,864	14,586,931
Total General Fund	<u>\$ 23,309,515</u>	<u>\$ 14,448,883</u>	<u>\$ 15,758,727</u>	<u>\$ 14,753,758</u>	<u>\$ 12,975,360</u>	<u>\$14,987,384</u>	<u>\$15,446,762</u>	<u>\$16,772,366</u>	<u>\$19,914,847</u>	<u>\$24,819,500</u>
All Other Governmental Funds										
Reserved	\$ 40,168,886	\$ 40,174,920	\$ 42,799,130	\$ 39,607,945	\$ 39,686,892	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved, reported in:										
Special revenue funds	13,431,304	11,885,910	8,746,111	12,808,809	6,867,750	-	-	-	-	-
Capital project funds	72,752,412	72,253,464	71,780,583	58,718,023	54,341,594	-	-	-	-	-
Nonspendable	-	-	-	-	-	-	119	746	3,907	88,057
Restricted	-	-	-	-	-	118,919,268	109,145,041	106,724,809	108,672,378	79,643,971
Assigned	-	-	-	-	-	3,647,941	2,604,281	3,965,851	3,700,733	14,962,522
Unassigned	-	-	-	-	-	(23,614,308)	(18,852,239)	(32,965,286)	(34,656,617)	(3,866,450)
Total all other governmental funds	<u>\$126,352,602</u>	<u>\$124,314,294</u>	<u>\$123,325,824</u>	<u>\$111,134,777</u>	<u>\$100,896,236</u>	<u>\$98,952,901</u>	<u>\$92,897,202</u>	<u>\$77,726,120</u>	<u>\$77,720,401</u>	<u>\$90,828,100</u>

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

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

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

**CITY OF MODESTO  
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
LAST TEN FISCAL YEARS  
(MODIFIED ACCRUAL BASIS OF ACCOUNTING)**

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
<b>Revenues</b>										
Taxes	\$52,816,596	\$56,748,017	\$57,142,392	\$55,345,729	\$52,606,197	\$52,068,220	\$49,856,697	\$50,034,153	\$50,096,127	\$52,619,101
Licenses and permits	146,854	187,289	153,545	132,459	138,811	139,073	131,302	175,720	174,734	149,888
Intergovernmental	64,759,658	66,129,862	71,179,504	63,606,634	61,551,617	74,242,596	68,682,778	75,737,161	67,426,885	88,906,770
Charges for services	37,802,149	36,979,023	33,319,642	27,051,151	23,509,170	22,638,801	19,897,159	19,800,718	19,457,298	22,337,357
Special assessments levied	65,909	51,634	35,294	37,299	38,520	1,852,529	1,860,905	1,781,896	2,063,784	1,924,623
Interest and rent	3,755,169	4,837,419	5,236,476	2,909,155	1,322,005	838,178	1,145,251	835,994	1,019,357	957,846
Net increase (decrease) in fair value of investments	103,036	1,168,857	1,404,913	860,820	399,322	(89,608)	(452,987)	(584,090)	(423,827)	(320,398)
Fines and forfeits	1,675,926	2,699,445	2,614,523	2,443,506	2,253,014	2,929,182	2,169,482	2,004,133	1,844,607	1,171,076
Contribution from property owners	30,473,773	-	-	-	-	-	-	-	-	-
Miscellaneous	2,821,161	2,814,421	3,469,916	5,809,581	2,502,397	1,630,467	1,821,336	2,081,776	4,653,746	2,784,295
<b>Total Revenues</b>	<b>194,420,231</b>	<b>171,615,967</b>	<b>174,556,205</b>	<b>158,196,334</b>	<b>144,321,053</b>	<b>156,249,438</b>	<b>145,111,923</b>	<b>151,867,461</b>	<b>146,312,711</b>	<b>170,530,558</b>
<b>Expenditures</b>										
Current:										
General government	14,111,535	15,517,544	15,107,461	13,715,577	11,482,240	10,879,751	12,411,413	11,169,669	11,643,579	11,334,202
Community development	12,296,072	11,789,640	13,820,295	14,137,095	18,536,120	26,077,905	12,831,734	23,673,373	12,589,817	11,511,154
Highways and streets	14,357,041	12,553,681	12,549,018	9,721,445	8,102,327	11,530,856	8,434,681	8,560,717	8,744,899	9,672,790
Public works	5,647,023	11,307,307	9,719,098	7,667,125	6,124,685	6,035,524	5,283,123	2,993,702	3,088,701	9,228,780
Parks and recreation	11,662,263	13,348,613	12,605,651	13,307,764	12,138,077	8,722,311	9,756,888	11,299,979	11,947,862	4,212,301
Public safety	74,527,875	80,988,650	82,707,285	78,103,260	75,081,791	73,207,608	72,131,852	74,094,399	74,595,533	81,353,131
Capital outlay	21,563,774	30,194,778	22,745,308	27,663,037	16,655,242	11,219,489	20,839,517	26,616,638	12,901,002	30,339,677
Debt service:										
Principal retirement	1,901,827	2,008,538	2,265,000	1,093,000	2,045,000	2,234,000	2,397,000	1,451,000	1,596,000	1,789,335
Interest	4,576,780	4,413,300	3,473,369	3,033,829	4,032,612	3,620,851	3,229,440	2,330,962	2,159,672	2,417,840
Advance refunding escrow	-	822,228	-	-	-	-	-	-	-	-
Other	618,742	1,333,129	1,337,611	1,395,211	1,408,771	57,557	48,738	932,460	872,350	783,264
<b>Total Expenditures</b>	<b>161,262,932</b>	<b>184,277,408</b>	<b>176,330,096</b>	<b>169,837,343</b>	<b>155,606,865</b>	<b>153,585,852</b>	<b>147,364,386</b>	<b>163,122,899</b>	<b>140,139,415</b>	<b>162,642,474</b>
Excess of revenues over (under) expenditures	33,157,299	(12,661,441)	(1,773,891)	(11,641,009)	(11,285,812)	2,663,586	(2,252,463)	(11,255,438)	6,173,296	7,888,084
<b>Other Financing Sources (Uses)</b>										
Transfers in	17,724,718	23,985,863	24,429,880	19,237,526	12,346,246	10,557,218	11,384,460	18,230,774	7,962,817	8,157,278
Transfers out	(20,267,476)	(26,399,280)	(22,579,265)	(18,149,564)	(12,402,937)	(13,069,195)	(14,223,663)	(18,417,413)	(11,164,994)	(10,682,539)
Proceeds of loan payable	-	-	244,650	209,575	-	-	-	-	-	-
Proceeds of notes payable	-	44,138	-	-	-	-	-	-	-	-
Proceeds of lease revenue bonds	-	62,275,000	-	65,170,000	-	-	-	-	-	-
Refunding of lease revenue bonds	-	-	-	(65,210,000)	-	-	-	-	-	-
Capital leases	-	-	-	-	-	-	-	-	-	1,070,472
Sale of assets	6,000	767,904	-	34,900	-	-	-	72,489	200,838	94,489
Payments to refunded debt escrow agent	-	(58,911,124)	-	(2,431,247)	-	-	-	-	-	-
<b>Total other financing sources (uses)</b>	<b>(2,536,758)</b>	<b>1,762,501</b>	<b>2,095,265</b>	<b>(1,138,810)</b>	<b>(56,691)</b>	<b>(2,511,977)</b>	<b>(2,839,203)</b>	<b>(114,150)</b>	<b>(3,001,339)</b>	<b>(1,360,300)</b>
Extraordinary Items:										
RDA dissolution transactions	-	-	-	-	-	-	(403,850)	-	-	-
RDA advance receivable elimination	-	-	-	-	-	-	(966,127)	-	-	-
<b>Total extraordinary items</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(1,369,977)</b>	<b>-</b>	<b>-</b>	<b>-</b>
Change in fund balances	30,620,541	(10,898,940)	321,374	(12,779,819)	(11,342,503)	151,609	(6,461,643)	(11,369,588)	3,171,957	6,527,784
<b>FUND BALANCES, July 1</b>	<b>119,041,576</b>	<b>149,662,117</b>	<b>138,763,177</b>	<b>139,084,551</b>	<b>125,888,535</b>	<b>113,871,596</b>	<b>113,940,285</b>	<b>108,343,964</b>	<b>94,498,486</b>	<b>97,635,248</b>
<b>PRIOR PERIOD ADJUSTMENTS</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(416,197)</b>	<b>(674,436)</b>	<b>(82,920)</b>	<b>865,322</b>	<b>(2,475,890)</b>	<b>(35,195)</b>	<b>11,484,568</b>
<b>FUND BALANCES, June 30</b>	<b>\$149,662,117</b>	<b>\$138,763,177</b>	<b>\$139,084,551</b>	<b>\$125,888,535</b>	<b>\$113,871,596</b>	<b>\$113,940,285</b>	<b>\$108,343,964</b>	<b>\$94,498,486</b>	<b>\$97,635,248</b>	<b>\$115,647,600</b>
Debt service as a percentage of noncapital expenditures	0.04886	0.04979	0.03917	0.03020	0.04623	0.04291	0.04656	0.02870	0.03063	0.03305

The debt service percentage was revised to only include principal and interest.

