



City of Modesto

Comprehensive Annual Financial Report
FY 2016-2017 | Fiscal Year Ended June 30, 2017



CITY OF
MODESTO
CALIFORNIA

CITY OF
Modesto, California

COMPREHENSIVE ANNUAL FINANCIAL REPORT
Fiscal Year Ended June 30, 2017

Prepared by
Finance Department

CITY OF MODESTO
 June 30, 2017
TABLE OF CONTENTS

INTRODUCTORY SECTION

Transmittal Letter iii - ix
 Certificate of Achievement for Excellence in Financial Reporting x
 City of Modesto Organizational Chart xi

FINANCIAL SECTION

Independent Auditor's Report 3-5
 Management's Discussion and Analysis 6- 15
 Basic Financial Statements:
 Government-wide Financial Statements:
 Statement of Net Position 19
 Statement of Activities 20-21
 Fund Financial Statements:
 Balance Sheet – Governmental Funds 22
 Reconciliation of the Balance Sheet of Governmental Funds to the
 Statement of Net Position – Governmental Activities 23
 Statement of Revenues, Expenditures, and Changes in Fund Balances -
 Governmental Funds 24
 Reconciliation of the Statement of Revenues, Expenditures, and
 Changes in Fund Balances of Governmental Funds to the Statement of Activities –
 Governmental Activities 25
 Statement of Net Position – Proprietary Funds 26
 Statement of Revenues, Expenses, and Changes in Fund Net Position -
 Proprietary Funds 27
 Statement of Cash Flows – Proprietary Funds 28-29
 Statement of Fiduciary Net Position – Fiduciary Funds 30
 Statement of Changes in Fiduciary Net Position – Private Purpose Trust Fund 31
 Notes to Basic Financial Statements 32-74
 Required Supplementary Information:
 Schedule of Changes in the Net Pension Liability and Related Ratios 77-78
 Schedule of Plan Contributions 79
 Schedule of Funding Progress for OPEB 80
 Schedule of Revenues – Budget (GAAP Basis) and Actual – General Fund 81
 Schedule of Expenditures by Function – Budget (GAAP Basis) and Actual – General Fund 82
 Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget (GAAP Basis)
 and Actual - Housing and Community Development Special Revenue Fund 83
 Notes to Required Supplementary Information 84-85
 Combining and Individual Fund Statements and Schedules:
 Nonmajor Governmental Funds:
 Combining Balance Sheet 90-92
 Combining Statement of Revenues, Expenditures, and Changes in
 Fund Balances 94-96

Schedules of Revenues, Expenditures, and Changes in Fund Balance –	
Budget (GAAP Basis) and Actual:	
Operating Grants Special Revenue Fund.....	97
Local Transportation Special Revenue Fund.....	98
Traffic Safety Special Revenue Fund	99
Downtown Improvement District Special Revenue Fund.....	100
Strategic Planning and Development Special Revenue Fund	101
Special Gas Tax Street Improvement Special Revenue Fund	102
Nonmajor Enterprise Funds:	
Combining Statement of Net Position	104-105
Combining Statement of Revenues, Expenses, and Changes in	
Fund Net Position.....	106-107
Combining Statement of Cash Flows.....	108-111
Internal Service Funds:	
Combining Statement of Net Position	114-115
Combining Statement of Revenues, Expenses, and Changes in	
Fund Net Position.....	116-117
Combining Statement of Cash Flows.....	118-121
Agency Funds:	
Statement of Changes in Assets and Liabilities.....	123

STATISTICAL SECTION

Financial Trends:	
Net Position by Component	128
Changes in Net Position	129-130
Fund Balances of Governmental Funds	131
Changes in Fund Balances of Governmental Funds.....	132
Revenue Capacity:	
Water Utility System	133
Debt Capacity:	
Ratio of Outstanding Debt by Type.....	134
Computation of Direct and Overlapping Debt	135
Computation of Legal Debt Margin	136
Revenue Bond Coverage, Wastewater Revenue Bonds.....	137
Demographic and Economic Information:	
Demographic and Economic Statistics	138
Principal Employers	139
Principal Property Taxpayers	140
Operating Information:	
Full-Time City Government Employees by Function	141
Operating Indicators by Function	142
Capital Asset Statistics by Function/Program	143

CONTINUING DISCLOSURE SECTION

Continuing Disclosure Requirements Information.....	147-157
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INTRODUCTORY SECTION



December 18, 2017

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 reports 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, 2017.

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, 2017, 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 Amendments of 1996 and Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). 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 follow 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 212,287. 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.

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

Modesto is the county seat for fast-growing Stanislaus County. A major center for local commerce, the City attracts thousands to its environs for work, shopping and entertainment. Major employment sectors include manufacturing, healthcare, education and retail. Modesto and its surrounding communities contain canneries, packing plants and warehouses which ship agricultural products across the nation and the world. An active farm to table movement has been spearheaded by the area’s large production of nuts, dairy, poultry and other locally grown products.

The unemployment rate within the county-wide Modesto Statistical Area decreased during the 2016-2017 fiscal year. As of June 30, 2017, the MSA’s unemployment rate was recorded at 7.8%, which is down from the 9.1% rate of a year ago. The total non-farm employment in the MSA is projected to reach 190,600 jobs by 2024. The industry sector consisting of construction and extraction occupations has the highest percentage increase at 36.5% adding 369 jobs to the area. The following three top industry sectors are expected to grow by almost 30 percent, adding 1,741 jobs to the area. These include: Personal Care and Service occupations, Food Preparation and Serving Related occupations, and Healthcare Support occupations.

The 2017-18 Stanislaus County assessment roll, on which property taxes are based, is \$46.8 billion, which is an increase of nearly 6 percent over the previous year. The 2017 median home sales price in Stanislaus County is approximately \$289,000 or \$180 per square foot, up from a square foot price of \$166 a year ago. Modesto building permit activity during fiscal year 2016-2017 ended with a total of 4,973 permits issued with a valuation of \$118,527,812.

Modesto is a prime and central location for business, and has attracted both start-ups and expanding firms. Specialized health care facilities like HealthSouth and Central Valley Specialty Hospital have chosen to expand their services and operations in Modesto. There is also a strong culture of entrepreneurship and innovation. Datapath, a technology management company with headquarters in Modesto, has been recognized by Inc. Magazine as one of the fastest-growing private companies in America. E&J Gallo Winery, also based in Modesto, is the world’s largest privately owned winery and the leading US exporter of California wines. The Gallo Glass Company is a state of the art glass manufacturer and a leading producer of wine and spirits glass bottles in the US.

Entertainment and Tourism

Modesto features vibrant arts, entertainment, sports and cultural expression. Downtown Modesto is home to the world-class Gallo Center that brings national and international entertainment, arts and multicultural programming to the Central Valley region. Downtown, you can experience the Historic Graffiti Cruise Route, the Legends of the Cruise Walk of Fame, and the Classic Community Mural Series celebrating the cruising culture phenomenon born in Modesto and immortalized by native son George Lucas in American Graffiti. Live entertainment is a prominent feature in the Civic Plaza and nearby clubs, and a busy calendar of entertaining and educational events can be experienced just across the street at the Modesto Centre Plaza.

Baseball with the Modesto Nuts baseball team is just minutes from city center, and golfers enjoy two highly rated 18-hole courses and a municipal course year-round. Modesto is gaining recognition for its bike routes and trails, and is a frequent host city for the Tour-de-France rated Amgen Tour of California bicycle race. Water lovers have river parks and kayaking.

The McHenry Mansion and McHenry Museum anchor the city's loving preservation of its historical heritage, drawing visitors from all over the world. The city's annual Architectural Festival offers free tours, exhibits, workshops and films in the iconic State Theatre featuring one of the best collections of mid-century modernism in the nation. Arts live year round with monthly Art Walks, and seasonal activities including the Graffiti Cruise, parades, the Modesto on Ice downtown skating rink, the Dickens Faire, ModShop arts and crafts walk, and PorchFest community music stroll bring joy to residents and visitors. Modesto truly offers something great for everyone.

Our Strategic Priorities

During 2017, the City updated its 2015-2018 Strategic Plan to incorporate input from newly elected Councilmembers and to reaffirm our strategic priorities. 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 develop new and creative methods to leverage technology, market organization strengths and remain dedicated to seeking efficiencies and continuous improvement.

Long-Term Financial Planning

The City continues to refine its 10-year forecasting model and update estimates and assumptions used to project future operations. At the end of fiscal year 2016-17, General Fund Balance was as follows:

Restricted and Nonspendable - \$4.5 million; Committed - \$15.8 million; Assigned - \$4.9 million; and Unassigned \$4.5 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'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

- In its second year, over 40,000 visitors attended Modesto On Ice skating rink
- The return of the Amgen Tour of California, a world-class cycling road race and largest annual spectator sporting event in California
- Facilitated the UC Merced Venture Lab at the Centre Plaza to assist with entrepreneurship in the City
- Relocated a minor league basketball team from Yuba to Modesto now named The Modesto SuperKats
- The City will be administering the Continuum of Care component of the Stanislaus Community System of Care Collaborative/Continuum of Care to focus on prevention and homelessness bringing in \$3 million of regional HUD funding
- Comprehensive Fee Study Task Force is meeting and reviewing development fees and assumptions
- Over 150,000 participants were served through Modesto's recreation and neighborhood programming
- More than 26,000 participants were served through the Modesto Senior Citizen Center's health and wellness programming as well as over 5,000 others who enjoyed free services such as meals, tax-preparation and special events
- Modesto Senior Citizens Center leveraged over \$21,000 in in-kind donations and services in the pursuit of Active Aging opportunities for Modesto's Seniors
- Developed Tenant Improvement Tuesdays ("TI Tuesdays") to streamline certain interior development to issue permits same-day
- Completed the State Housing Update Requirement
- Completed the 2016 General Plan Annual Report for submittal to State.
- Successfully completed all land entitlements for the Valley Children's Hospital project on Pelandale
- Redefined the Opportunity Map to show available land and level of infrastructure/entitlements and make the information available online

Great Safe Neighborhoods

- Increased Neighborhood Watch Groups by 10%
- Increased Crime Free Multi-Housing properties by 1% along with the number of properties inspected
- Ranked 1st in California and 5th in the nation for areas with a population of 100,000 to 299,000 for participation in National Night Out with a total of 181 parties hosted in 2017
- Modesto Police Department (MPD) hosted 5 Town Hall Meetings, one for each area command as well as multiple Coffee with Cops events throughout the City
- Stanislaus County is ranked number 30 out of 3111 counties in the United States for “Natural aspects of attractiveness” according to the USDA
- Americans with Disabilities Act Plan was adopted by City Council
- MOU made with the County for tagging abatement along highway 99 approved by Council
- Council approved relocation expenses to multiple legal tenants of condemned building at 624 9th Street. City partnered with County and EOS to find solutions for residents and remove them from building
- After School Program staff partner with Modesto City Schools to motivate, encourage, and empower over 760 youth daily to recognize and achieve their full individual potential and become productive community members
- REACH Summer Camp (Recreation, Education, Arts, Culture and Health for youth 6 - 13 years old) offers games, sports, community service and other high-interest activities to over 140 unduplicated participants sparking a life-long appreciation of positive leisure activities and provide opportunities for leadership
- Eight firefighter paramedics completed their probation at the end of 2016. An additional 16 firefighters were hired to fill current vacancies and grant funded positions to reinstate Engine 11 which returned to service in April after being eliminated during the economic downturn
- The City Council approved the purchase of five engines and two ladder trucks at the end of 2016 – when the apparatus arrive in late 2017, they will provide much needed replacement of the oldest apparatus in the MFD fleet – some of which are 27 years old
- MFD crews assisted numerous communities throughout the State during the wildfires of 2016. Modesto Fire crews responded to 12 different fires through the State Wide Mutual Aid System where they provided fire suppression and filled leadership positions
- Our Public Education Program coincides each year with Fire Prevention Week in October – this educational characterization program featured 20 shows over a two-week period reaching 6,200 students
- A partnership with Modesto City Schools and American Medical Response enabled MFD crews to train more than 2,000 junior high students in “hands-only” CPR
- In late 2016, MFD teamed up with the American Red Cross to provide and install smoke alarms in one and two-family dwellings. This program is intended to target the “at risk” population in Modesto – the elderly and persons of a low socioeconomic status



Vibrant
Infrastructure
& Sustainable
Environment

- Successfully obtained a commitment for up to \$10 million of Measure L funding from StanCog towards the Route 132 project
- Started workshops, and design concept(s) for the design of J Street/Implementation to be presented to Council Committee
- Construction is nearly complete on the Tuolumne River Regional Park (TRRP) Gateway Parcel Phase 2 project which will complete the habitat restoration along the Tuolumne River at the Gateway Parcel and will add to the current trail system in TRRP
- Worked with various neighborhood groups in the City to provide park improvements throughout Modesto through the City's Park Partners Program (such as Native Gardens, Soccer Fields, Pickleball Courts, Fitness Equipment, Benches and Park Signs)
- Received a \$1 million grant for development of three soccer fields adjacent to Bellenita Park to support the volunteer efforts started by the Stanislaus Youth Soccer League
- The City is partnering with a local irrigation district interested in purchasing recycled water from the City, as part of the North Valley Regional Recycled Water Program. Construction is expected to be complete by February 2018
- Construction of the 6 million gallon North Tank is complete. This is the largest tank in the City's water system
- Construction of the 4 million gallon Industrial Tank is underway and expected to be complete in 2018
- Partnered with other local water agencies to form a regional Groundwater Sustainability Agency to collaboratively manage groundwater resources
- The Water and Wastewater Master Plans and supporting environmental documents are almost complete



Effective
Responsive &
Transparent
Government

- Provided staff support to the Mayor's 100 Day Review Committee as they examined City process for efficiencies and cost-saving reductions
- Continue to prepare Action Plans to achieve recommendations from the Mayor's 100 Day Review Committee and updated the 2015-2018 Strategic Plan
- Council approved the purchase of new Business License software
- Finance Customer Services launched the online payment and appeals module for Parking Citations which will allow customers to pay and submit appeals online
- Business License increased collection and code enforcement efforts resulting in an increase in revenue for the General Fund
- The City went live with the new budget software was part of the budget preparation for Fiscal Year 2017-2018 budget

Awards / 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, 2017. This was the 34th 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.