**CITY OF MODESTO**  
**REVENUE CAPACITY - MOST SIGNIFICANT LOCAL REVENUE SOURCE**  
**WATER UTILITY SYSTEM**  
**(YEAR ENDED JUNE 30, 2015)**

Ten Largest Customers of Water Utility System, Year Ended 06/30/15

<u>Customer</u>	<u>Usage (ccf) (1)</u>	<u>% of Total Usage</u>	<u>Water Sales Revenue (\$)</u>	<u>% of Total Water Sales Revenue</u>
1) City of Modesto-Stores	326,946	1.38%	\$709,170	1.36%
2) Modesto City Schools	394,118	1.67%	\$691,853	1.33%
3) Stanislaus Food Products	367,069	1.55%	\$544,134	1.04%
4) Seneca Foods	331,871	1.40%	\$481,844	0.92%
5) Foster Farms	309,735	1.31%	\$442,319	0.85%
6) Modesto Irrigation District	218,245	0.92%	\$302,710	0.65%
7) Stanislaus Housing Authority	158,788	0.67%	\$302,710	0.58%
8) Sunopta	185,344	0.78%	\$267,502	0.51%
9) Yosemite Community College	118,899	0.50%	\$208,503	0.40%
10) E & J Gallo	109,519	0.46%	\$182,956	0.35%
Total Top Ten	<u>2,520,534</u>	<u>10.66%</u>	<u>\$4,171,608</u>	<u>8.00%</u>

Total Flat/Metered Revenues (Water Sales)

\$52,156,332

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

Water Sales Revenue, Year Ended 06/30/15

Residential - Flat Rates

\$9,037,477

Commercial, Industrial and Municipal - Metered Rates

43,118,855

Total Water Sales

\$52,156,332

Water Rates and Charges as of 07/01/2014

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

\$ 46.38

Commercial Accounts:

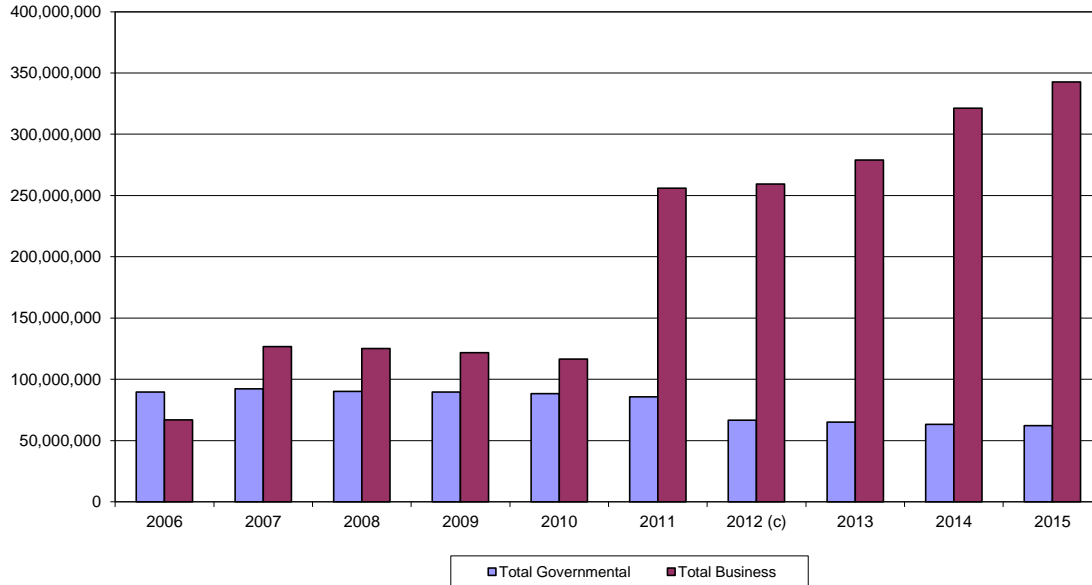
<u>Meter Size</u>	
3/4"	\$15.03
1"	21.33
1 1/2"	36.90
2"	55.68
3"	105.80
4"	162.13
6"	318.47
8"	506.20
10"	725.26
12"	1,350.92

In addition to these minimum charges, commercial accounts are charged \$1.40 per 100 cubic feet of water used.

Source:

City of Modesto-Utilities Division

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



**Governmental Activities**

Fiscal Year	Loans Payable	Certificates of Participation	Lease Revenue Bonds	Notes Payable	Obligations Under Capital Leases	Total
2006	\$ 446,634	\$ 21,655,000	\$ 62,505,000	\$ 4,535,034	\$ 444,904	\$ 89,586,572
2007	449,138	20,820,000	66,440,000	4,365,446	211,354	92,285,938
2008	693,788	19,935,000	65,210,000	4,187,220	137,392	90,163,400
2009	903,362	19,000,000	65,170,000	3,999,252	454,401	89,527,015
2010	903,362	18,015,000	64,275,000	3,802,436	1,221,553	88,217,351
2011	903,392	16,975,000	63,255,000	3,594,658	975,955	85,704,005
2012 (c)	498,362	-	62,130,000	3,392,000	742,937	66,763,299
2013	498,362	-	60,870,000	3,201,000	502,622	65,071,984
2014	498,362	-	59,475,000	3,000,000	256,945	63,230,307
2015	498,362	-	57,970,000	2,789,000	1,070,472	62,327,834

**Business-Type Activities**

Fiscal Year	Loans Payable	Certificates of Participation	Reimbursement Agreement related to MID (e)	Revenue Bonds (b)	Capital Leases	Total (f)	Total Primary Government	Percentage of Personal Income (a) (e)	Per Capita (a) (e)
2006	\$ 2,156,040	\$ 26,305,000	-	\$ 38,245,000	\$ 222,588	\$ 66,928,628	\$ 156,515,200	2.62%	\$ 748.25
2007	1,958,276	71,595,000	-	53,130,000	151,633	126,834,909	219,120,847	3.72%	1,043.75
2008	1,754,300	71,915,000	-	51,420,000	77,485	125,166,785	215,330,185	3.76%	1,024.95
2009	1,543,554	70,545,000	-	49,760,000	-	121,848,554	211,375,569	3.78%	999.24
2010	1,326,174	67,066,213	-	48,050,000	-	116,442,387	204,659,738	3.90%	1,017.37
2011 (d)	6,522,243	50,757,779	-	198,654,489	-	255,934,511	341,638,516	5.43%	1,693.28
2012 (d)	16,098,866	50,237,067	-	193,098,177	-	259,434,110	326,197,409	7.14%	1,583.58
2013	41,921,784	49,681,357	-	187,251,865	-	278,855,006	343,926,990	7.29%	1,663.21
2014	88,922,403	49,634,062	-	182,792,914	-	321,349,379	384,579,686	8.15%	1,859.80
2015	117,690,257	48,989,556	137,055,810	39,057,561	-	342,793,184	405,121,018	8.63%	1,936.65

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

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

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

(c) The Certificates of Participation bonds for the Governmental Activities due to the dissolution of the Redevelopment Agency.

(d) In 2011, the OPEB was reported in the Certificates of Participation in error. In 2012 the Loans payable increase from the bond reimbursements related to the State Revolving loan approved for the construction of a new tertiary treatment plant.

(e) In 2015, the Reimbursement agreement with MID was reclassified from revenue bonds payable to reimbursement agreement related to MID since this long-term debt is listed under MID but is the City's liability due to nature of the treatment and delivery agreement.

(f) The total for Business-Type Activities did not include the capital leases in error. The total has been updated to account for this debt.

**CITY OF MODESTO**  
**COMPUTATION OF DIRECT AND OVERLAPPING DEBT**  
**JUNE 30, 2015**

<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>62,327,834</u>	100%	\$ <u>62,327,834</u>
Overlapping General Obligation debt - school districts:			
Ceres Unified School District	72,738,012	5.48%	3,986,407
Hart-Ransom Union School District	3,815,545	30.95%	1,180,759
Modesto Elementary School District	10,630,273	77.91%	8,282,503
Modesto High School District	41,768,886	67.89%	28,355,769
Paradise Elementary School District	385,000	0.00%	-
Salida Union Elementary District	585,000	29.00%	169,645
Stanislaus Union School District	29,000,533	77.18%	22,382,727
Sylvan School District	35,366,169	78.00%	27,585,682
Yosemite Community College District	<u>401,674,549</u>	34.33%	<u>137,890,454</u>
Total overlapping debt	<u>595,963,967</u>		<u>229,833,946</u>
Total direct and overlapping debt	\$ <u><u>658,291,801</u></u>		\$ <u><u>292,161,780</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, 2015**

Net assessed value (1)(3)	\$ 13,244,232,202
Plus homeowners' exemption (1)(3)	<u>206,576,695</u>
Gross assessed value (1)(3)	<u>\$ 13,450,808,897</u>

Debt limit - 15% of gross assessed value (2) \$ 2,017,621,335

Amount of debt applicable to debt limit:

Total general bonded debt, including special assessment debt \$ \_\_\_\_\_ -

Less: Assets in debt service funds available for payment of principal \$ \_\_\_\_\_ -

Other deductions: Special assessment debt \_\_\_\_\_ -

Total deductions \_\_\_\_\_ -

Total amount of debt applicable to debt limit \_\_\_\_\_ -

Legal debt margin \$ 2,017,621,335

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	\$ -	\$ 1,911,402,504	0%
2007	2,160,683,976	-	2,160,683,976	0%
2008	2,327,946,572	-	2,327,946,572	0%
2009	2,138,574,915	-	2,138,574,915	0%
2010	1,945,371,241	-	1,945,371,241	0%
2011	1,856,710,771	-	1,856,710,771	0%
2012	1,823,551,939	-	1,823,551,939	0%
2013	1,724,049,678	-	1,724,049,678	0%
2014	1,825,518,342	-	1,825,518,342	0%
2015	2,017,621,335	-	2,017,621,335	0%

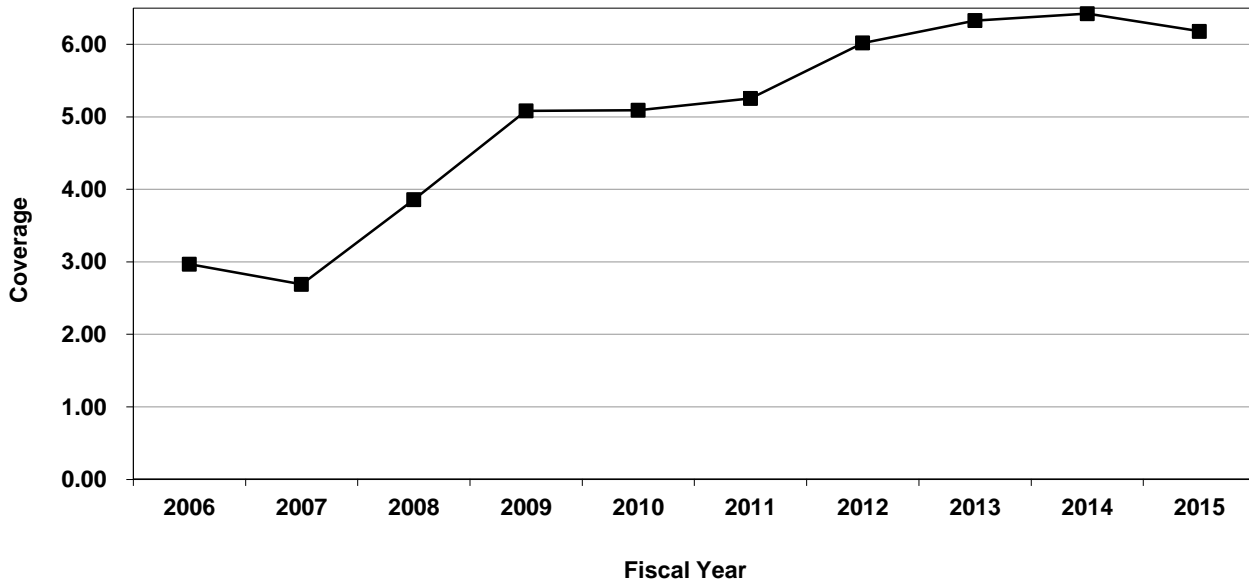
Note: The City has elected to show ten years worth of data for this schedule.

(1) Source: Stanislaus County Auditor

(2) Section 43605 California Government Code.

(3) Figures are based on Stanislaus County

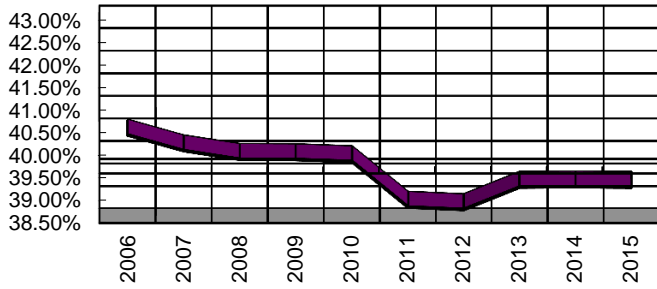
**CITY OF MODESTO  
REVENUE BOND COVERAGE  
WASTEWATER REVENUE BONDS  
LAST TEN FISCAL YEARS (4)**



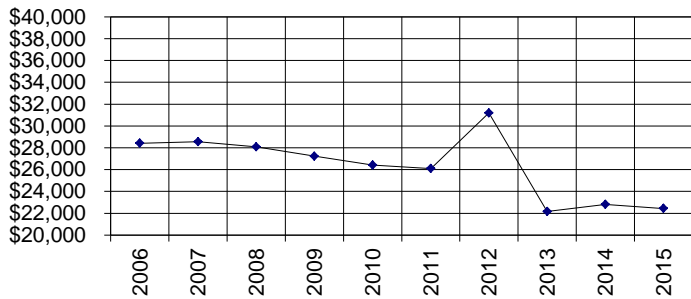
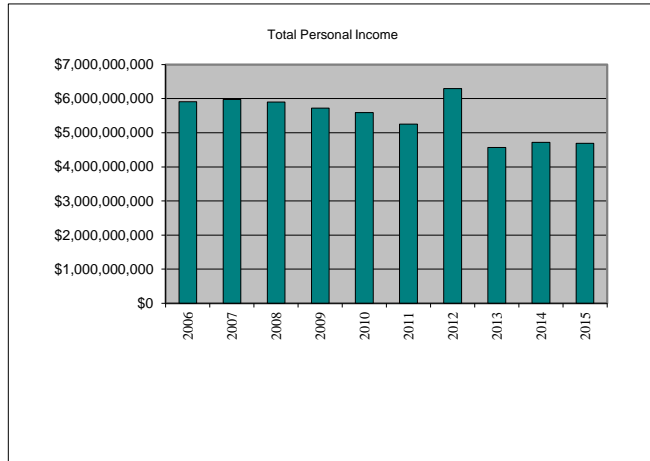
<u>Fiscal Year</u>	<u>Gross Revenue (1)</u>	<u>Operating Expenses (2)(4)</u>	<u>Net Revenue Available for Debt Service</u>	<u>Debt Service Requirements(3)</u>	<u>Coverage</u>
2006	\$ 24,695,878	\$ 16,044,781	\$ 8,651,097	\$ 2,916,462	2.97
2007	26,367,977	16,399,785	9,968,192	3,705,523	2.69
2008	32,214,071	16,280,914	15,933,157	4,127,837	3.86
2009	37,539,860	17,050,138	20,489,722	4,030,633	5.08
2010	39,086,504	18,161,292	20,925,212	4,110,221	5.09
2011	39,844,523	18,722,729	21,121,794	4,021,108	5.25
2012	43,453,216	19,287,894	24,165,322	4,014,808	6.02
2013	45,018,125	19,586,799	25,431,326	4,019,558	6.33
2014	47,233,028	19,860,430	27,372,598	4,261,980	6.42
2015	46,853,368	21,207,025	25,646,343	4,150,322	6.18

- 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 2005 A and 2005 B and 2006 Wastewater Revenue Bonds.
  - (4) The amount reported in 2014 was corrected from \$28,203,399 to \$19,860,430. The former amount included \$8.4 million for the State Revolving Fund loan which should not have been included in the calculation.