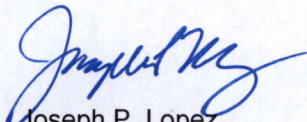
A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

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.

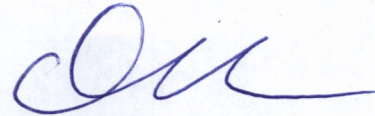
In addition, the City submitted and received an award from the GFOA for its second year for the Popular Annual Financial Report (PAFR) for fiscal year ended June 30, 2016. A PAFR presents financial information in a manner that appeals to the reader, is understandable and shows creativity and usefulness. The PAFR award is valid for one year and the City intends to submit its 2017 PAFR to the GFOA for consideration.

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

Respectfully submitted,



Joseph P. Lopez
Interim City Manager



DeAnna Christensen
Acting 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, 2016

Executive Director/CEO

CITY OF MODESTO ORGANIZATIONAL CHART



Legend

- Elected
- Council Appointed
- City Manager Appointed

CITIZENS OF MODESTO

CITY COUNCIL

Ted Brandvold, Mayor

Mani Grewal, District 1
 Tony Madrigal, District 2
 Kristi Ah You, District 3
 Bill Zoslocki, District 4
 Jenny Kenoyer, District 5
 Douglas Ridenour, District 6

CITY ATTORNEY
Adam Lindgren

CITY AUDITOR
Moss Adams

CITY CLERK
Stephanie Lopez

MODESTO INTERIM CITY MANAGER

Joseph P. Lopez

DEPUTY CITY MANAGER OPERATIONS

PUBLIC WORKS

UTILITIES

PARKS, RECREATION & NEIGHBORHOODS

COMMUNITY & ECONOMIC DEVELOPMENT

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

FIRE DEPARTMENT

PUBLIC RELATIONS

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

BUDGET

FINANCE

HUMAN RESOURCES

INFORMATION TECHNOLOGY

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, 2017, 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, 2017, 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.

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 December 18, 2017 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's 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

Walnut Creek, California
December 18, 2017

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, 2017. 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 2017 fiscal year by \$999,396,169 (*total net position*). Of this amount, \$145,377,043 is restricted for a specific purpose (*restricted net position*), \$931,906,773 is invested in capital assets, net of related debt and (\$77,887.647) is unrestricted (*unrestricted net position*).
- The City's total net position increased by \$20,966,047 compared to the prior year. This increase is attributed to additions made to the City's infrastructure and improvements.
- As of June 30, 2017, the City's governmental funds reported combined fund balances of \$120,081,372, an increase of \$3,027,618 in comparison with the prior year.
- As of June 30, 2017, 15.2% of the General fund balance of \$4,509,693 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 \$29,649,768 or 25.4% of total General Fund expenditures. Of this, \$1,970,622 is the restricted fund balances. The unassigned fund balance of \$4,509,693 represents 3.8% 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 \$1,539,278 in comparison with the prior year. This decrease was attributed to the principal payments made during the fiscal year.

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).

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.

Management's Discussion and Analysis (*continued*)

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 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".

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.

Management's Discussion and Analysis *(continued)*

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 32-74** 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 77-85 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 90-123** 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 \$999,396,169 at the close of the most recent fiscal year.

	Net Position					
	Governmental activities		Business-type activities		Total	
	2017	2016	2017	2016	2017	2016
Current and other assets	\$234,821,516	\$242,284,397	\$244,685,705	\$243,332,330	\$479,507,221	\$485,616,727
Capital assets	419,668,957	421,005,457	870,561,610	854,078,506	1,290,230,567	1,275,083,963
Total assets	<u>654,490,473</u>	<u>663,289,854</u>	<u>1,115,247,315</u>	<u>1,097,410,836</u>	<u>1,769,737,788</u>	<u>1,760,700,690</u>
Deferred outflows of resources	<u>56,076,070</u>	<u>29,527,963</u>	<u>44,831,198</u>	<u>49,190,388</u>	<u>100,907,268</u>	<u>78,718,351</u>
Current and other liabilities	292,651,623	260,520,365	132,908,806	144,402,121	425,560,429	\$404,922,486
Long-term liabilities	98,300,219	90,656,679	334,536,847	343,719,665	432,837,066	434,376,344
Total liabilities	<u>390,951,842</u>	<u>351,177,044</u>	<u>467,445,653</u>	<u>488,121,786</u>	<u>858,397,495</u>	<u>839,298,830</u>
Deferred inflows of resources	<u>10,503,691</u>	<u>17,408,971</u>	<u>2,347,701</u>	<u>4,281,118</u>	<u>12,851,392</u>	<u>21,690,089</u>
Net position:						
Net investment in capital assets	376,743,556	381,887,289	555,163,217	539,821,175	931,906,773	921,708,464
Restricted net position	123,851,082	115,619,807	21,525,961	22,052,595	145,377,043	137,672,402
Unrestricted net position	<u>(191,483,628)</u>	<u>(173,275,294)</u>	<u>113,595,981</u>	<u>92,324,550</u>	<u>(77,887,647)</u>	<u>(80,950,744)</u>
Total net position	<u>\$309,111,010</u>	<u>\$324,231,802</u>	<u>\$690,285,159</u>	<u>\$654,198,320</u>	<u>\$999,396,169</u>	<u>\$978,430,122</u>

The largest portion of the City's net position, \$931,906,773 (93.2 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 (\$77,887,647) (-7.8 percent).

The remaining balance of the City's net position of \$145,377,043 (14.6 percent) represents resources that are subject to external restrictions on how they may be used.

The City's net position increased by \$20,966,047 during the current fiscal year was largely due to the additions associated with the City's infrastructure and reduction on the City's long-term liabilities.

Management's Discussion and Analysis *(continued)*

The long-term liabilities decrease was attributed to the principal payments of about \$14.8 million made during the fiscal year.

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

	Governmental activities		Business-type activities		Total	
	2017	2016	2017	2016	2017	2016
Revenues:						
Program revenues:						
Charges for services	\$28,933,906	\$24,689,546	\$141,588,536	\$124,982,742	\$170,522,442	\$149,672,288
Operating grants and contributions	5,050,771	3,630,185	15,975,703	14,153,568	21,026,474	17,783,753
Capital grants and contributions	2,117,867	1,708,602	19,617,513	4,753,223	21,735,380	6,461,825
General revenues:						
Taxes	57,045,850	54,965,459	199,124	206,854	57,244,974	55,172,313
Intergovernment revenue not restricted for specific purposes	68,415,868	65,234,052	-	-	68,415,868	65,234,052
Unrestricted investment earnings	362,856	582,565	872,935	2,247,061	1,235,791	2,829,626
Settlements and recoveries	-	-	-	-	-	-
Miscellaneous	515,206	2,440,696	1,316,801	1,368,761	1,832,007	3,809,457
Total revenues	162,442,324	153,251,105	179,570,612	147,712,209	342,012,936	300,963,314
Expenses:						
General government	13,945,824	12,838,583	-	-	13,945,824	12,838,583
Community development	15,419,529	12,552,115	-	-	15,419,529	12,552,115
Highways and streets	22,481,002	20,149,011	-	-	22,481,002	20,149,011
Public works	13,169,149	10,749,465	-	-	13,169,149	10,749,465
Parks and recreation	3,947,898	3,493,743	-	-	3,947,898	3,493,743
Public safety	104,348,464	86,907,876	-	-	104,348,464	86,907,876
Interest on long-term debt	2,500,849	2,691,894	-	-	2,500,849	2,691,894
Water	-	-	63,008,231	59,127,625	63,008,231	59,127,625
Sewer	-	-	36,248,877	33,093,921	36,248,877	33,093,921
Bus	-	-	21,979,360	19,709,745	21,979,360	19,709,745
Parking	-	-	1,628,226	1,625,943	1,628,226	1,625,943
Storm drain	-	-	6,119,472	5,312,896	6,119,472	5,312,896
Compost	-	-	9,648,481	11,998,345	9,648,481	11,998,345
Airport	-	-	1,744,557	1,787,081	1,744,557	1,787,081
Golf	-	-	2,871,167	3,130,536	2,871,167	3,130,536
Community center	-	-	1,934,179	1,981,307	1,934,179	1,981,307
Abatement and Public Nuisance	-	-	51,624	84,152	51,624	84,152
Total expenses	175,812,715	149,382,687	145,234,174	137,851,551	321,046,889	287,234,238
Increase in net position before transfers	(13,370,391)	3,868,418	34,336,438	9,860,658	20,966,047	13,729,076
Transfers	(1,750,401)	(567,177)	1,750,401	567,177	-	-
Total transfers	(1,750,401)	(567,177)	1,750,401	567,177	-	-
Change in net position	(15,120,792)	3,301,241	36,086,839	10,427,835	20,966,047	13,729,076
Net position - beginning, as previously reported	324,231,802	319,680,597	654,198,320	647,857,327	978,430,122	967,537,924
Adjustment to capital assets	-	256,569	-	(4,086,842)	-	(3,830,273)
Adjustment to unearned revenue and accruals	-	(190,305)	-	-	-	(190,305)
Adjustment to loans payable	-	1,183,700	-	-	-	1,183,700
Net position - beginning, as restated	324,231,802	320,930,561	654,198,320	643,770,485	978,430,122	964,701,046
Net position - ending	\$309,111,010	\$324,231,802	\$690,285,159	\$654,198,320	\$999,396,169	\$978,430,122

Governmental activities. Governmental activities decreased the City's net position by \$15,120,792. This decrease was mainly due an increase in the Workers Comp unfunded liability in the amount of \$4.1 million and the claims for the Insurance Fund increasing compared to the prior year. Miscellaneous revenue decreased by \$1.9 million due to one-time revenue settlements received in 2016. Charges for service revenues increased by \$4.2 million mainly due to on-going efforts to promote the City of Modesto program. Operating and capital grants contributions increased by \$1.8 million due to receiving additional Department of Transportation grants, Fire Staffing for Adequate Fire and Emergency Response grants and a 2016 Community Oriented Policing Services grant.

Management's Discussion and Analysis (continued)

Expenses in total were higher compared to the prior year by \$26,430,028, or 17.7%, due to increase claim payments made for our Insurance funds. Additionally, the volume of grant expense activity was significantly higher compared to the prior year due to new grant funded projects and construction phase projects started in 2017.

Business-type activities. Business-type activities increased the City's net position by \$36,086,839. This increase is attributed to a healthy net position in our Water and Sewer Fund which generated an increase in net position by \$34.3 million and increase in our business-type capital assets. The Sewer fund has been able to manage their operational revenues due to rate increases to ensure they meet the debt ratio requirements set by Council. In addition, the Water Fund implemented a rate increase of 25.0% in FY 16-17 to manage their debit ratio requirements and their capital needs for the City's water infrastructure.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

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

At June 30, 2017, the City's governmental funds reported combined fund balances of \$120,081,372 an increase of \$3,027,618 from the prior year. The total unassigned fund balance for the governmental funds was \$1,353,014, which includes a positive \$4,509,693, 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 unassigned fund balance for the General Fund decreased due to the Council approving \$12.8 million being accounted for as emergency reserves which required Council authority to utilize these funds.

The General Fund is the chief operating fund of the City. At June 30, 2017, unassigned fund balance of the General Fund was \$4,509,693 while total fund balance was \$29,649,768. 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 2.8% of total General Fund expenditures, while total fund balance represents 25.4% of that same amount. The prior year ratios were 11.6% and 24.5%, 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, 2017, total fund balance was \$27,231,611, an increase of \$1,698,378 from prior year. This increase is attributed to new program income received to fund future low income project activity.

Revenues of governmental funds totaled \$159,396,110 in fiscal year 2016-17, which represents a decrease of \$262,877 from fiscal year 2015-16.

Expenditures of governmental funds totaled \$161,183,448 in fiscal year 2016-17, representing an increase of \$5,111,612 from fiscal year 2015-16.

Management's Discussion and Analysis *(continued)*

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

Revenues Classified by Source – Governmental Funds

Revenues by Source	FY 2017		FY 2016		% Change
	Amount	Percent	Amount	Percent	
Taxes	\$57,045,850	35.8%	\$54,965,459	34.3%	3.8%
Licenses and permits	201,445	0.1%	186,624	0.1%	7.9%
Intergovernmental	72,069,739	45.2%	76,317,229	47.8%	-5.6%
Charges for services	24,454,286	15.3%	20,429,860	12.8%	19.7%
Special assessments	3,014,768	1.9%	3,168,260	2.0%	-4.8%
Interest and rent	1,402,387	0.9%	1,297,734	0.8%	8.1%
Net increase (decrease) in fair value	(572,616)	-0.4%	102,422	0.1%	-659.1%
Fines and forfeits	1,263,407	0.8%	904,802	0.6%	39.6%
Miscellaneous	516,844	0.4%	2,286,597	1.5%	-77.4%
Total	\$159,396,110	100.0%	\$159,658,987	100.0%	-0.2%

- 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 decreased by \$4.2 million due to a decrease in funding from the various Housing and Urban Development programs. Additionally, in our Capital Grants the Pelandale Interchange project continued to decrease in grant funding by \$3.2 million due to the project approaching the completion.
- Charges for Services – Revenues increased by \$4.0 million due to the Capital Facility Funds collecting an increase in revenue for the building permits issued for all new construction or additional square footage built within the City of Modesto.
- Interest and rent – Revenues increased due to increases to our interest earnings based on on-going improvements to the City's investment strategy which has increased our return on investment in the City's portfolio.

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

Expenditures by Function – Governmental Funds

Exp by Function	FY 2017		FY 2016		% Change
	Amount	Percent	Amount	Percent	
General government	\$11,542,131	7.2%	\$12,414,982	8.0%	-7.0%
Community development	13,264,050	8.2%	12,453,678	8.0%	6.5%
Highways and streets	9,240,654	5.7%	8,498,783	5.4%	8.7%
Public works	10,919,102	6.8%	10,393,169	6.7%	5.1%
Parks and recreation	3,269,360	2.0%	3,385,484	2.2%	-3.4%
Public safety	86,475,891	53.7%	84,022,670	53.8%	2.9%
Capital outlay	21,431,186	13.3%	19,817,025	12.7%	8.1%
Debt Service-principal retirement	2,535,093	1.6%	2,345,362	1.5%	8.1%
Debt Service-interest charges	2,075,202	1.3%	2,043,278	1.3%	1.6%
Debt Service-other	430,779	0.3%	697,405	0.4%	-38.2%
Total	\$161,183,448	100.0%	\$156,071,836	100.0%	3.3%

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

- Public Works – Expenditures increased by \$525,933 or 5.1% due to increase cost related to the park maintenance services contract for landscaping services. Personnel cost increased due to pay increase and employer retirement cost.

Management's Discussion and Analysis *(continued)*

- Highways and Streets – Expenditures increased by \$741,871 or 8.7% over the prior year, due to staff pay increases and employer retirement cost.
- Public safety – Expenditures increased by \$2,453,221 or 2.9% over the prior year, due to an increase of expenses for police services. These increases were attributed to continuous increases to workers' compensation cost for police, information technology and police equipment and salary and benefit increase for the police department.
- Capital outlay – Expenditures increased by \$1,614,161 or 8.1% reflects an increase for the General Fund due to a new capital lease agreement with Pierce Manufacturing Inc. for the purchase of five Velocity Pumpers and two Velocity Tillers in the amount of \$5,883,756.

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

	FY 2017	FY 2016	Increase/(Decrease)	
			Amount	Percent
Transfers in	\$5,559,720	\$6,960,425	(\$1,400,705)	-20.1%
Transfers out	(6,659,759)	(10,572,346)	3,912,587	-37.0%
Capital leases	5,883,756	330,947	5,552,809	1678%
Sale of assets	31,239	106,582	(75,343)	-70.7%
Net financing (uses)	<u>\$4,814,956</u>	<u>(\$3,174,392)</u>	<u>\$7,989,348</u>	<u>-251.7%</u>

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 financing (uses) from governmental funds for 2017 were \$4,814,956 compared to \$(3,174,392) in the prior year. This net transfer is to various City funds including transferring funds from the General Fund, Capital Facility Fee funds, Fleet Fund and the Public Financing Authority to cover the debt service payments, fleet replacement and various transfers to cover City grant matches.

Debt transactions – A lease was issued in 2017 for the purchase of five Velocity Pumpers and two Velocity Tillers in the amount of \$5,883,756.

The fund balance of the City's General Fund increased by \$2,584,047 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	\$69,075,873	\$48,560,533	\$3,253,046	\$19,354,539	\$140,243,991
Operating expenses	(54,702,478)	(31,487,425)	(20,980,818)	(24,109,645)	(131,280,366)
Operating income (loss)	14,373,395	17,073,108	(17,727,772)	(4,755,106)	8,963,625
Nonoperating revenues (expenses), net	(7,922,243)	(2,782,442)	13,896,138	1,381,648	4,573,101
Income (loss) before capital contributions and transfers	6,451,152	14,290,666	(3,831,634)	(3,373,458)	13,536,726
Contributions and transfers	(491,672)	14,034,751	4,021,589	3,803,246	21,367,914
Changes in net position	<u>\$5,959,480</u>	<u>\$28,325,417</u>	<u>\$189,955</u>	<u>\$429,788</u>	<u>\$34,904,640</u>

Management's Discussion and Analysis *(continued)*

The Water fund had a 25.0% rate increase in September 2016 and the Sewer fund had a rate increase of 6.0% in fiscal year 2016-17. Based on these rate increases the Water and Sewer funds had an increase in their operating revenue which increased their net position.

A pollution remediation liability was reported for the Water and Sewer fund in the amounts of \$8,677,433 and \$7,495,053, respectively 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 81-82** 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 intergovernmental revenue, charges for services and fines and forfeit revenue. The estimated revenues increased about \$351,897 while total appropriations were increased \$6,459,381. 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 \$3,716,114 more than final estimates. Variances in Property Taxes \$939,277, Business License Taxes \$775,834, Other Intergovernmental \$724,586 and Charges for Services Revenue \$1,005,197 were due to an increase in collection and compliance efforts and increases in property values.

Expenditures, overall, were \$6,269,336 under budget, primarily due to efforts of departments to realize savings, and certain purchases being deferred to future periods.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital assets

The City's investment in capital assets for its governmental and business-type activities as of June 30, 2017, amounted to \$1,290,230,567 (net of accumulated depreciation). The total increase in the City's investment in capital assets compared to 2016 was 1.0%.

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)	
	2017	2016	2017	2016	2017	2016	Percent	
							Change	\$ Change
Land	\$28,267,446	\$33,219,069	\$33,854,403	\$33,515,655	\$62,121,849	\$66,734,724	-7%	(\$4,612,875)
Capitalized interest	-	-	8,248,418	9,223,227	8,248,418	9,223,227	-11%	(974,809)
Buildings	12,940,877	14,603,828	37,386,768	40,330,338	50,327,645	54,934,166	-8%	(4,606,521)
Improvements	54,172,467	57,067,075	144,507,172	143,743,848	198,679,639	200,810,923	-1%	(2,131,284)
Furnishings and equipment	3,095,376	3,330,779	5,139,465	5,204,484	8,234,841	8,535,263	-4%	(300,422)
Intangible assets	3,583,041	4,022,157	118,222	155,976	3,701,263	4,178,133	-11%	(476,870)
Equipment pool	13,980,519	13,053,646	-	-	13,980,519	13,053,646	7%	926,873
Service animals	17,334	25,844	-	-	17,334	25,844	-33%	(8,510)
Water rights	-	-	274,640,462	286,581,352	274,640,462	286,581,352	-4%	(11,940,890)
Streets	203,598,507	211,616,811	-	-	203,598,507	211,616,811	-4%	(8,018,304)
Signalization	4,630,398	5,043,639	-	-	4,630,398	5,043,639	-8%	(413,241)
Bridges	29,213,408	29,947,394	-	-	29,213,408	29,947,394	-3%	(733,986)
Buses & fareboxes	25,103	25,103	16,298,419	14,192,976	16,323,522	14,218,079	15%	2,105,443
Pipelines	-	-	118,596,803	119,208,492	118,596,803	119,208,492	-1%	(611,689)
Construction in progress	66,144,481	49,050,112	231,771,478	201,922,158	297,915,959	250,972,270	19%	46,943,689
Total	\$419,668,957	\$421,005,457	\$870,561,610	\$854,078,506	\$1,290,230,567	\$1,275,083,963	1%	\$15,146,604

Management's Discussion and Analysis (continued)

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

- Equipment Pool – Over 80 equipment vehicles were purchased or placed in service in fiscal year 2016-17 in the amount of \$2.7 million.
- Buses and fareboxes – 11 new buses or refurbish buses were purchased or placed in service in fiscal year 2016-17.
- Construction in progress – On-going water and wastewater construction projects related to improvements to our water and wastewater system were made in fiscal year 2016-17. Additionally, the Pelandale Interchange project is close to completion and continually cost increased by \$10.2 million.

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 45-46 of this report.

The City had major capital commitments for contracts awarded for various construction projects. As of June 30, 2017, there were major contracts awarded for water, sewer system improvements, State Route 132 Project, and major street improvements throughout the City in the amount of \$32.4 million for both governmental and business-type funds. Additional information on the City's commitments can be found in note III-D on page 64 of this report.

Long-term debt

At June 30, 2017, the City had total long-term liabilities outstanding of \$432,837,066 net of unamortized discounts and premiums, as compared to \$434,376,344 in the prior year. This amount was comprised of \$54,470,000 of lease revenue bonds, \$47,630,552 of certificates of participation, \$31,605,936 of revenue bonds payable, \$127,484,358 of reimbursement agreement related to Modesto Irrigation District bonds, \$9,141,881 of estimated compensated absences, \$27,884,781 of claims liability, \$124,780,500 of loans payable, \$1,145,338 of developer advances, \$6,358,720 of capital leases, and \$2,335,000 of notes payable.

Overall, the long-term debt decreased was mainly due to the principal payments made during the fiscal year. Additional information on the City's long-term debt can be found in Note II-C on pages 47-57 of this report.

The City maintains a current bond rating for the various bonds listed below.

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

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, 2017, the net OPEB obligation amounts to approximately \$54.5 million. This contributes significantly to the Employee Benefit Fund's \$55.0 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, 2017, the CPI-Western Urban Index increased by 2.6%.
- *Utility Service Charges* - Water and Sewer utility rates have a 25.0% and 6.0% scheduled rate increase for fiscal year 2016-17. For the Water and Sewer utility rates, these planned rate increases was effective on

Management's Discussion and Analysis *(continued)*

July 2016 for Sewer and September 2016 for Water. These rate increases will be used to assist with maintaining the debt coverage ratio requirements and related capital improvements for the utility funds.

All of these factors were considered in preparing the City's budget for fiscal year 2017-18.

During the current fiscal year, fund balance in the General Fund increased by \$2,584,047, to \$29,649,768, which represents 24.1% 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 2017-18 reflects the Council policy reserve level of 8% of the fund's total operating expenditures. 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, 2017

	Governmental Activities	Business-type Activities	Total
<u>ASSETS</u>			
Cash and cash equivalents	\$ 54,015,114	\$ 177,408,853	\$ 231,423,967
Accounts receivable, net	2,395,270	1,457,094	3,852,364
Interest receivable	397,988	514,820	912,808
Utility billings receivable, net	786,504	13,210,981	13,997,485
Taxes receivable	11,912,425	1,752	11,914,177
Due from governments, net	11,028,508	17,968,968	28,997,476
Prepaid expenses	547,337	2,633,422	3,180,759
Internal balances	7,251,572	(7,251,572)	-
Inventories	19,142	34,616	53,758
Investments in joint ventures	9,508,617	-	9,508,617
Restricted assets:			
Cash and cash equivalents	61,097,903	24,044,617	85,142,520
Cash and cash equivalents with fiscal agent	5,744,571	14,662,154	20,406,725
Due from governments, net	111,743	-	111,743
Reimbursement agreement	15,796,300	-	15,796,300
Notes and loan receivable, net	54,208,522	-	54,208,522
Capital assets:			
Land and construction in progress	94,411,927	265,625,881	360,037,808
Other capital assets, net of accumulated depreciation	325,257,030	604,935,729	930,192,759
Total assets	654,490,473	1,115,247,315	1,769,737,788
<u>DEFERRED OUTFLOWS OF RESOURCES</u>			
Deferred pensions	46,619,235	10,683,150	57,302,385
Loss on refunding	-	940,799	940,799
Accumulated decrease in fair value of hedging derivatives	9,456,835	33,207,249	42,664,084
Total deferred outflows of resources	56,076,070	44,831,198	100,907,268
Total assets and deferred outflows of resources	710,566,543	1,160,078,513	1,870,645,056
<u>LIABILITIES</u>			
Accounts payable	5,634,080	10,589,858	16,223,938
Accrued salaries and benefits	2,024,650	597,281	2,621,931
Approved loans payable	246,654	-	246,654
Interest payable	29,239	223,592	252,831
Unearned revenue	2,081,389	7,538,904	9,620,293
Refundable deposits	3,664,085	2,518,656	6,182,741
Derivative instrument - interest swap	9,456,835	33,207,249	42,664,084
Pollution remediation liability	-	18,772,486	18,772,486
Long-term liabilities:			
Due within one year	11,378,420	13,682,442	25,060,862
Due in more than one year	86,921,799	320,854,405	407,776,204
Net OPEB obligation	40,250,410	14,248,974	54,499,384
Net pension liability	229,264,281	45,211,806	274,476,087
Total liabilities	390,951,842	467,445,653	858,397,495
<u>DEFERRED INFLOWS OF RESOURCES</u>			
Deferred pensions	10,503,691	2,347,701	12,851,392
Total liabilities and deferred inflows of resources	401,455,533	469,793,354	871,248,887
<u>NET POSITION</u>			
Net investment in capital assets	376,743,556	555,163,217	931,906,773
Restricted for:			
Capital projects	49,191,971	-	49,191,971
Housing and community development	55,297,487	-	55,297,487
Other purposes	19,361,624	21,525,961	40,887,585
Unrestricted	(191,483,628)	113,595,981	(77,887,647)
Total net position	\$ 309,111,010	\$ 690,285,159	\$ 999,396,169