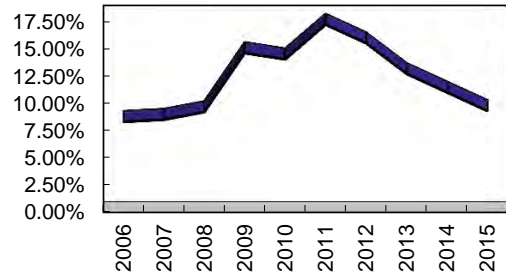
**CITY OF MODESTO  
DEMOGRAPHIC AND ECONOMIC STATISTICS  
LAST TEN FISCAL YEARS**



■ 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
2006	208,107	\$ 5,912,527,977	\$ 28,411	8.30%	514,370	40.46%
2007	209,174	5,970,871,830	28,545	8.50%	521,497	40.11%
2008	209,936	5,895,212,816	28,081	9.20%	525,903	39.92%
2009	210,088	5,720,906,328	27,231	14.60%	526,383	39.91%
2010	211,536	5,586,877,296	26,411	14.02%	530,584	39.87%
2011	201,165	5,251,613,490	26,106	17.20%	517,685	38.86%
2012	201,761	6,294,337,917	31,197	15.50%	519,940	38.80%
2013	205,987	4,566,113,829	22,167	12.70%	524,124	39.30%
2014	206,785	4,719,247,270	22,822	11.00%	526,042	39.31%
2015	209,186	4,693,924,654	22,439	9.30%	532,297	39.30%

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

**CITY OF MODESTO  
PRINCIPAL EMPLOYERS**

Employer	2014/15			2006/07		
	Number of Employees	Rank	Percentage of Total City Employment	Number of Employees	Rank	Percentage of Total City Employment
E & J Gallo Winery	3,300	1	3.31%	3,311	3	3.34%
Modesto City Schools	3,200	2	3.21%	3,345	2	3.38%
Memorial Medical Center/Sutter Health	3,800	3	3.81%	2,700	4	2.72%
Doctors Medical Center	2,452	4	2.46%	1,967	9	1.98%
Seneca	2,275	5	2.28%			
Del Monte Foods	2,200	6	2.21%	2,600	5	2.62%
Stanislaus Food Products	1,850	7	1.85%	2,000	8	2.02%
Modesto Junior College	1,548	8	1.55%	2,550	6	2.57%
City of Modesto	1,234	9	1.24%	1,700	10	1.72%
MedAmerica Billing Systems	900	10	0.90%			
Storer Coachways	900	10	0.90%			
Stanislaus County				4,764	1	4.81%
Signature Fruit Company				2,321	7	2.34%
Subtotal	<u>23,659</u>		<u>23.72%</u>	<u>27,258</u>		<u>27.50%</u>
Total Labor Force	99,735			99,100		
Total City Population	209,186			209,174		

Source: Stanislaus Economic Development & Workforce Alliance (reflects peak seasonal employment, may include estimates)  
(1) The number of employees include both part-time and full time.

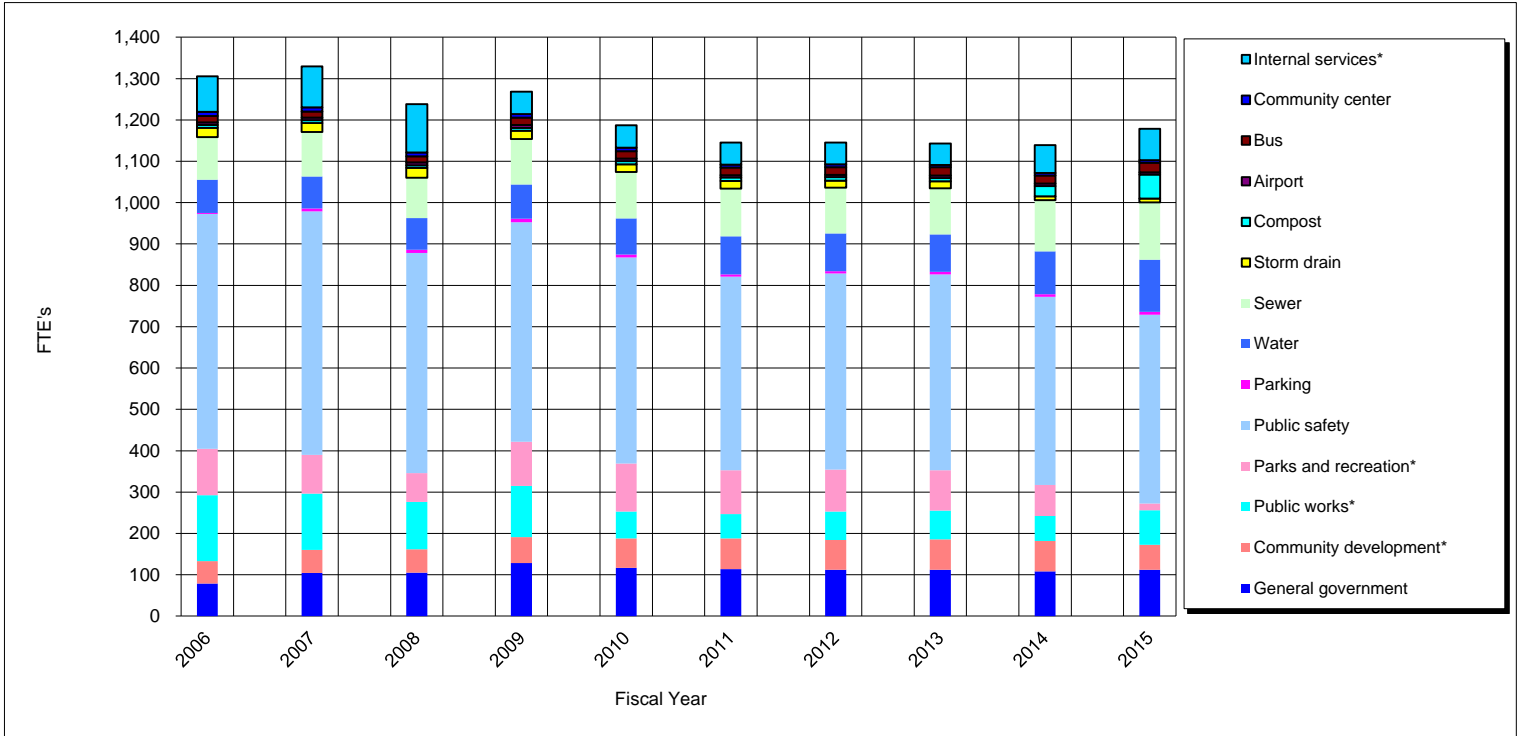
**CITY OF MODESTO  
PRINCIPAL PROPERTY TAXPAYERS**

Employer	2014/15			2006/07		
	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value
Pacific Gas & Electric Company	\$ 3,214,272	1	0.71%	\$ 1,608,842	3	0.39%
World International, LLC	3,108,228	2	0.68%			
E & J Gallo Winery	2,810,732	3	0.62%	1,378,021	4	0.33%
Gallo Glass Co	2,619,834	4	0.58%	1,682,328	2	0.41%
Bronco Wine Co	1,511,804	5	0.33%			
Doctors Medical Center of Modesto, Inc	1,367,327	6	0.30%	1,216,776	5	0.30%
Hunt Wesson Foods, Inc	1,319,007	7	0.29%			
Frito Lay, Inc	1,246,008	8	0.27%	1,178,915	6	0.29%
W W Grainger, Inc	1,242,152	9	0.27%			
Fresno Farming, LLC	1,240,161	10	0.27%			
Diablo Grande, LTD				2,933,771	1	0.71%
Hershey's Chocolate, Inc				1,131,569	7	0.27%
Pacific Bell				1,077,428	8	0.26%
Del Monte Corp				1,071,880	9	0.26%
Foster Dairy Farms				1,026,928	10	0.25%
Subtotal	<u>\$ 19,679,525</u>		<u>4.32%</u>	<u>\$ 14,306,458</u>		<u>3.47%</u>
Total assessed value of \$	\$ 455,100,342			\$ 412,187,245		