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

CITY OF MODESTO
STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED JUNE 30, 2017

	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
FUNCTIONS/PROGRAMS:				
Governmental activities:				
General government	\$ 13,945,824	\$ 5,082,405	\$ -	\$ -
Community development	15,419,529	10,378,999	4,293,247	-
Highways and streets	22,481,002	1,101,813	-	2,096,237
Public works	13,169,149	5,908,332	-	-
Parks and recreation	3,947,898	1,614,443	-	21,630
Public safety	104,348,464	4,847,914	757,524	-
Interest on long-term debt	2,500,849	-	-	-
Total governmental activities	<u>175,812,715</u>	<u>28,933,906</u>	<u>5,050,771</u>	<u>2,117,867</u>
Business-type activities:				
Water	63,008,231	69,075,873	80,920	-
Sewer	36,248,877	49,905,078	245,540	13,823,598
Bus	21,979,360	3,253,046	15,020,647	4,020,089
Parking	1,628,226	1,284,269	-	-
Storm drain	6,119,472	5,910,988	-	-
Compost	9,648,481	8,903,917	325,147	-
Airport	1,744,557	596,152	303,449	1,773,826
Golf	2,871,167	2,236,100	-	-
Community center	1,934,179	305,436	-	-
Abatement and public nuisance	51,624	117,677	-	-
Total business-type activities	<u>145,234,174</u>	<u>141,588,536</u>	<u>15,975,703</u>	<u>19,617,513</u>
Total	\$ <u>321,046,889</u>	\$ <u>170,522,442</u>	\$ <u>21,026,474</u>	\$ <u>21,735,380</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

 Other

Unrestricted investment earnings

Miscellaneous

Transfers, net

 Total general revenues and transfers

Changes in net position

Net position, July 1

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
\$ (8,863,419)	\$ -	\$ (8,863,419)
(747,283)	-	(747,283)
(19,282,952)	-	(19,282,952)
(7,260,817)	-	(7,260,817)
(2,311,825)	-	(2,311,825)
(98,743,026)	-	(98,743,026)
(2,500,849)	-	(2,500,849)
<u>(139,710,171)</u>	<u>-</u>	<u>(139,710,171)</u>
-	6,148,562	6,148,562
-	27,725,339	27,725,339
-	314,422	314,422
-	(343,957)	(343,957)
-	(208,484)	(208,484)
-	(419,417)	(419,417)
-	928,870	928,870
-	(635,067)	(635,067)
-	(1,628,743)	(1,628,743)
-	66,053	66,053
<u>-</u>	<u>31,947,578</u>	<u>31,947,578</u>
(139,710,171)	31,947,578	(107,762,593)
20,113,023	-	20,113,023
15,384,518	-	15,384,518
-	199,124	199,124
2,669,484	-	2,669,484
6,431,223	-	6,431,223
12,255,062	-	12,255,062
192,540	-	192,540
30,204,125	-	30,204,125
15,385,069	-	15,385,069
3,968,029	-	3,968,029
1,830	-	1,830
3,014,768	-	3,014,768
15,842,047	-	15,842,047
362,856	872,935	1,235,791
515,206	1,316,801	1,832,007
(1,750,401)	1,750,401	-
<u>124,589,379</u>	<u>4,139,261</u>	<u>128,728,640</u>
(15,120,792)	36,086,839	20,966,047
<u>324,231,802</u>	<u>654,198,320</u>	<u>978,430,122</u>
<u>\$ 309,111,010</u>	<u>\$ 690,285,159</u>	<u>\$ 999,396,169</u>

CITY OF MODESTO
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2017

	General	Housing and Community Development	Other Governmental	Total Governmental
ASSETS				
Cash and cash equivalents	\$ 13,137,675	\$ 3,657,936	\$ 9,218,022	\$ 26,013,633
Receivables:				
Accounts, net	622,180	22,331	436,094	1,080,605
Interest	91,031	7,447	127,939	226,417
Utilities, net	786,504	-	-	786,504
Taxes	11,508,097	-	404,328	11,912,425
Due from governments	1,612,050	778,929	8,592,238	10,983,217
Due from other funds	5,212,884	-	-	5,212,884
Prepaid expenditures	54,842	-	1,007	55,849
Restricted assets:				
Cash and cash equivalents	1,970,622	-	50,312,569	52,283,191
Cash and cash equivalents with fiscal agent	-	-	5,594,309	5,594,309
Due from governments	-	-	111,743	111,743
Notes receivable, net	-	51,927,343	2,281,179	54,208,522
Advances to other funds	2,460,304	-	80,000	2,540,304
Total assets	\$ 37,456,189	\$ 56,393,986	\$ 77,159,428	\$ 171,009,603
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 1,737,760	\$ 832,327	\$ 1,982,116	\$ 4,552,203
Accrued salaries and benefits	1,647,546	10,740	239,313	1,897,599
Accrued interest payable	-	6,778	1,634	8,412
Approved loans payable	-	246,654	-	246,654
Due to other funds	-	-	4,682,858	4,682,858
Unearned revenue	425,631	-	1,559,372	1,985,003
Refundable deposits	3,643,905	-	20,180	3,664,085
Advances from other funds	188,647	-	1,226,414	1,415,061
Total liabilities	7,643,489	1,096,499	9,711,887	18,451,875
Deferred inflows of resources:				
Unavailable revenue	162,932	28,065,876	4,247,548	32,476,356
Fund balances:				
Nonspendable	2,515,146	-	81,007	2,596,153
Restricted	1,970,622	27,231,611	58,299,800	87,502,033
Committed	15,800,000	-	-	15,800,000
Assigned	4,854,307	-	7,975,865	12,830,172
Unassigned	4,509,693	-	(3,156,679)	1,353,014
Total fund balances	29,649,768	27,231,611	63,199,993	120,081,372
Total liabilities, deferred inflows of resources, and fund balances	\$ 37,456,189	\$ 56,393,986	\$ 77,159,428	\$ 171,009,603

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, 2017

Total fund balances - total governmental funds \$ 120,081,372

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	\$ 91,923,693	
Depreciable	154,317,507	
Accumulated depreciation on general capital assets	(83,253,824)	
Infrastructure:		
Depreciable	569,094,750	
Accumulated depreciation on infrastructure	<u>(331,652,437)</u>	400,429,689

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

Deferred in the governmental funds	\$ 32,476,356	
Reimbursement agreement with Successor Agency	15,796,300	
Investments in joint ventures	<u>9,508,617</u>	57,781,273

Derivative instruments:

Rate swaps are not reported in governmental funds.	\$ (9,456,835)	
Deferred outflows of resources used to accumulate decreases in fair value of hedging derivatives also are not reported in governmental funds.	<u>9,456,835</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. (20,971,112)

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	\$ 44,238,755	
Deferred inflows of resources	<u>(9,833,502)</u>	34,405,253

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

Net pension liability	\$ (218,930,918)	
Bonds payable, and other long-term debt	(63,663,720)	
Accrued interest	<u>(20,827)</u>	<u>(282,615,465)</u>

Net position of governmental activities \$ 309,111,010

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, 2017

	General	Housing and Community Development	Other Governmental	Total Governmental
REVENUES:				
Taxes	\$ 55,259,431	\$ -	\$ 1,786,419	\$ 57,045,850
Licenses and permits	109,784	-	91,661	201,445
Intergovernmental	48,821,026	4,277,482	18,971,231	72,069,739
Charges for services	13,362,353	-	11,091,933	24,454,286
Special assessments levied	-	-	3,014,768	3,014,768
Interest and rent	819,908	-	582,479	1,402,387
Net decrease in fair value of investments	(206,156)	-	(366,460)	(572,616)
Fines and forfeits	560,250	-	703,157	1,263,407
Miscellaneous	85,573	3,242	428,029	516,844
Total revenues	<u>118,812,169</u>	<u>4,280,724</u>	<u>36,303,217</u>	<u>159,396,110</u>
EXPENDITURES:				
Current:				
General government	11,269,221	-	272,910	11,542,131
Community development	6,355,248	2,120,560	4,788,242	13,264,050
Highways and streets	-	-	9,240,654	9,240,654
Public works	6,516,710	-	4,402,392	10,919,102
Parks and recreation	3,203,519	-	65,841	3,269,360
Public safety	82,664,376	-	3,811,515	86,475,891
Capital outlay	6,438,534	-	14,992,652	21,431,186
Debt service:				
Principal retirement	467,093	233,000	1,835,000	2,535,093
Interest	15,884	50,951	2,008,367	2,075,202
Other	-	-	430,779	430,779
Total expenditures	<u>116,930,585</u>	<u>2,404,511</u>	<u>41,848,352</u>	<u>161,183,448</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>1,881,584</u>	<u>1,876,213</u>	<u>(5,545,135)</u>	<u>(1,787,338)</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	836,204	-	4,723,516	5,559,720
Transfers out	(6,021,176)	(177,835)	(460,748)	(6,659,759)
Capital leases	5,883,756	-	-	5,883,756
Sale of assets	3,679	-	27,560	31,239
TOTAL OTHER FINANCING SOURCES (USES)	<u>702,463</u>	<u>(177,835)</u>	<u>4,290,328</u>	<u>4,814,956</u>
CHANGES IN FUND BALANCES FUND BALANCES, JULY 1	<u>2,584,047</u>	<u>1,698,378</u>	<u>(1,254,807)</u>	<u>3,027,618</u>
FUND BALANCES, JULY 1	<u>27,065,721</u>	<u>25,533,233</u>	<u>64,454,800</u>	<u>117,053,754</u>
FUND BALANCES, JUNE 30	<u>\$ 29,649,768</u>	<u>\$ 27,231,611</u>	<u>\$ 63,199,993</u>	<u>\$ 120,081,372</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, 2017

Net change in fund balances - total governmental funds \$ 3,027,618

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	\$ 21,431,186	
Depreciation expense	<u>(17,811,385)</u>	3,619,801

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. (5,678,850)

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	\$ 4,046,917	
Change in investments in joint ventures	<u>(697,409)</u>	3,349,508

Recognition of Successor Agency annual payment for their Reimbursement Agreement receivable associated with long-term debt. (532,150)

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	\$ 2,535,093	
Proceeds of long-term debt	<u>(5,883,756)</u>	(3,348,663)

Some expenses reported in the statement of activities require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Change in accrued interest	\$ 5,132	
Approved loan payable disbursement	575,000	
Pension expense associated with net pension liability	<u>(3,481,394)</u>	(2,901,262)

Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue (expense) of internal service funds is reported with governmental activities. (12,656,794)

Change in net position of governmental activities \$ (15,120,792)

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

CITY OF MODESTO
STATEMENT OF NET POSITION - PROPRIETARY FUNDS
JUNE 30, 2017

	Enterprise					Internal Service
	Water	Sewer	Bus	Other Enterprise	Total Enterprise	
ASSETS						
Current assets:						
Cash and cash equivalents	\$ 76,319,916	\$ 77,052,149	\$ 6,612,999	\$ 17,423,789	\$ 177,408,853	\$ 28,001,481
Receivables:						
Accounts, net	6,793	39,013	93,013	1,318,275	1,457,094	1,314,665
Interest	213,480	232,073	14,809	54,458	514,820	171,571
Taxes	-	-	-	1,752	1,752	-
Utilities, net	7,819,393	4,582,431	-	809,157	13,210,981	-
Prepaid expenses	2,539,751	27,072	42,339	24,260	2,633,422	491,488
Due from governments	803,454	12,426,232	4,441,449	297,833	17,968,968	45,291
Inventories	-	95	-	34,521	34,616	19,142
Total current assets	<u>87,702,787</u>	<u>94,359,065</u>	<u>11,204,609</u>	<u>19,964,045</u>	<u>213,230,506</u>	<u>30,043,638</u>
Noncurrent assets:						
Advances to other funds	110,814	889,200	-	-	1,000,014	88,647
Restricted cash and cash equivalents	9,770,756	14,273,861	-	-	24,044,617	8,814,712
Restricted cash and cash equivalents with fiscal agent	12,502,170	1,474,998	-	684,986	14,662,154	150,262
Land and construction in progress	64,869,479	182,252,098	4,283,145	14,221,159	265,625,881	2,488,234
Other capital assets, net of accumulated depreciation	381,369,510	156,163,134	34,879,740	32,523,345	604,935,729	16,751,034
Total noncurrent assets	<u>468,622,729</u>	<u>355,053,291</u>	<u>39,162,885</u>	<u>47,429,490</u>	<u>910,268,395</u>	<u>28,292,889</u>
Total assets	<u>556,325,516</u>	<u>449,412,356</u>	<u>50,367,494</u>	<u>67,393,535</u>	<u>1,123,498,901</u>	<u>58,336,527</u>
DEFERRED OUTFLOWS OF RESOURCES						
Deferred pensions	3,913,247	3,901,518	675,680	2,192,705	10,683,150	2,380,480
Loss on refunding	452,045	488,754	-	-	940,799	-
Accumulated decrease in fair value of hedging derivatives	33,207,249	-	-	-	33,207,249	-
Total deferred outflows of resources	<u>37,572,541</u>	<u>4,390,272</u>	<u>675,680</u>	<u>2,192,705</u>	<u>44,831,198</u>	<u>2,380,480</u>
Total assets and deferred outflows of resources	<u>\$ 593,898,057</u>	<u>\$ 453,802,628</u>	<u>\$ 51,043,174</u>	<u>\$ 69,586,240</u>	<u>\$ 1,168,330,099</u>	<u>\$ 60,717,007</u>
LIABILITIES						
Current liabilities:						
Accounts payable	\$ 2,886,278	\$ 2,905,953	\$ 2,694,636	\$ 2,102,991	\$ 10,589,858	\$ 1,081,877
Accrued salaries and benefits	209,281	216,882	37,515	133,603	597,281	127,051
Interest payable	3,765	185,937	-	33,890	223,592	-
Due to other funds	-	-	-	530,026	530,026	-
Current portion - compensated absences	-	-	-	-	-	3,176,739
Current portion - claims liability	-	-	-	-	-	5,682,904
Current portion - long-term debt	4,925,149	7,478,616	-	355,000	12,758,765	-
Current portion - developer advances	93,112	-	-	-	93,112	-
Unearned revenue	4,635	737,926	6,337,253	459,090	7,538,904	96,386
Total current liabilities	<u>8,122,220</u>	<u>11,525,314</u>	<u>9,069,404</u>	<u>3,614,600</u>	<u>32,331,538</u>	<u>10,164,957</u>
Noncurrent liabilities:						
Payable from restricted assets - refundable deposits	1,408,341	1,110,315	-	-	2,518,656	-
Advances from other funds	-	-	-	2,213,904	2,213,904	-
Compensated absences	-	-	-	-	-	5,965,142
Claims liability	-	-	-	-	-	22,201,877
Derivative instrument - interest swap	33,207,249	-	-	-	33,207,249	-
Pollution remediation liability	8,677,433	7,495,053	-	2,600,000	18,772,486	-
Long-term debt:						
Reimbursement agreement related to MID debt	122,949,358	-	-	-	122,949,358	-
Revenue bonds payable	-	29,211,432	-	-	29,211,432	-
Loans payable	426,398	118,744,841	-	-	119,171,239	-
Certificates of participation	44,345,552	-	-	2,565,000	46,910,552	-
Developer advances	1,052,226	-	-	-	1,052,226	-
Net OPEB obligation	-	-	-	-	-	54,499,384
Net pension liability	16,822,777	16,367,801	2,759,942	9,261,286	45,211,806	10,333,363
Total noncurrent liabilities	<u>228,889,334</u>	<u>172,929,442</u>	<u>2,759,942</u>	<u>16,640,190</u>	<u>421,218,908</u>	<u>92,999,766</u>
Total liabilities	<u>237,011,554</u>	<u>184,454,756</u>	<u>11,829,346</u>	<u>20,254,790</u>	<u>453,550,446</u>	<u>103,164,723</u>
DEFERRED INFLOWS OF RESOURCES						
Deferred pensions	971,135	815,014	124,743	436,809	2,347,701	670,189
NET POSITION						
Net investment in capital assets	286,546,747	184,944,095	39,162,885	44,509,490	555,163,217	19,239,268
Restricted for other purposes	8,362,415	13,163,546	-	-	21,525,961	8,814,712
Unrestricted	61,006,206	70,425,217	(73,800)	4,385,151	135,742,774	(71,171,885)
Total net position	<u>355,915,368</u>	<u>268,532,858</u>	<u>39,089,085</u>	<u>48,894,641</u>	<u>712,431,952</u>	<u>(43,117,905)</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 593,898,057</u>	<u>\$ 453,802,628</u>	<u>\$ 51,043,174</u>	<u>\$ 69,586,240</u>	<u>\$ 1,168,330,099</u>	<u>\$ 60,717,007</u>
Adjustment to reflect the consolidation of internal service fund activities					(22,146,793)	
Net position of business-type activities					<u>\$ 690,285,159</u>	

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

CITY OF MODESTO
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET POSITION - PROPRIETARY FUNDS
FISCAL YEAR ENDED JUNE 30, 2017

	Enterprise					Internal Service
	Water	Sewer	Bus	Other Enterprise	Total Enterprise	
OPERATING REVENUES:						
Charges for services	\$ 68,896,549	\$ 48,559,686	\$ 2,777,228	\$ 19,330,481	\$ 139,563,944	\$ 39,780,791
Sales	-	-	-	-	-	1,486,322
Miscellaneous	179,324	847	475,818	24,058	680,047	-
Total operating revenues	<u>69,075,873</u>	<u>48,560,533</u>	<u>3,253,046</u>	<u>19,354,539</u>	<u>140,243,991</u>	<u>41,267,113</u>
OPERATING EXPENSES:						
Salaries and wages	8,377,197	8,304,335	1,430,275	5,234,975	23,346,782	4,582,141
Cost of sales	-	-	-	-	-	1,111,541
Contractual services	8,223,537	2,117,430	12,873,108	5,164,224	28,378,299	5,576,258
Utilities	2,012,949	3,092,743	160,043	605,763	5,871,498	260,957
Maintenance and supplies	2,869,316	2,605,825	2,046,094	4,559,210	12,080,445	2,683,893
Water purchases	10,436,459	-	-	-	10,436,459	-
Insurance	183,037	420,836	34,319	264,086	902,278	16,355,662
Claims	-	-	-	-	-	13,619,346
Employee benefits	3,226,818	2,063,081	569,719	2,004,893	7,864,511	4,244,621
Administration services	985,297	3,185,779	839,572	3,173,510	8,184,158	643,735
Allocated indirect administrative costs	1,193,621	642,202	265,638	440,394	2,541,855	274,466
Depreciation	17,194,247	9,055,194	2,762,050	2,662,590	31,674,081	3,028,262
Total operating expenses	<u>54,702,478</u>	<u>31,487,425</u>	<u>20,980,818</u>	<u>24,109,645</u>	<u>131,280,366</u>	<u>52,380,882</u>
OPERATING INCOME (LOSS)	<u>14,373,395</u>	<u>17,073,108</u>	<u>(17,727,772)</u>	<u>(4,755,106)</u>	<u>8,963,625</u>	<u>(11,113,769)</u>
NONOPERATING REVENUES (EXPENSES)						
Operating grants	80,920	245,540	15,020,647	628,596	15,975,703	-
Gain (loss) on disposition of capital assets	33,239	14,247	(1,155,602)	42,248	(1,065,868)	36,800
Tax revenue	-	-	-	199,124	199,124	-
Tax expense	(79,795)	(136,993)	-	(20,649)	(237,437)	-
Interest income	678,239	791,151	(18,507)	114,069	1,564,952	660,080
Net increase (decrease) in fair value of investments	77,762	(618,319)	(41,433)	(110,027)	(692,017)	(429,586)
Connection fees	-	1,344,545	-	-	1,344,545	-
Rental income	38,208	503,969	91,033	683,591	1,316,801	-
Interest expense and amortization	(8,306,138)	(4,922,906)	-	(151,666)	(13,380,710)	-
Trustee and letter of credit fees	(444,678)	(3,676)	-	(3,638)	(451,992)	-
Total nonoperating revenues (expenses)	<u>(7,922,243)</u>	<u>(2,782,442)</u>	<u>13,896,138</u>	<u>1,381,648</u>	<u>4,573,101</u>	<u>267,294</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	<u>6,451,152</u>	<u>14,290,666</u>	<u>(3,831,634)</u>	<u>(3,373,458)</u>	<u>13,536,726</u>	<u>(10,846,475)</u>
Capital contributions	-	13,823,598	4,020,089	1,773,826	19,617,513	22,242
Transfers in	315,500	286,441	1,500	2,143,776	2,747,217	280,937
Transfers out	(807,172)	(75,288)	-	(114,356)	(996,816)	(931,299)
CHANGES IN NET POSITION	<u>5,959,480</u>	<u>28,325,417</u>	<u>189,955</u>	<u>429,788</u>	<u>34,904,640</u>	<u>(11,474,595)</u>
NET POSITION, JULY 1	<u>349,955,888</u>	<u>240,207,441</u>	<u>38,899,130</u>	<u>48,464,853</u>		<u>(31,643,310)</u>
NET POSITION, JUNE 30	<u>\$ 355,915,368</u>	<u>\$ 268,532,858</u>	<u>\$ 39,089,085</u>	<u>\$ 48,894,641</u>		<u>\$ (43,117,905)</u>
Adjustment to reflect the consolidation of internal service funds					1,182,199	
Change in net position of business-type activities				\$	<u>36,086,839</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, 2017

	Enterprise					Internal Service
	Water	Sewer	Bus	Other Enterprise	Total Enterprise	
CASH FLOWS FROM OPERATING ACTIVITIES:						
Receipts from customers and users	\$ 66,561,254	\$ 40,502,227	\$ 3,205,164	\$ 20,524,381	\$ 130,793,026	\$ 1,488,493
Receipts from interfund services provided	56,852	592,985	-	50,277	700,114	39,960,356
Payments to suppliers	(20,264,040)	(8,348,014)	(15,892,986)	(7,919,492)	(52,424,532)	(27,113,476)
Payment of insurance claims	-	-	-	-	-	(9,331,096)
Payments to employees	(11,714,198)	(10,455,703)	(2,013,527)	(7,303,167)	(31,486,595)	(10,228,381)
Payments for interfund services used	(5,808,557)	(6,521,778)	-	(7,117,090)	(19,447,425)	(1,878,025)
Net cash provided (used) by operating activities	<u>28,831,311</u>	<u>15,769,717</u>	<u>(14,701,349)</u>	<u>(1,765,091)</u>	<u>28,134,588</u>	<u>(7,102,129)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:						
Operating grants received	80,920	245,540	15,024,531	628,596	15,979,587	-
Taxes received	-	-	-	199,124	199,124	-
Transfers in	315,500	131,719	1,500	2,143,776	2,592,495	279,785
Transfers out	(807,172)	(75,288)	-	(114,356)	(996,816)	(157,334)
Payments on advances from other funds	-	-	-	(34,200)	(34,200)	-
Receipts on advances to other funds	60,846	34,200	-	-	95,046	75,000
Net cash provided (used) by noncapital financing activities	<u>(349,906)</u>	<u>336,171</u>	<u>15,026,031</u>	<u>2,822,940</u>	<u>17,835,236</u>	<u>197,451</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:						
Acquisition and construction of capital assets	(15,132,918)	(27,899,450)	(3,699,403)	(2,630,145)	(49,361,916)	(4,045,577)
Proceeds from sale of capital assets	40,996	767,271	45,245	45,073	898,585	199,087
Proceeds of debt issues	-	3,254,000	-	-	3,254,000	-
Principal repayments	(4,802,643)	(7,086,336)	-	(340,000)	(12,228,979)	-
Interest paid	(7,904,142)	(4,213,149)	-	(117,776)	(12,235,067)	-
Trustee and letter of credit fees	(444,678)	(3,676)	-	(3,638)	(451,992)	-
Capital contributions	-	11,618,005	1,165,053	1,773,826	14,556,884	-
Connection fees for capital purposes	-	1,344,545	-	-	1,344,545	-
Net cash provided (used) by capital and related financing activities	<u>(28,243,385)</u>	<u>(22,218,790)</u>	<u>(2,489,105)</u>	<u>(1,272,660)</u>	<u>(54,223,940)</u>	<u>(3,846,490)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:						
Interest received	644,253	782,312	(57,338)	75,344	1,444,571	636,149
Net increase (decrease) in the fair value of investments	77,762	(618,319)	-	(110,027)	(650,584)	(429,586)
Rental income received	38,208	503,969	91,033	683,591	1,316,801	-
Net cash provided (used) by investing activities	<u>760,223</u>	<u>667,962</u>	<u>33,695</u>	<u>648,908</u>	<u>2,110,788</u>	<u>206,563</u>
Net increase (decrease) in cash and cash equivalents	998,243	(5,444,940)	(2,130,728)	434,097	(6,143,328)	(10,544,605)
CASH AND CASH EQUIVALENTS, JULY 1	<u>97,594,599</u>	<u>98,245,948</u>	<u>8,743,727</u>	<u>17,674,678</u>	<u>222,258,952</u>	<u>47,511,060</u>
CASH AND CASH EQUIVALENTS, JUNE 30	<u>\$ 98,592,842</u>	<u>\$ 92,801,008</u>	<u>\$ 6,612,999</u>	<u>\$ 18,108,775</u>	<u>\$ 216,115,624</u>	<u>\$ 36,966,455</u>
RECONCILIATION TO STATEMENT OF NET POSITION:						
Cash and cash equivalents	\$ 76,319,916	\$ 77,052,149	\$ 6,612,999	\$ 17,423,789	\$ 177,408,853	\$ 28,001,481
Restricted cash and cash equivalents	9,770,756	14,273,861	-	-	24,044,617	8,814,712
Restricted cash and cash equivalents with fiscal agent	12,502,170	1,474,998	-	684,986	14,662,154	150,262
TOTAL CASH AND CASH EQUIVALENTS	<u>\$ 98,592,842</u>	<u>\$ 92,801,008</u>	<u>\$ 6,612,999</u>	<u>\$ 18,108,775</u>	<u>\$ 216,115,624</u>	<u>\$ 36,966,455</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, 2017