Source: Stanislaus County Treasurer-Tax Collector

Note: Information based on entire Stanislaus County

**CITY OF MODESTO**  
**FULL-TIME CITY GOVERNMENT EMPLOYEES BY FUNCTION**  
**LAST TEN FISCAL YEARS**



	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
<b>Function</b>										
General government	79.00	104.10	105.00	128.60	116.60	113.60	112.00	112.00	108.00	112.10
Community development*	54.00	56.00	57.00	62.20	71.20	74.20	72.20	74.00	73.80	60.75
Public works*	159.50	136.50	114.00	124.00	65.00	59.00	69.00	69.00	60.00	83.00
Parks and recreation*	112.50	93.25	70.00	107.25	116.00	106.23	101.48	97.50	75.38	16.50
Public safety	567.75	588.75	532.00	530.75	499.00	467.75	473.75	474.00	455.00	456.50
Parking	2.00	7.00	8.00	8.00	7.00	6.00	6.00	6.00	6.00	7.00
Water	81.00	78.00	77.00	83.00	87.00	92.00	91.00	91.00	104.00	126.00
Sewer	103.00	107.00	97.00	110.00	112.00	115.00	111.00	111.00	124.00	139.00
Storm drain	22.00	22.00	24.00	20.00	19.00	19.00	17.00	17.00	9.00	9.00
Compost	7.00	7.00	6.00	7.00	8.00	8.00	8.00	8.00	24.80	57.80
Airport	6.00	6.00	7.00	6.75	6.00	6.00	6.00	6.00	6.00	6.00
Bus	16.00	15.00	15.00	18.00	18.00	18.00	18.00	20.00	20.00	23.00
Community center	9.50	9.50	9.50	8.50	8.50	7.25	7.25	5.50	5.50	6.00
Internal services*	86.00	99.60	117.00	54.00	54.00	53.00	53.00	52.00	67.30	76.00
<b>Total</b>	<b>1,305.25</b>	<b>1,329.70</b>	<b>1,238.50</b>	<b>1,268.05</b>	<b>1,187.30</b>	<b>1,145.03</b>	<b>1,145.68</b>	<b>1,143.00</b>	<b>1,138.78</b>	<b>1,178.65</b>

Source: City of Modesto

**CITY OF MODESTO  
OPERATING INDICATORS BY FUNCTION**

Function/Program	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
<b>Public safety:</b>										
<b>Fire:</b>										
Fire calls for service(1)	20,200	21,526	23,246	22,911	20,888	20,400	20,970	22,846	24,281	24,712
Primary fire inspections conducted	1,006	936	976	1,069	1,012	1,214	1,618	818	989	1,050
<b>Police:</b>										
Police calls for service	129,225	92,971	121,434	116,383	167,576	154,549	168,242	174,113	123,357	122,270
<b>Law violations:</b>										
Part I and Part II crimes	63,954	46,401	60,595	57,844	52,182	49,914	47,175	52,272	53,032	50,729
Physical arrests (adult and juvenile)	13,054	15,374	14,185	12,471	15,105	11,872	11,536	12,418	15,039	18,634
Traffic violations	23,104	27,111	25,739	26,914	30,941	24,278	16,330	14,761	15,477	12,700
Parking violations	20,308	21,600	16,079	21,391	18,041	20,452	15,772	12,150	12,327	5,493
<b>Public works</b>										
<b>Streets:</b>										
Street resurfacing ( lane miles)	9.98	10.06	9.32	1	7	6.48		6	12	8
Potholes repaired (square miles)	30,252	31,055	40,411	39,473	39,705	27,724	38,290	13,282	12,573	14,515
Water utility customer repaired (sq. ft)				58,737	6,990	58,044	112,136	81,261	29,108	611
Crack sealing (lane miles)					15.70	22.90		20	33	12
<b>Airport:</b>										
Number of passengers enplaned	23,969	50,782	49,525	28,470	25,640	22,514	19,188	16,532	11,703	0
Number of tenant aircraft	201	202	195	184	190	183	184	184	172	162
Number of hangars	109	109	109	109	118	118	118	118	118	119
Number of runways	2	2	2	2	2	2	2	2	2	2
Annual fuel consumption in gallons	998,978	1,102,439	1,140,426	672,406	639,971	311,500	645,283	653,153	682,769	582,473
<b>Bus service:</b>										
Number of buses	43	51	56	56	56	63	55	65	55	56
Number of routes	19	19	20	20	20	20	20	20	20	21
Total route miles	305	356	362	362	362	362	362	362	362	362
Average weekday number of passengers	11,206	12,295	12,599	12,599	12,524	10,688	11,553	11,616	12,538	11,598
Total number of passengers carried	3,629,191	3,629,128	3,699,846	3,699,846	3,478,120	3,145,400	3,413,421	3,434,409	3,666,824	3,416,314
<b>Community development</b>										
<b>Building safety &amp; NPU:</b>										
Permits issued	5,968	5,174	4,182	3,242	3,733	3,801	3,288	3,566	3,871	4,511
Estimated cost of construction	\$298,025,900	\$228,814,464	\$157,006,451	\$96,127,131	\$67,488,906	\$73,397,148	76,362,371	81,095,370	58,850,241	137,453,763
Building inspections made	49,852	44,542	39,172	32,362	32,846	29,034	25,549	27,816	30,034	31,571
<b>Traffic electrical:</b>										
Street lights			13,595	13,764	13,765	13,765	13,765	13,765	13,761	13,764
Traffic signals			140	146	149	143	143	144	144	147
Lighted ped walks*				28	28	28	30	28	29	28
Beacons*				1	12	5	8	8	11	11
Four way flashers*				9	9	9	9	10	10	10
School flashers*				22	22	22	22	22	22	22
CCTV*				38	38	38	38	41	41	41
Hubs*				5	5	5	5	6	6	6
<b>Culture and recreation:</b>										
Recreation class participants	5,291	5,175	4,255	3,271	3,171	2,297	2,072	264,670	150,514	151,323
<b>Solid waste:</b>										
Recyclables processed (tons per year)	61,080	74,645	106,664	74,288	47,170	50,789	67,317	37,647	46,936	55,020
Yard waste			38,889	41,235	48,856	60,408	58,650	55,147	39,117	48,832
Commercial food waste			280	597	667	814	735	765	827	817
Waste tires			7,120	5,214	3,683	2,388	1,247	1,674	4,969	4,152

(1) FY13 Fire calls for service was originally reported incorrectly due to duplicate entries found on the NFIRS reports. This figure was corrected 10/24/2014.  
Source: City of Modesto - Various Departments

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

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
<b>Function/Program</b>										
Public safety:										
Fire stations	11	11	11	11	11	11	11	11	11	11
Police stations	1	1	1	1	1	1	1	1	1	1
Police patrol units	98	102	102	70	100	98	98	105	105	105
Public works										
Streets:										
Miles of streets (1)	672	674	675	675	675	676	684	684	691	691
Water:										
Miles of water mains	N/A	990	994	1,007	1,008	1,008	1,008	1,009	1,009	914
Fire hydrants	7,060	7,200	7,301	7,412	7,516	7,536	7,566	7,584	7,596	7,748
Storage capacity (thousands of gallons)	N/A	9,400,000	9,400,000	9,400,000	13,100,000	12,300,000	12,300,000	12,300,000	12,300,000	12,300,000
Wastewater:										
Miles of sanitary sewers	481	641.0	656.7	642	642	642	642	639	639	639
Miles of storm sewers	130	132.9	133.6	183	183	183	183	183	183	183
Number of treatment plants (2)	2	2	2	2	2	2	2	2	2	2
Treatment capacity (millions of gallons)	70	70	70	72	72	72	72	70	70	70
Community services:										
City parks	75	75	76	76	76	76	76	77	77	77
City parks acreage	1,088	1,088	1,088	1,088	1,088	1,088	1,088	1,110	1,110	1,110
Playgrounds	55	55	55	55	55	55	55	55	55	58
City trails	4	4	4	4	4	4	7	7	7	6
City trails miles	11	11	12	12	12	12	14	14	14	15
Regional park acreage	324	324	324	324	324	324	324	324	324	375
Regional park facilities:										
Golf courses (18 holes)	2	2	2	2	2	2	2	2	2	2
Golf courses (9 holes)	1	1	1	1	1	1	1	1	1	1
Clubhouse and banquet facility	8	8	8	8	8	8	8	8	8	8
Historic house	4	4	4	4	4	4	4	4	4	4
Community gardens	2	2	2	2	2	2	2	2	2	2
Community centers	6	6	6	7	7	6	6	7	7	7
Senior centers	1	1	1	1	1	1	1	1	1	1
Sports centers	1	1	1	1	1	1	1	1	1	1
Performing arts centers	1	1	1	1	1	1	1	1	1	1
Swimming pools	16	16	13	13	13	4	4	4	4	4
Tennis courts	37	37	37	37	37	37	37	37	37	37
Baseball/softball diamonds	24	24	24	24	24	24	24	24	24	24
Soccer/football fields	22	22	22	22	22	22	22	29	29	29
Splash play in Existing parks	0	0	0	0	0	0	10	10	10	10

(1) Information now reported from the City's GIS system.