	Enterprise					Internal Service
	Water	Sewer	Bus	Other Enterprise	Total Enterprise	
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:						
Operating income (loss)	\$ 14,373,395	\$ 17,073,108	\$ (17,727,772)	\$ (4,755,106)	\$ 8,963,625	\$ (11,113,769)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:						
Depreciation	17,194,247	9,055,194	2,762,050	2,662,590	31,674,081	3,028,262
Taxes paid	(79,795)	(136,993)	-	(20,649)	(237,437)	-
Change in assets, liabilities, and deferred resources:						
(Increase) decrease in accounts receivable	6,853	36,392	(22,353)	(34,634)	(13,742)	168,916
Increase in taxes receivable	-	-	-	(1,752)	(1,752)	-
Increase in utilities receivable	(1,890,496)	(576,954)	-	(32,383)	(2,499,833)	-
(Increase) decrease in due from governments	(675,090)	(6,766,127)	-	1,063,602	(6,377,615)	(26,448)
(Increase) decrease in prepaid expenses	(52,906)	9,077	(25,529)	40,018	(29,340)	(208,984)
Decrease in inventories	-	-	-	1,804	1,804	314,097
Increase (decrease) in accounts payable	285,294	38,884	325,788	(850,568)	(200,602)	(2,190,102)
Decrease in accrued salaries and benefits	(47,138)	(24,687)	(2,369)	(27,715)	(101,909)	(23,394)
Increase in compensated absences	-	-	-	-	-	351,931
Decrease in net OPEB obligation	-	-	-	-	-	(1,691,947)
Decrease in net pension liability and deferred resources	(63,045)	(63,600)	(11,164)	(35,584)	(173,393)	(38,209)
Increase in claims liability	-	-	-	-	-	4,288,250
Decrease in pollution remediation liability	(320,975)	(2,715,946)	-	-	(3,036,921)	-
Increase in due to other funds	-	-	-	187,646	187,646	-
Increase (decrease) in unearned revenue	4,635	(239,022)	-	37,640	(196,747)	39,268
Increase in refundable deposits	96,332	80,391	-	-	176,723	-
Total adjustments	<u>14,457,916</u>	<u>(1,303,391)</u>	<u>3,026,423</u>	<u>2,990,015</u>	<u>19,170,963</u>	<u>4,011,640</u>
Net cash provided (used) by operating activities	<u>\$ 28,831,311</u>	<u>\$ 15,769,717</u>	<u>\$ (14,701,349)</u>	<u>\$ (1,765,091)</u>	<u>\$ 28,134,588</u>	<u>\$ (7,102,129)</u>
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:						
Capital asset transfers	-	154,722	-	-	154,722	(154,722)
Capital contribution from transfer of Empire Sanitary District	-	2,205,593	-	-	2,205,593	-
Interfund loan transfer correction	-	-	-	-	-	(618,091)
Amortization of debt items	600,014	10,447	-	-	610,461	-

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, 2017

	Private-Purpose Trust	Agency
<u>ASSETS</u>		
Cash and cash equivalents	\$ 3,213,643	\$ 3,050,868
Cash and cash equivalents held with fiscal agent	1,977,938	2,942,479
Interest receivable	14,816	-
Other assets	9,924	-
Total assets	5,216,321	\$ 5,993,347
<u>LIABILITIES</u>		
Due to special district bondholders	\$ -	\$ 3,408,080
Deposits held as agent for others	-	2,585,267
Other payables	168,936	-
Due to other agencies	1,192,004	-
Loans payable:		
Due within one year	2,091,550	-
Due in more than one year	23,869,750	-
Total liabilities	27,322,240	\$ 5,993,347
<u>NET POSITION</u>		
Unrestricted	\$ (22,105,919)	

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

CITY OF MODESTO
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION -
PRIVATE PURPOSE TRUST FUND
FISCAL YEAR ENDED JUNE 30, 2017

	<u>Private-Purpose Trust</u>
ADDITIONS:	
Redevelopment Agency Property Tax Trust Fund	\$ 3,271,733
Gain on capital assets	568,950
Interest and Investment Revenue:	
Use of money and property	<u>233,683</u>
Total additions	<u>4,074,366</u>
DEDUCTIONS:	
Distribution of property taxes to other taxing entities	<u>768,933</u>
Obligation retirements:	
Interest on note payable	<u>597,708</u>
Administrative expenses:	
City administrative expenses	215,560
Depreciation expense	<u>43,729</u>
Total administrative expenses	<u>259,289</u>
Total deductions	<u>1,625,930</u>
Change in net position	2,448,436
Net position, July 1	<u>(24,554,355)</u>
Net position, June 30	\$ <u><u>(22,105,919)</u></u>

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, 2017

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 organizations 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. For grant revenues, the City considers this type of revenue to be available if collected within 180 days. 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 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, information and technology 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 Sewer Fund also recognize as non-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 based on various levels identified further under Note II-A – Fair value measurements.

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. Legal or contractual obligations associated with the nonmajor governmental funds have been reported as restricted assets due to the restrictions identified on the revenue sources generated from these funds. 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 to indicate that they are not in spendable form.

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 taxes are recognized in governmental funds 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, 2017 is \$29,109,219.

Utility service accounts receivable are \$13,997,485 net of an allowance for doubtful collections of \$735,430 and include unbilled receivables using actual amounts billed in July for June services for all City funds. City accounts receivable of \$3,852,364 are reported net of an allowance for doubtful collections of \$1,079,037, and are based on miscellaneous receivables from the City's invoice system as well as other receivables accrued at year-end.

4. Inventories and Prepaid Expenses/Expenditures

Inventories of material and supplies held by governmental and proprietary funds are stated at average cost. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses/expenditures.

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 received in a service concession agreement and all other types are recorded at acquisition value rather than fair value.

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.

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, 30 years for water rights, 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, 2017, the total estimated liability for all compensated absences, including vacation and sick leave, is \$9,141,881.

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 2016-2017.

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, 2015
Measurement Date: June 30, 2016
Measurement Period: June 30, 2015 to June 30, 2016

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, 2017, the City implemented the following GASB standards:

In June 2015, GASB issued **Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans**. This statement addresses reporting by OPEB plans that administer benefits on behalf of governments. This statement did not have any impacts to the City's financial statements.

In August 2015, GASB issued **Statement No. 77, Tax Abatement Disclosures**. This statement requires governments that enter into tax abatement agreements to disclose the following information about the agreements: (i) brief descriptive information; (ii) the gross dollar amount of taxes abated during the period; and (iii) commitments made by a government, other than to abate taxes, as part of a tax abatement agreement. This Statement did not have a significant impact to the City's financial statements.

In December 2015, the GASB issued **Statement No. 78, Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans**. The objective of this statement is to address a practice issue regarding the scope and applicability of Statement No. 68 associated with pensions provided through certain cost-sharing multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. Such plans are not considered a state or local government pension plan and are used to provide benefits to both employees of state and local governments and employees of employers that are not state or local governments. This statement did not have any impacts to the City's financial statements.

In January 2016, the GASB issued **Statement No. 80, Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14**. The objective of this statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This statement amends the blending requirements established in GASB Statement No. 14, The Financial Reporting Entity, as amended. This Statement did not have a significant impact to the City's financial statements.

In March 2016, the GASB issued **Statement No. 82, Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73**, to address certain issues that have been raised with respect to Statements No. 67, Financial Reporting for Pension Plans, No. 68, Accounting and Financial Reporting for Pensions, and No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68. The statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practices for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. This Statement did not have a significant impact to the City's financial statements.

The City is currently evaluating its accounting practices to determine the potential impact on the financial statements for the following GASB Statements:

In June 2015, GASB issued **Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions**. This statement addresses reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments. This Statement is effective for the City's fiscal year ending June 30, 2018.

In March 2016, the GASB issued **Statement No. 81, Irrevocable Split-Interest Agreements**. The statement provides recognition and measurement guidance for situations in which a government is a beneficiary of these agreements. This Statement is effective for the City's fiscal year ending June 30, 2018.

In November 2016, the GASB issued **Statement No. 83, Certain Asset Retirement Obligations**, which addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. The Statement is effective for the City's fiscal year ending June 30, 2019

In January 2017, the GASB issued **Statement No. 84, Fiduciary Activities**, which improves guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The Statement is effective for the City's fiscal year ending June 30, 2020.

In March 2017, the GASB issued **Statement No. 85, Omnibus 2017**, which addresses practical issues that have been identified during implementation and application of certain GASB Statements. The statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, pensions and other postemployment benefits. This Statement is effective for the City's fiscal year ending June 30, 2018.

In May 2017, the GASB issued **Statement No. 86, Certain Debt Extinguishment Issues**, which improves consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources – resources other than the proceeds of refunding debt – are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. This Statement is effective for the City's fiscal year ending June 30, 2018.

In June 2017, the GASB issued **Statement No. 87, Leases**, which increases the usefulness of government' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The Statement is effective for the City's fiscal year ending June 30, 2021.

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.

The City's cash and investments are reported as follows:

Primary government:		
Cash and cash equivalents	\$	231,423,967
Restricted cash and cash equivalents		85,142,520
Restricted cash and cash equivalents with fiscal agent		20,406,725
Successor Agency Private-Purpose Trust Fund		
Cash and cash equivalents		3,213,643
Cash and cash equivalents held with fiscal agent		1,977,938
Agency funds		
Cash and cash equivalents		3,050,868
Cash and cash equivalents held with fiscal agent		2,942,479
		<hr/>
Total cash and investments	\$	<u>348,158,140</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>Maximum Specified % of Portfolio</u>	<u>Maximum Percentage Of Issuer</u>	<u>Maximum Quality Requirements</u>
Local Agency Bonds	5 years	None	None	None
Treasury Obligations	5 years	None	None	None
State Obligations	5 years	None	None	A rating
CA Local Agency Obligations	5 years	None	None	A rating
Federal Agencies	5 years	None	None	None
Banker's Acceptances	180 days	40 %	5 %	Federal Reserve eligible
Commercial Paper	270 days	25 %	5 %	A1/P1 rating
Negotiable Certificates of Deposit	5 years	30 %	5 %	A rating
Certificates of Deposit	1 year	20 %	5 %	FDIC insured or collateralized
Repurchase Agreements	90 days	None	5 %	None
Reverse Repurchase Agreements	92 days	20 % of combined base value	5 %	None
Medium Term Notes	5 years	30 %	5 %	A rating
Money Market Mutual Funds	N/A	15 %	10 %	Multiple
Mortgage and Asset-backed Securities	5 years	20 %	5 %	AA Rating
CAMP	N/A	None	None	N/A
LAIF	N/A	N/A	None	N/A

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, 2017, the fair value approximated the City's cost. At June 30, 2017, 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 110% 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 custody at the Bank of New York Trust Company N.A. under the name of the California Local Agency Collateral Pool as administered by the California Department of Business Oversight (Pool Administrator).

The City of Modesto has 10 deposit accounts at Bank of America that are monitored for deposit collateral purposes. As per the CA Government Code, the bank must provide collateral for the collected deposit balances at 110% coverage. The City is collateralized as part of the California Local Agency Collateral Pool Program. As of June 30, 2017 the City had collected deposit balances of \$16,574,956. On this amount, the FDIC insurance coverage was \$500,000. (\$250,000 for their time and savings accounts and \$250,000 for their demand accounts). The remainder of their balances were collateralized as part of the California Local Agency Pool Program.

For further information, on June 30, 2017, the total collected deposit balances at Bank of America from California Local Agency Pool Program participants was \$1,851,155,231 of which \$84,735,990 was FDIC insured. The remaining uninsured balances, \$1,766,419,241 were collateralized by securities pledged by Bank of America that had a market value of \$2,228,055,232. This results in collateral margin coverage of 124% 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 Sewer 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 their duration, or sensitivity to interest rate changes, being greater.

As of June 30, 2017, the City owned two callable bonds. There were no Federal Agency callables in the portfolio. Information on those bonds has been provided as follows:

Corporate Notes			
Amount	Maturity Date	Call Date	Call Terms
\$1,095,000	11/5/2018	10/5/2018	Callable on and any time after 10/05/18
\$5,475,000	5/22/2018	4/22/2018	Callable on and any time after 4/22/18

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 City may from time to time be invested in a security whose rating is downgraded subsequent to the date of purchase. In the event a rating drops below the minimum allowed rating category for that given investment type, the investment advisor shall notify the Finance Director and recommend a plan of action. The City will limit investments in any one non-government issuers, except investment pools to no more than 5% regardless of security type.

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	3-18 years
U.S. Treasury Notes	AA+	Aaa	\$ 20,187,552	\$ -	\$ 6,691,262	\$ -	\$ 13,496,290
Federal Agencies:							
Collateralized Mortgage Obligation	AA+	Aaa	7,564,435	1,641,979	4,039,694	1,882,762	-
Federal Agency Bond/Notes	AA+	Aaa	117,812,611	-	60,079,004	57,733,607	-
Corporate Notes	See Below	See Below	38,806,370	9,398,506	16,063,570	13,344,294	-
Negotiable Certificates of Deposit	See Below	See Below	45,931,235	14,876,079	31,055,156	-	-
CAMP Pool	AAA-m	N/A	79,653,435	79,653,435	-	-	-
Total			<u>\$ 309,955,638</u>	<u>\$ 105,569,999</u>	<u>\$ 117,928,686</u>	<u>\$ 72,960,663</u>	<u>\$ 13,496,290</u>
Held By Fiscal Agent							
Money Market Funds	AAA-m	Aaa-mf	5,709,055	5,709,055	-	-	-
CAMP	AAA-m	N/A	9,609,203	9,609,203	-	-	-
MID – Collateral Agreement	A+	Aa3	10,008,884	10,008,884	-	-	-
Fiscal Agent Total			<u>\$ 25,327,142</u>	<u>\$ 25,327,142</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City of Modesto Banking Accts & Cash on Hand	A/A-1	A1/P1	12,735,527				
Timing Differences for Deposit & Electronic Vendor Payments			139,833				
Total Cash and Investments			<u><u>\$ 348,158,140</u></u>				

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

Amount	Standard & Poors	Moody's Investors Service
\$ 3,513,804	AA+	Aaa
1,854,881	AA	Aa2
680,475	AA-	Aa2
3,717,716	AA-	Aa3
5,477,875	A	A1
6,966,283	A+	A1
2,997,141	AA	A1
7,254,704	A	A2
3,527,207	A-	A2
2,816,284	A-	A3
<u><u>\$ 38,806,370</u></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
\$ 11,461,716	AA-	Aa2
8,095,669	AA-	Aa3
4,506,840	A	A1
16,155,376	A+	Aa3
5,711,634	A+	A1
<u>\$ 45,931,235</u>		

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, 2017:

<u>Issuer</u>	<u>Investment Type</u>	<u>Reported Amount</u>	<u>Percent of Portfolio</u>
Fannie Mae (FNMA)	Federal agency securities	\$59,148,971	16.99%
Federal Home Loan Banks	Federal agency securities	27,185,443	7.81%
Freddie Mac (FHLMC)	Federal agency securities	39,042,632	11.21%

Fair Value measurements

The Pool categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. These principles recognize a three-tiered fair value hierarchy, of which levels 1 & 2 apply to the City as follows:

- Level 1: Valuations are based on quoted prices in active markets for identical assets or liabilities. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgement. Examples would be securities with prices derived from the major exchanges.
- Level 2: Valuations are based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-based valuations for which all significant assumptions are observable or can be corroborated by observable market data. Examples would be securities with prices derived from market corroborated sources such as indices and yield curves; and matrix pricing, such as for most debt securities.

Union Bank is the custodian of the City's investments. Union Bank utilizes pricing services that deliver current market values and security information which is input into their trust accounting systems. A security will be valued on the basis of valuations provided by a pricing service vendor if it has a substantial public market (i.e. is not thinly traded), and is freely tradable without restriction, has a valid CUSIP or SEDOL and resides on one of the depositories. Based on their direction, Union Bank will continue to obtain valuations for all other securities and assets, for which they do not receive a pricing feed and/or descriptive information from their pricing service vendors, from various sources independent of Union Bank. If no current market value price is available from their pricing service vendors and their agents have provided Union Bank with pricing information, Union Bank will show the value of the asset at such value as Union Bank shall determine, such value to be for administrative purposes only and not be any indication of any market value.

The Pool has the following recurring fair value measurements as of June 30, 2017:

Investments by Fair Value Level	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Investment Type			
U.S Treasury Notes	\$ 20,187,552	\$ 20,187,552	\$ -
Corporate Notes	38,806,370	-	38,806,370
Negotiable Certificates of Deposit	45,931,235	-	45,931,235
Collateralized Mortgage Obligation	7,564,435	-	7,564,435
Federal Agency Bond/Notes	117,812,611	-	117,812,611
Total Investments measured at fair value	230,302,203	20,187,552	210,114,651
Investments not subject to Fair Value hierarchy			
CAMP	79,653,435		
	<u>\$ 309,955,638</u>		
Investments by Fair Value for Fiscal Agents			
Money Market Funds	\$ 5,709,055	\$ -	\$ 5,709,055
Total Fiscal Agent investments measured at fair value	5,709,055	-	5,709,055
Investments not subject to Fair Value hierarchy			
CAMP	9,609,203		
MID Collateral Agreement	10,008,884		
	<u>\$ 25,327,142</u>		

B. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2017 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 33,219,069	\$ -	\$ (4,951,623)	\$ 28,267,446
Construction in progress	49,050,112	21,133,342	(4,038,973)	66,144,481
Total capital assets, not being depreciated:	<u>82,269,181</u>	<u>21,133,342</u>	<u>(8,990,596)</u>	<u>94,411,927</u>
Capital assets being depreciated:				
Buildings	34,507,293	20,921	(1,668,446)	32,859,768
Improvements other than buildings	107,637,168	1,542,230	(3,383)	109,176,015
Furnishings & equipment	16,195,762	484,315	(720,239)	15,959,838
Buses and fareboxes	278,852	-	-	278,852
Service animals	42,549	-	-	42,549
Intangible assets	8,513,126	-	-	8,513,126
Equipment pool	34,722,836	4,004,320	(2,040,939)	36,686,217
Infrastructure				
Streets	508,430,143	2,174,963	-	510,605,106
Signals	21,789,400	923	-	21,790,323
Bridges	36,699,321	-	-	36,699,321
Total capital assets, being depreciated:	<u>768,816,450</u>	<u>8,227,672</u>	<u>(4,433,007)</u>	<u>772,611,115</u>
Less accumulated depreciation for:				
Buildings	(19,903,465)	(937,534)	922,108	(19,918,891)
Improvements	(50,570,093)	(4,436,500)	3,045	(55,003,548)
Furnishings & equipment	(12,864,983)	(769,264)	769,785	(12,864,462)
Buses and fareboxes	(253,749)	-	-	(253,749)
Service animals	(16,705)	(8,510)	-	(25,215)
Intangible assets	(4,490,969)	(439,116)	-	(4,930,085)
Equipment pool	(21,669,190)	(2,907,305)	1,870,797	(22,705,698)
Infrastructure				
Streets	(296,813,332)	(10,193,267)	-	(307,006,599)
Signals	(16,745,761)	(414,164)	-	(17,159,925)
Bridges	(6,751,927)	(733,986)	-	(7,485,913)
Total accumulated depreciation	<u>(430,080,174)</u>	<u>(20,839,646)</u>	<u>3,565,735</u>	<u>(447,354,085)</u>
Total capital assets being depreciated, net	<u>338,736,276</u>	<u>(12,611,974)</u>	<u>(867,272)</u>	<u>325,257,030</u>
Governmental activities capital assets, net	<u>\$ 421,005,457</u>	<u>\$ 8,521,368</u>	<u>\$ (9,857,868)</u>	<u>\$ 419,668,957</u>

Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
General government	\$ 554,326
Community development	637,311
Highways and streets	11,785,211
Public works	524,404
Parks and recreation	157,015
Public safety	4,153,117
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	<u>3,028,262</u>
Total depreciation expense – Governmental activities	<u><u>\$20,839,646</u></u>

	Beginning Balance	Additions	Deletions	Ending Balance
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 33,515,655	\$ 338,748	\$ -	\$ 33,854,403
Construction in progress	201,922,158	46,435,022	(16,585,702)	231,771,478
Total capital assets, not being depreciated:	<u>235,437,813</u>	<u>46,773,770</u>	<u>(16,585,702)</u>	<u>265,625,881</u>
Capital assets being depreciated:				
Capitalized interest	19,496,181	-	-	19,496,181
Buildings	101,856,550	88,649	-	101,945,199
Improvements other than buildings	306,732,308	12,797,744	(1,525,990)	318,004,062
Furnishings and equipment	12,497,442	891,441	(272,018)	13,116,865
Intangible assets	416,557	41,215	(2,390)	455,382
Water rights	358,226,691	-	-	358,226,691
Buses and fareboxes	28,487,802	4,039,188	(2,573,883)	29,953,107
Pipelines	159,600,921	1,470,313	-	161,071,234
Total capital assets, being depreciated:	<u>987,314,452</u>	<u>19,328,550</u>	<u>(4,374,281)</u>	<u>1,002,268,721</u>
Less accumulated depreciation for:				
Capitalized interest	(10,272,954)	(974,809)	-	(11,247,763)
Buildings	(61,526,212)	(3,032,219)	-	(64,558,431)
Improvements other than buildings	(162,988,460)	(10,924,341)	415,911	(173,496,890)
Furnishings and equipment	(7,292,958)	(938,092)	253,650	(7,977,400)
Intangible assets	(260,581)	(78,969)	2,390	(337,160)
Water rights	(71,645,339)	(11,940,890)	-	(83,586,229)
Buses and fareboxes	(14,294,826)	(1,702,759)	2,342,897	(13,654,688)
Pipelines	(40,392,429)	(2,082,002)	-	(42,474,431)
Total accumulated depreciation	<u>(368,673,759)</u>	<u>(31,674,081)</u>	<u>3,014,848</u>	<u>(397,332,992)</u>
Total capital assets being depreciated, net	<u>618,640,693</u>	<u>(12,345,531)</u>	<u>(1,359,433)</u>	<u>604,935,729</u>
Business-type activities capital assets, net	<u>\$ 854,078,506</u>	<u>\$ 34,428,239</u>	<u>(17,945,135)</u>	<u>\$ 870,561,610</u>

Business-type activities:

Water	\$17,194,247
Sewer	9,055,194
Bus	2,762,050
Parking	448,424
Storm drain	521,532
Compost	149,997
Airport	738,580
Golf	51,227
Community center	752,830
Total depreciation expense – Business-type activities	<u>\$31,674,081</u>

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 when the financing mechanism is established. As of June 30, 2017, no payments have been made to the Stanislaus County Economic Development Bank. 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.

500,000

Total Principal Balance – Governmental-Type Activities

\$ 500,000

Business-Type Activities:

Water Enterprise Fund:

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 the 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 total amount for the project was \$1,136,656, of which 50% was to be repaid as a loan. This original loan amount of \$568,328 has a payment term of 20 years at 2.5017% interest rate.

451,547

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, 2016. Project completion date is established as December 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 total loan approved by the State Water Resources Control Board is \$121,829,278, plus \$5,328,665 in Accrued Construction Period Interest. The loan repayment term is 20 years (final payment due on December 1, 2035) and after an initial annual payment of \$7,891,411 in the fiscal year ending June 30, 2017, the annual principal and interest payment is \$8,245,564 beginning in the fiscal year ending June 30, 2018.

122,421,633

Loan payable to California State Water Resources Control Board, State Revolving Fund. The Project, commonly known as North Valley Regional Recycled Water Program generally consists of constructing improvements to the City's existing pump station. The City will then distribute the recycled water to the Del Puerto Water District for agricultural use increasing recycled water supplies by 5.4 billion gallons per year within the first 5 years of operation and 9.9 billion gallons per year at build out. Completion of construction date is established as June 30, 2018. Project completion date is established as December 31, 2018. The City agrees to repay all project funds at an interest rate of one percent (1%) per annum and an administrative service charge of zero percent (0%) per annum. The total loan approved by the State Water Resources Control Board is \$41,862,028, plus

\$6,642,487 in Accrued Construction Period Interest. The loan repayment term is 30 years (final payment due on June 30, 2048) and after an initial and secondary annual payment of \$1,262,431 and \$1,506,587, respectively, in the fiscal year ending June 30, 2019 and June 30, 2020, the annual principal and interest payment is \$1,633,411 beginning in the fiscal year ending June 30, 2021. The current reported balance includes only the disbursements received as of June 30, 2017.

1,407,320

Total Principal Balances – Business-Type Activities

\$124,280,500

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

Year Ending June 30,	Governmental-Type Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2018	\$500,000	\$-	\$5,109,261	\$3,172,593
2019	-	-	6,197,547	3,075,356
2020	-	-	5,786,629	2,929,872
2021	-	-	5,495,526	2,786,327
2022	-	-	5,638,388	2,643,466
2023-2027	-	-	30,468,273	10,940,995
2028-2032	-	-	34,639,855	6,769,414
2033-2036	-	-	30,945,021	2,037,236
Total	<u>\$500,000</u>	<u>\$-</u>	<u>\$124,280,500</u>	<u>\$34,355,259</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% due November 1, 2016, 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.

\$2,920,000

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 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 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. Barring an event of default, any such draws on the Letter of Credit will be repaid under the terms of the Reimbursement Agreement. Under the terms of the Reimbursement Agreement, the City will repay the amount drawn in ten equal semi-annual installments of principal, plus monthly interest at the Bank Rate, over a 5 year period. However, the entire balance of the amount drawn shall become due immediately if the 2008 COPs are cancelled or prepaid, are remarketed, or converted to bear interest at a rate other than a daily rate or weekly rate; an alternate credit facility is secured; or an event of default occurs. The Credit Facility and Reimbursement Agreement initially expired May 29, 2011, and were subsequently extended to July 14, 2017 at a commitment fee of 0.875%, then again to June 15, 2020 at a commitment fee of 0.7%.

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 3.47% at June 30, 2017.

44,815,000

Total Principal Balances – Business-Type Activities
Less:

47,735,000

Unamortized Bond Discount – 2008 Water Refunding Certificates of Participation

(104,448)

Total Business-Type Activities – Certificates of Participation

\$47,630,552

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 \$56,977,331. 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 \$12,706,785, and net operating revenues of the Fund were \$32,583,358, which represented coverage of 256%. The Golf Fund's principal and interest paid on certificates totaled \$491,666, and net operating revenues of the Fund were \$314,029, which represented coverage of 64%.

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
2018	\$720,000	\$809,519
2019	775,000	785,331
2020	795,000	759,906
2021	805,000	733,731
2022	860,000	706,344
2023-2027	11,210,000	2,925,812
2028-2032	14,700,000	1,875,825
2033-2037	17,870,000	645,863
Total	<u>\$47,735,000</u>	<u>\$9,242,331</u>

Lease Revenue Bonds – Governmental Activities:

2008 Lease Revenue Refunding Bonds in the amount of \$65,170,000 issued to refund the balance of the 1998 Lease Revenue Bonds and the 2007 Lease Revenue Refunding and Capital Improvement Bonds; variable rate securities maturing September 1, 2033, with interest initially calculated weekly, fluctuating according to market conditions. The bonds may be converted to a daily, term, flexible, or fixed rate. The combination of the variable rate bonds and a floating swap rate creates a synthetic fixed-rate debt for the City. The synthetic fixed-rate was 3.61% at June 30, 2017.