(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.

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**CONTINUING DISCLOSURE  
SECTION**



**CITY OF MODESTO**  
**CONTINUING DISCLOSURE REQUIREMENTS INFORMATION**  
**YEAR ENDED JUNE 30, 2015**

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 an 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: \$ 5,146 per Equivalent Dwelling Unit for residential units. Commercial and industrial property charged based on type of business.  
 Sub-trunk sewer charge: \$645 per acre  
 Connection (lateral) charge: \$33 per linear foot of lot frontage adjacent to the sewer line.

<u>Customer Base by Type of Account</u>			
<u>Category</u>	<u>Number of</u> <u>Accounts</u>	<u>% of Total</u> <u>Accounts</u>	<u>% of Sewer Fee</u> <u>Operating Revenue</u>
Residential	56,479	95.00%	51.17%
Commercial	4,026	5.00%	10.79%
Industrial	43	0.00%	30.76%
Total	<u>60,548</u>	<u>100.00%</u>	<u>92.72%</u>

Ten Largest Users of Sewer Facilities, Year Ended 6/30/15

<u>User</u>	<u>Sewer Fee</u> <u>Revenue</u>	<u>% of Sewer Fee</u> <u>Operating Revenue</u>
1) Stanislaus Food Products	\$ 3,261,006	7.58%
2) Del Monte Food Plant 1	\$ 1,796,359	4.18%
3) Seneca Foods	\$ 1,275,177	2.96%
4) E & J Gallo Winery	\$ 1,176,236	2.73%
5) Foster Farms	\$ 1,077,638	2.51%
6) Frito Lay, Inc.	\$ 960,082	2.23%
7) City of Ceres	\$ 902,487	2.10%
8) Nestle Food Company	\$ 374,057	0.87%
9) Rizo Lopez Foods	\$ 282,577	0.66%
10) Stan CO Housing Authority	\$ 216,002	0.50%
Total (Top Ten Customers)	<u>\$ 11,321,621</u>	<u>26.32%</u>
Total (All Customers)	<u>\$ 43,014,277</u>	

The average single-family residence monthly sewer charge is: \$31.00

<u>Commercial Group</u>	<u>Charge</u> <u>Per 1,000 Gallons</u>	<u>Fixed Charge</u>
Group 1 (no food, just toilets or working facilities)	\$2.27	\$4.22
Group 2 (commercial laundromats, service stations, hotels without food)	\$2.79	\$4.22
Group 3 (industrial laundromats, hotels with food)	\$3.33	\$4.22
Group 4 (restaurants, bakeries, auto steam, markets)	\$3.95	\$4.22

Industrial users pay a minimum account charge of \$4.15 with additional charges of: \$2,472.00 per million gallons of flow, \$122.00 per 1,000 pounds of excess biochemical oxygen demand (BOD), and \$214.00 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 Position	Page 27	
Principal Amount of Bonds and Other Parity Debt	Page 49	(Note III-C)
Historical Debt Service Coverage	Page 135	
	(continued)	

**CITY OF MODESTO**  
**WASTEWATER COMPARISON INFORMATION**  
**YEAR ENDED JUNE 30, 2015**

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

**CITY OF MODESTO**  
**WASTEWATER SYSTEM**  
**Ten Year History of Rate Increases**

<u>Fiscal Year</u>	<u>Percent Increase</u>
2005-06	0.00
2006-07	0.00
2007-08	30.00
2008-09	30.00
2009-10	0.00
2010-11	3.00
2011-12	8.00
2012-13	6.00
2013-14	6.00
2014-15	2.00

***Comparative Monthly Wastewater Service Charges.***

The City's residential charges as of July 1, 2014 are set forth below with a comparison to other Central Valley and Northern California cities.

**CITY OF MODESTO**  
**WASTEWATER SYSTEM**  
**Monthly Sewer Charge Comparison**  
**Residential Service**  
**As of July 1, 2014**

<u>City</u>	<u>Monthly Residential Charge</u>
Fresno	\$25.81
Lodi	\$26.86
<b>Modesto</b>	<b>\$26.78</b>
Stockton	\$29.24
Tracy	\$34.00
Turlock	\$37.10

**CITY OF MODESTO**  
**CONTINUING DISCLOSURE REQUIREMENTS**  
**YEAR ENDED JUNE 30, 2015**

**CITY OF MODESTO**  
**WASTEWATER SYSTEM**  
**Wastewater Connection Fees Comparison**  
**As of July 1, 2014**

<u>City</u>	<u>Connection Fee</u>
Fresno (1)	\$3,515.00
Lodi (2)	\$2,582.71
<b>Modesto</b>	<b>\$5,146.00</b>
Stockton	\$625.00
Tracy	\$6,727.00
Turlock	\$2,547.00

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(1) Connection fees are based on the size of the lot & location.

(2) Connection fees are based on the size of the water meter.

**CITY OF MODESTO**  
**CONTINUING DISCLOSURE REQUIREMENTS INFORMATION (continued)**  
**YEAR ENDED JUNE 30, 2015**

Water Revenue Refinancing Certificates of Participation, 2008 Series A  
Modesto Irrigation District Financing Authority Domestic Water Project Refunding Revenue Bonds, Series 2013G<sup>(1)</sup>  
Modesto Irrigation District Financing Authority Domestic Water Project Revenue Bonds, Series 2007F<sup>(1)</sup>

Reserve Account Requirement as of 6/30/15	\$4,246,467
Surety Policy Value:	(2,082,513)
Balance in Parity Reserve Account as of 6/30/15	<u>(2,539,613)</u>
Shortfall/(Excess) Reserve Coverage:	<u><u>(\$375,659)</u></u>

Balance in Rate Stabilization Account as of 6/30/15:

Ten Largest Customers of Water Utility System, Year Ended 6/30/15

<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) Modesto City Schools	Education	326,946	1.38%	\$709,170	1.36%
2) City of Modesto-Stores	Local Government	394,118	1.67%	\$691,853	1.33%
3) Seneca Foods	Cannery	367,069	1.55%	\$544,134	1.04%
4) Stanislaus Food Products	Cannery	331,871	1.40%	\$481,844	0.92%
5) Foster Farms	Dairy Processor	309,735	1.31%	\$442,319	0.85%
6) Modesto Irrigation District	Power Company	218,245	0.92%	\$340,617	0.65%
7) Stanislaus Housing Authority	Housing Authority	158,788	0.67%	\$302,710	0.58%
8) Yosemite Comm College Dist.	Education	185,344	0.78%	\$267,502	0.51%
9) Stan County	County Offices	118,899	0.50%	\$208,503	0.40%
10) Sunopta	Cannery	109,519	0.46%	\$182,956	0.35%
Total Top Ten		<u>2,520,534</u>	<u>10.64%</u>	<u>\$4,171,608</u>	<u>7.99%</u>

Total Flat/Metered Revenues (Water Sales) \$52,156,332  
(1) Grover Landscaping maintains City parks  
(2) "ccf" means "hundred cubic feet"

Water Sales Revenue, Year Ended 6/30/15

Residential - flat rates	\$9,037,477
Commercial, industrial and municipal - metered rates	<u>\$43,118,855</u>
Total Water Sales	<u><u>\$52,156,332</u></u>

The average monthly flat rate service charge for residential customers is: \$46.38

Current Water Rates as of 07/01/2014- Commercial Accounts

<u>Meter Size</u>	
3/4"	\$15.03
1"	\$21.33
1 1/2"	\$36.90
2"	\$55.68
3"	\$105.80
4"	\$162.13
6"	\$318.47
8"	\$506.20
10"	\$725.26
12"	\$1,350.92

In addition to these minimum charges, commercial accounts are charged \$1.33 per 100 cubic feet of water used.

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. On August 14, 2013 Modesto Irrigation District Financing Authority refunded the 1998 D Bond, with the 2013 G Bond. As of 6/30/15, the balance of the 2013 G Bond was \$39,300,000 and the balance of the 2007 F Bond was \$93,190,000.

(continued)

**CITY OF MODESTO**  
**CITY WATER- HISTORICAL DEBT SERVICE COVERAGE**  
**CONTINUING DISCLOSURE REQUIREMENTS**  
**LAST TEN FISCAL YEARS**

CITY WATER UTILITY SYSTEM  
Historical Debt Service Coverage

	2006	2007	2008	2009	2010	2011	2012	2013 (1)	2014	2015
Charges for services	\$ 42,500,107	\$ 49,258,673	\$ 52,927,134	\$ 52,990,138	\$ 51,572,801	\$ 51,876,505	\$ 53,453,708	\$ 56,906,488	\$ 56,940,812	\$ 54,779,417
Connection charges	1,873,465	2,289,994	1,943,456	1,113,082	647,579	452,021	516,839	295,632	357,432	1,024,626
Refunds, damages & recoveries	40,765	566,307	232,570	29,033	428,083	460,766	166,522	260,802	215,271	20,988
Interest and rental income	149,145	735,396	1,984,517	2,055,531	1,006,611	588,917	670,046	174,224	235,246	353,305
Draw from (deposit to) rate stabilization fund	(153,200)	-	-	-	-	-	-	-	-	-
Service credits <sup>(2)</sup>	403,717	314,930	604,082	501,671	2,170,367	2,562,986	2,966,465	3,201,951	2,678,999	3,033,487
Miscellaneous			13,190	32,586	25,782	58,083	118,203	150,949	154,700	365,808
<b>Total gross operating revenues</b>	<b>44,813,999</b>	<b>53,165,300</b>	<b>57,704,949</b>	<b>56,722,041</b>	<b>55,851,223</b>	<b>55,999,278</b>	<b>57,891,783</b>	<b>60,990,046</b>	<b>60,582,460</b>	<b>59,577,631</b>
Operating expenses <sup>(3)</sup>	20,596,957	23,983,380	23,664,217	28,359,392	30,219,002	26,638,348	30,755,822	28,530,554	36,598,298	40,349,338
Operating transfers <sup>(4)(5)</sup>	95,385	65,000	65,000	482,503	765,000	776,000	1,257,406	838,421	765,000	765,000
CIP expenses moved to operating <sup>(6)</sup>	496,547	2,023,261	2,156,833	3,054,407	1,127,185	-	-	-	-	-
<b>Total operating expenses<sup>(7)</sup></b>	<b>21,188,889</b>	<b>26,071,641</b>	<b>25,886,050</b>	<b>31,896,302</b>	<b>32,111,187</b>	<b>27,414,348</b>	<b>32,013,228</b>	<b>29,368,975</b>	<b>37,363,298</b>	<b>41,114,338</b>
<b>Net operating revenues</b>	<b>23,625,110</b>	<b>27,093,659</b>	<b>31,818,899</b>	<b>24,825,739</b>	<b>23,740,036</b>	<b>28,584,930</b>	<b>25,878,555</b>	<b>31,621,071</b>	<b>23,219,162</b>	<b>18,463,293</b>
1997 Refunding Certificate of Participation <sup>(8)</sup>	1,790,658	1,794,120	1,791,930	1,792,258	1,794,688	1,797,013	-	-	-	-
2006 Revenue Certificates of Participation	-	1,082,432	1,982,256	-	-	-	-	-	-	-
2008 Revenue Certificates of Participation	-	-	-	2,262,117	2,145,966	2,271,034	2,684,462	2,632,225	2,648,783	2,501,891
MID Treatment & Delivery Agreement <sup>(9)</sup>	6,690,994	6,687,444	6,681,894	6,672,406	7,455,918	10,794,041	10,888,790	10,889,760	8,885,208	9,905,923
CDWR Loan	264,653	264,719	264,719	263,079	264,719	264,719	255,942	264,719	264,719	264,719
ARRA Grant				-	-	-	5,137	36,289	36,103	36,290
<b>Total debt service \$</b>	<b>8,746,305</b>	<b>9,828,715</b>	<b>10,720,799</b>	<b>10,989,860</b>	<b>11,661,291</b>	<b>15,126,807</b>	<b>13,834,331</b>	<b>13,822,993</b>	<b>11,834,813</b>	<b>12,708,823</b>
<b>Debt service coverage</b>	<b>2.70</b>	<b>2.76</b>	<b>2.97</b>	<b>2.26</b>	<b>2.04</b>	<b>1.89</b>	<b>1.87</b>	<b>2.50</b>	<b>1.96</b>	<b>1.45</b>

(1) In fiscal year 2012-13, the amount reported for Charges for Services was incorrectly reported in the amount of \$59,906,488. The correct amount is \$56,906,488 which is reflected in the table above.

(2) Service Credits are reimbursements from other City funds of costs associated with employee time worked on other projects. In fiscal year 2009-10 Cashiering, Utilities, and Collections division was moved into the Water Fund. This caused a structural change and in return an increase in service credits.

(3) Beginning in fiscal year 2008-09 total operating expenses increased as a result of the initiation of a meter program and increases in costs associated with supplies, maintenance, water treatment litigation and administration.

(4) Operating transfers in fiscal year 2008-09 increased due to an administrative oversight and funds were returned to the correct fund.

(5) Includes operating transfers for building rental fee of \$65,000 annually and commencing in fiscal year 2009-10 \$700,000 annual transfer to the Storm Drain Fund to actively protect the groundwater supply source from contamination. In fiscal year 2011-12 \$668,610 a one time transfer for information technology internal service funds.

(6) In fiscal year 2009-10, the City made a prior period adjustment to reclassify certain operating costs previously recorded as capital improvements. This prior period adjustment has been reflected in this table in the years costs were incurred.

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

(8) 1997 COPS were prepaid in full in fiscal year 2010-11

(9) Debt service payment increased by \$4.1 million in fiscal year 2010-11 due to the expiration of capitalized interest.

Source: City of Modesto

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

The City has prepared the following table of projections of operating results of the Water Utility System for the five fiscal years 2016-20. The projected amounts set forth below are based on certain assumptions made by the City. To the extent that actual future conditions vary from those assumed in preparing the projections, the actual results will vary.

	Fiscal Year Projected 2016	Fiscal Year Projected 2017	Fiscal Year Projected 2018	Fiscal Year Projected 2019	Fiscal Year Projected 2020
Charges for services <sup>(2)</sup>	\$ 49,308,203	\$ 49,308,203	\$ 49,308,203	\$ 49,308,203	\$ 49,308,203
Connection charges	357,432	357,432	357,432	357,432	357,432
Refunds, damages & recoveries	-	-	-	-	-
Interest and rental income	172,740	173,564	174,405	175,262	178,767
Draw from (deposit to) rate stabilization fund	-	-	-	-	-
Service credits	2,698,735	2,725,722	2,752,980	2,780,509	2,808,314
Miscellaneous	17,073	17,414	17,762	18,118	18,480
GF (parks loan) P/I	53,500	53,500	53,500	53,500	53,500
Total gross operating revenues	<u>\$52,607,683</u>	<u>\$52,635,835</u>	<u>\$52,664,282</u>	<u>\$52,693,024</u>	<u>\$52,724,696</u>
Operating expenses <sup>(3)</sup>	33,795,757	37,760,311	38,515,517	38,979,923	39,759,521
Operating transfers	765,000	765,000	765,000	765,000	765,000
Total operating expenses <sup>(4)</sup>	<u>\$34,560,757</u>	<u>\$38,525,311</u>	<u>\$39,280,517</u>	<u>\$39,744,923</u>	<u>\$40,524,521</u>
Net operating revenues	<u>18,046,926</u>	<u>14,110,524</u>	<u>13,383,765</u>	<u>12,948,101</u>	<u>12,200,175</u>
2008 Revenue Certificates of Participation	2,835,077	2,835,077	2,835,077	2,835,077	2,835,077
MID Treatment & Delivery Agreement	10,149,792	10,149,792	10,149,792	10,149,792	10,149,792
CDWR Loan	264,719	132,359	-	-	-
ARRA Grant	36,289	36,289	36,289	36,290	36,290
Total debt service	<u>\$13,285,877</u>	<u>\$13,153,517</u>	<u>\$13,021,158</u>	<u>\$13,021,159</u>	<u>\$13,021,159</u>
Debt service coverage	1.36	1.07	1.03	0.99	0.94

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

(2) Revenues do NOT include a Consumer Price Index (CPI) increase.

(3) Operating expenses have assumed an inflationary rate of 4% in 2016-20.

(4) Total operating expenses exclude depreciation and amortization, as well as the debt service component under the MID Treatment & Delivery Agreement.

\* Please note that all of the projections have been updated to account for no annual CPI adjustment being used as well as drought impacts to the Water Fund. A current Water rate study is underway and will be completed by the start of FY16-17.

Source: City of Modesto.

**CITY OF MODESTO  
CITY WATER UTILITY SYSTEM STATISTICS  
CONTINUING DISCLOSURE REQUIREMENTS  
YEAR ENDED JUNE 30, 2015**

**CITY WATER UTILITY SYSTEM STATISTICS  
(Calendar Years 2006 through 2015)**

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Number of Service Accounts	75,227.0	76,661.0	76,852.0	76,899.0	76,508.0	76,983.0	76,788.0	75,357.0	75,006.0	74,665.0
Total Water Production (MG)(1)	25,660.0	25,886.0	25,182.0	23,824.0	21,712.0	20,892.0	21,765.0	21,606.0	20,630.0	17,692.0
Capacity (MGD)(2)	166.0	166.0	166.0	166.0	166.0	166.0	175.2	175.2	175.2	175.2
Peak Daily Distribution (MGD)	125.0	115.4	116.5	113.0	110.0	98.5	97.2	99.8	95.3	84.6
Average Daily Distribution (MGD)	69.8	70.9	68.8	65.3	59.5	57.2	59.5	59.2	56.5	48.5

- (1) "MG" means million gallons.  
(2) "MGD" means million gallons daily.

**CITY WATER UTILITY SYSTEM  
Service Area Total Production (Billion Gallons)  
(Fiscal Years 2006 through 2015)**

Fiscal Year Ended	Well Water	Surface Water	Total
2006	14.69	10.92	25.61
2007	13.97	11.92	25.89
2008	14.74	10.44	25.18
2009	14.14	9.69	23.83
2010	11.32	10.39	21.71
2011	11.72	9.17	20.89
2012	11.57	10.19	21.76
2013	10.62	10.99	21.61
2014	10.72	9.91	20.63
2015	10.63	5.85	17.69

**CITY WATER UTILITY SYSTEM  
Comparison of  
Average Monthly Water Rates  
Flat Rate (1" Service)  
As of July 1, 2014**

City	Flat Rate Typical
Fresno (1)	\$12.30
Lodi (1)	\$39.57
<b>Modesto</b>	<b>\$46.38</b>
Stockton (1)	\$28.78
Tracy (1)	\$20.40
Turlock (1)	\$22.50

(1) Water is metered.

**CITY OF MODESTO**  
**CONTINUING DISCLOSURE REQUIREMENTS**  
**YEAR ENDED JUNE 30, 2015**

The following table sets forth connection fees for all users except multi-family units by meter size for year 2014-2015:

**CITY WATER UTILITY SYSTEM**  
**Connection Fees for All users**  
**Except Multiple Family Units**  
**(Fiscal Year 2014-2015)**

<u>Meter Size</u>	<u>Connection Fees</u>
5/8" meter**	\$2,282
1" meter	\$5,702
1-1/2" meter	\$11,406
2" meter	\$18,247
3" meter	\$36,494
4" meter	\$57,023
6" meter	\$114,044
8" meter	\$182,470
10" meter	\$262,301
12" meter	\$490,389

\*\*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, 2015**

**CITY WATER UTILITY SYSTEM  
Sale of Water  
(Year Ended June 30, 2015)\***

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Revenues (\$000)										
Residential (Flat Rates)	\$26,591	\$30,716	\$31,495	\$30,585,450	\$21,256,928	\$16,888,754	\$14,464,689	\$12,955,005	\$10,723,594	\$9,037,477
Commercial, Industrial and Municipal (Metered)	14,516	17,006	17,890	20,445,393	28,758,412	33,190,426	37,162,861	42,452,862	44,093,862	43,118,855
Total Water Sales	\$41,107	\$47,722	\$49,385	\$51,030,843	\$50,015,340	\$50,079,180	\$51,627,550	\$55,407,867	\$54,817,456	\$52,156,332

The table below sets forth the adopted single family residential flat rates approved through fiscal year 2014-15.

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

Lot Size	Effective July 1, 2005	Effective July 1, 2006	Effective July 1, 2007	Effective July 1, 2008	Effective July 1, 2009	Effective November 1, 2010	Effective July 1, 2011	Effective July 1, 2012	Effective July 1, 2013	Effective July 1, 2014
0-5,000 sq. ft. lot	\$29.36	\$33.77	\$35.45	\$37.23	\$37.23	\$38.01	\$38.69	\$39.89	\$40.81	\$40.81
5,001-7,000 sq. ft. lot	33.37	38.38	40.30	42.31	42.31	43.20	43.98	45.34	46.38	46.38
7,001-11,000 sq. ft. lot	39.60	45.54	47.82	50.21	50.21	51.26	52.18	53.80	55.04	55.04
11,001-17,000 sq. ft. lot	42.40	48.34	50.76	53.30	53.30	54.42	55.40	57.12	58.43	58.43
over 17,000 sq. ft. lot	49.42	56.84	59.68	62.66	62.66	63.98	65.13	67.15	68.69	68.69

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

NOTE: Additional financial information available at [www.modestogov.com](http://www.modestogov.com)

**CITY OF MODESTO**  
**CONTINUING DISCLOSURE REQUIREMENTS INFORMATION**  
**YEAR ENDED JUNE 30, 2015**

The following table sets forth the adopted monthly service charge and volume charge for commercial accounts through fiscal year 2014-15.

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

	<u>Effective</u> <u>July 1, 2006</u>	<u>Effective</u> <u>July 1, 2007</u>	<u>Effective</u> <u>July 1, 2008</u>	<u>Effective</u> <u>July 1, 2009</u>	<u>Effective</u> <u>July 1, 2010</u>	<u>Effective</u> <u>November 1, 2010</u>	<u>Effective</u> <u>July 1, 2011</u>	<u>Effective</u> <u>July 1, 2012</u>	<u>Effective</u> <u>July 1, 2013</u>	<u>Effective</u> <u>July 1, 2014</u>
<b>Volume-based Rate (\$/hcf)</b>	\$1.16	\$1.22	\$1.28	\$1.28	\$1.28	\$1.33	\$1.33	\$1.37	\$1.40	\$1.40
<b>Fixed Monthly Meter Charge (in addition to volume-based charges)</b>										
5/8"-3/4" meter	\$12.44	\$13.06	\$13.71	\$13.71	\$13.71	\$14.00	\$14.25	\$14.69	\$15.03	\$15.03
1" meter	17.64	18.52	19.45	19.45	19.45	19.86	20.22	20.85	21.33	21.33
1-1/2" meter	30.53	32.06	33.66	33.66	33.66	34.37	34.99	36.07	36.90	36.90
2" meter	46.06	48.37	50.79	50.79	50.79	51.86	52.79	54.43	55.68	55.68
3" meter	87.53	91.91	96.51	96.51	96.51	98.54	100.31	103.42	105.80	105.80
4" meter	134.13	140.83	147.88	147.88	147.88	150.99	153.71	158.48	162.13	162.13
6" meter	263.51	276.68	290.51	290.51	290.51	296.61	301.95	311.31	318.47	318.47
8" meter	418.82	439.76	461.75	461.75	461.75	471.45	479.94	494.82	506.20	506.20
10" meter	600.07	630.08	661.58	661.58	661.58	675.47	687.63	708.95	725.26	725.26
12" meter	1,117.74	1,173.62	1,232.31	1,232.31	1,232.31	1,258.19	1,280.84	1,320.55	1,350.92	1,350.92

Note: Additional financial information is available at [www.modestogov.com](http://www.modestogov.com)

**CITY OF MODESTO  
BOND RATINGS  
FISCAL YEAR ENDED JUNE 30, 2015**

<u>Bonds</u>	<u>Moody's Rating</u>	<u>Standard &amp; Poor's Rating</u>	<u>Fitch Rating</u>
1993 Golf Certificates of Participation		AA-	
Wastewater Revenue Bonds, Series 2006A	A2	AA	AA-
Wastewater Revenue Bonds, Series 2005A	A2	AA	AA-
2008 Lease Revenue Bonds		A/A-1	AA-
2008 Water Certificates of Participation	Aa3	AA-	

Sources: [www.moodys.com](http://www.moodys.com)  
[www.standardandpoors.com](http://www.standardandpoors.com)  
[www.Fitchratings.com](http://www.Fitchratings.com)