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. Barring an event of default, any such draws on the Letter of Credit will be paid under the terms of the Reimbursable Agreement. Under the terms of the Reimbursement Agreement, the City will repay the amount drawn in equal semi-annual installments of principal plus monthly interest, at the Bank Rate, over a 5 year amortization period. However, the entire balance of the amount drawn shall become due immediately if the tendered bonds are remarketed or defeased, or an alternate credit facility is secured, or an event of default occurs. The Credit Facility and Reimbursement Agreement initially expired August 1, 2011, but were subsequently extended to June 22, 2019 at a commitment fee of 0.60%.

\$54,470,000

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

Year Ending June 30,	Governmental-Type Activities	
	Principal	Interest
2018	\$1,695,000	\$797,981
2019	1,860,000	770,700
2020	2,000,000	741,225
2021	2,170,000	709,313
2022	2,390,000	674,287
2023-2027	15,070,000	2,738,363
2028-2032	20,010,000	1,394,363
2033-2034	9,275,000	105,956
Total	<u>\$54,470,000</u>	<u>\$7,932,188</u>

Revenue Bonds – Business-Type Activities:

Sewer Enterprise Fund:

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. There was a Partial Refunding of 2006A, in the amount of \$1,800,000, with the Private Placement of the Wastewater Revenue Refunding Bond Series 2015. 14,735,000

Wastewater Revenue Refunding Bond Series 2015; interest payable on November 1 and May 1, commencing May 1, 2016. Principal is payable in annual installments on each November 1, commencing November 1, 2016 and ending November 1, 2024. The Series 2015 Bond shall bear interest at a rate equal to 2.42% per annum; Payment of principal and interest on the Series 2015 Bond is secured by a pledge of Net Revenues; The Series 2015 Bond constitutes "Parity Debt" under the Indenture.

On October 30, 2015, the City issued the Series 2015 Bond, as a Parity Debt to fully refund the 2005A and partially refund the 2006A Wastewater Revenue Bonds. The proceeds were used to: 1) Refund the Wastewater Revenue Refunding Bonds, Series 2005A, which refinanced the acquisition and construction of improvements to the City's wastewater enterprise, 2) refund a portion of the Wastewater Revenue Bonds, Series 2006A, and 3) pay cost of issuance in connection with the financing. The Series 2005A Bonds have been fully redeemed and the 2023 and 2024 maturities of Series 2006A Bonds were redeemed. The City will realize significant savings from the refunding of the 2005A and 2006A Bonds, bearing an interest rate of 2.42%. 17,079,886

Total Principal Balances – Business-Type Activities	31,814,886
Less: Unamortized Bond Discount – 2006 Bonds	(208,950)
Total Business-Type Activities Revenue Bonds	<u>\$ 31,605,936</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. On October 30, 2015, the Wastewater Revenue Bonds, Series 2005A were Fully Refunded and the 2006A were Partially Refunded with the Private Placement of the Wastewater Revenue Refunding Bond Series 2015, in the amount of \$19,429,913. The Sewer Fund's total principal and interest remaining to be paid on the bonds is \$43,371,571. The Sewer Fund's principal and interest paid for the current year and total customer net revenues were \$11,311,098 and \$25,695,014, respectively.

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

Year Ending June 30,	Business-Type Activities	
	Principal	Interest
2018	\$2,394,504	\$1,010,118
2019	2,459,096	951,389
2020	2,521,327	891,124
2021	2,577,644	829,428
2022	2,644,114	766,245
2023-2027	6,448,201	3,165,866
2028-2032	5,710,000	2,592,290
2033-2037	7,060,000	1,350,225
Total	<u>\$31,814,886</u>	<u>\$11,556,685</u>

Notes Payable – Governmental Activities:

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.

\$2,335,000

Total Notes Payable

\$2,335,000

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

Year Ending June 30,	Governmental-Type Activities	
	Principal	Interest
2018	\$245,000	\$48,845
2019	256,000	46,003
2020	269,000	41,773
2021	283,000	36,442
2022	297,000	30,150
2023-2025	985,000	42,178
Total	<u>\$2,335,000</u>	<u>\$245,391</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, 2017, the total outstanding on the MID bonds is: \$30,870,000 for the 2013 G Bonds and \$93,190,000 for the 2007 F Bonds, for a total of \$124,060,000. For the 2013 G Bonds, the annual principal payments began on September 1, 2014 and mature on September 1, 2022, in amounts from \$3,970,000 to \$5,795,000, with interest rates from 2% to 5%. 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 for the 2007F bonds 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
2018	\$4,535,000	\$2,165,127
2019	4,760,000	1,932,751
2020	5,005,000	1,688,627
2021	5,260,000	1,432,002
2022	5,515,000	1,162,626
2023-2027	24,060,000	3,387,452
2028-2032	27,955,000	2,206,239
2033-2037	35,100,000	884,741
2038	11,870,000	-
Total	\$124,060,000	\$14,859,565

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 2017, the City had posted a cumulative total of \$10,008,884 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, 2017 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&P)</u>	<u>Fixed Rate Paid</u>	<u>Variable Rate Received</u>	<u>Termination Date</u>
2008 Water Refunding Revenue COPs	\$44,815,000	5/30/2008	Bank of America	A+	3.47%	63.7% of USD-LIBOR, plus .154%	10/1/2036
2008 Lease Revenue Refunding and Capital Improvement	54,470,000	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, 2017, the fair value of the swaps was in favor of the counterparty as shown in the following table:

Bond Issue	Fair Value
2008 Water Refunding Rev. Certificates of Participation	(\$8,939,766)
2008 Lease Revenue Bonds	(\$9,456,835)
2007 MID Domestic Water Revenue Bonds	(\$24,267,483)

Credit risk - As of June 30, 2017, 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, 2017, 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 Payments and Remarketing	Total
	Principal	Interest	Fees	
June 30,				
2018	\$2,060,000	\$2,205,377	\$7,285,175	\$11,550,552
2019	2,255,000	2,172,282	7,454,216	11,881,498
2020	2,395,000	2,136,883	7,364,096	11,895,979
2021	2,565,000	2,099,046	7,244,982	11,909,028
2022	2,815,000	2,057,758	7,126,891	11,999,649
2023-2027	43,605,000	8,859,253	32,298,233	84,762,486
2028-2032	62,665,000	5,476,427	20,611,770	88,753,197
2033-2037	62,245,000	1,636,560	7,825,763	71,707,323
2038	11,870,000	-	263,514	12,133,514
Total	\$192,475,000	\$26,643,586	\$97,474,640	\$316,593,226

Changes in Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2017, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Loans Payable	\$498,362	\$1,638	\$-	\$500,000	\$500,000
Lease Revenue Bonds	56,305,000	-	1,835,000	54,470,000	1,695,000
Notes Payable	2,568,000	-	233,000	2,335,000	245,000
Obligations under Capital Leases	942,057	5,883,756	467,093	6,358,720	909,342
Compensated Absences	6,746,729	4,140,931	4,135,942	6,751,718	2,346,174
Claims liability	23,596,531	13,619,346	9,331,096	27,884,781	5,682,904
Total governmental activities	\$90,656,679	\$23,645,671	\$16,002,131	\$98,300,219	\$11,378,420
Business-type activities:					
Loans Payable	\$125,787,342	\$3,254,000	\$4,760,842	\$124,280,500	\$5,109,261
Compensated Absences	2,043,221	1,811,099	1,464,157	2,390,163	830,565
Certificates of participation	48,440,000	-	705,000	47,735,000	720,000
Unamortized Discounts	(109,947)	-	(5,499)	(104,448)	-
Reimbursement Agreement:					
MID Bonds	128,380,000	-	4,320,000	124,060,000	4,535,000
Unamortized Premium	3,995,084	-	570,726	3,424,358	-
Sewer Bonds	34,164,913	-	2,350,027	31,814,886	2,394,504
Unamortized Discount	(219,397)	-	(10,447)	(208,950)	-
Developer advances	1,238,449	-	93,111	1,145,338	93,112
Business-type activities	\$343,719,665	\$5,065,099	\$14,247,917	\$334,536,847	\$13,682,442

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 Activities

Prior to the fiscal year ending June 30, 2017, the City of Modesto entered into two capital lease agreements with Pierce Manufacturing Inc.: 1) for the purchase of two Pierce Velocity 1500 GPM Pumpers valued at \$1,070,472, less \$155,599 of depreciation accumulated as of June 30, 2017, and 2) for the purchase of one 4x4 Freightliner Wildland Pumper valued at \$330,947, less \$57,961 of depreciation accumulated as of June 30, 2017. In the fiscal year ending

June 30, 2017, the City entered into another capital lease agreement with Pierce Manufacturing Inc. for the purchase of five Velocity Pumpers and two Velocity Tillers valued at \$5,883,756.

The following is a schedule of the future minimum lease payments, as of June 30, 2017:

Year Ending June 30,	
2018	\$ 1,081,521
2019	598,544
2020	598,544
2021	598,544
2022	598,544
2023-2027	2,992,720
2028	954,214
Total minimum lease payments	<u>7,422,631</u>
Less: amount representing interest	<u>(1,063,911)</u>
Present value of minimum lease payments	<u><u>\$6,358,720</u></u>

E. DEVELOPER ADVANCES

The Del Este Water Company (Del Este) entered into various agreements with developers under which infrastructure components were either constructed on behalf of Del Este or cash was advanced to the company to construct the infrastructure. Agreements in existence at the time of the City's acquisition of Del Este were assumed by the City. The terms of repayment call for no interest, with principal paid over a 40-year period. As of June 30, 2017, the total outstanding balance due under the agreements is \$1,145,338. The total annual payments fluctuate depending on the ending date of each agreement. At June 30, 2017, the amount of \$93,112 due during fiscal year 2018 has been reported as "current portion-developer advances" on the Water Enterprise Fund statement of net position. The remaining \$1,052,226 of outstanding principal has been reported under noncurrent liabilities, as "developer advances."

F. INTERFUND BALANCES

Interfund balances as of June 30, 2017 consist of the following:

Due to General Fund from:

Other governmental funds	\$4,682,858
Other enterprise funds	<u>530,026</u>
Total Due to General Fund	<u>5,212,884</u>

Total Due to/Due From: \$ 5,212,884

Advances from General Fund to:

Other governmental funds	\$1,135,600
Other enterprise funds	<u>1,324,704</u>
Advances from General Fund	<u>2,460,304</u>

Advances from Water Fund to:

General Fund	100,000
Other governmental funds	<u>10,814</u>
Advances from Water Fund	<u>110,814</u>

Advances from other governmental funds to other governmental funds	<u>80,000</u>
Advances from Sewer Fund to other enterprise funds	<u>889,200</u>
Advance from internal service funds to General Fund	<u>88,647</u>
Total Advances from/Advances to	<u>\$3,628,965</u>

All balances reported as “due to/due from” are short-term loans to cover temporary fund cash shortages as of June 30, 2017, and were repaid early in fiscal year 2018. 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, 2017, are provided below:

	General Fund	Housing and Community Development	Other Governmental	Total Governmental Funds
Nonspendable				
Advances to other funds	\$ 2,460,304	\$ -	\$ 80,000	\$ 2,540,304
Prepaid Items	54,842	-	1,007	55,849
Total Nonspendable Fund Balance	<u>2,515,146</u>	<u>-</u>	<u>81,007</u>	<u>2,596,153</u>
Restricted				
Capital Facility Fees	-	-	29,284,573	29,284,573
Cash with Fiscal Agent	-	-	5,594,309	5,594,309
Community Facilities District	-	-	16,774,444	16,774,444
Grants and Donations	-	3,370,144	1,166,534	4,536,678
Notes Receivable	-	23,861,467	2,281,179	26,142,646
Deposits	1,970,622	-	-	1,970,622
Traffic Fines	-	-	3,198,761	3,198,761
Total Restricted Fund Balance	<u>1,970,622</u>	<u>27,231,611</u>	<u>58,299,800</u>	<u>87,502,033</u>
Committed				
General Fund Set-Aside	15,800,000	-	-	15,800,000
Total Committed Fund Balance	<u>15,800,000</u>	<u>-</u>	<u>-</u>	<u>15,800,000</u>
Assigned				
Encumbrances - Vendor Contracts	2,854,307	-	-	2,854,307
FY 17-18 Budget Carryover	2,000,000	-	-	2,000,000
Downtown Improvement District	-	-	78,515	78,515
Successor Redevelopment Housing Agency	-	-	452,405	452,405
Gas Tax Funding	-	-	5,835,074	5,835,074
Special Capital Outlay Projects	-	-	281,476	281,476
Strategic Planning and Development	-	-	1,328,395	1,328,395
Total Assigned Fund Balance	<u>4,854,307</u>	<u>-</u>	<u>7,975,865</u>	<u>12,830,172</u>
Unassigned - General Fund	4,509,693	-	-	4,509,693
Unassigned - Special Revenue Funds	-	-	(2,002,193)	(2,002,193)
Unassigned - Debt Service Funds	-	-	(92,198)	(92,198)
Unassigned - Capital Project Funds	-	-	(1,062,288)	(1,062,288)
Total Unassigned Fund Balance	<u>4,509,693</u>	<u>-</u>	<u>(3,156,679)</u>	<u>1,353,014</u>
Total Fund Balance	<u>\$ 29,649,768</u>	<u>\$ 27,231,611</u>	<u>\$ 63,199,993</u>	<u>\$ 120,081,372</u>

H. DEFICIT FUND EQUITY

The Operating Grants fund has a fund balance deficit of \$1,279,609, which will be recovered through future revenues and local matches covered through the General Fund or other City funds.

The Capital Grants fund has a fund balance deficit of \$1,062,288, which will be recovered through future revenues and local matches covered through the General Fund or other City funds.

The Compost Fund has a net position deficit of \$2,211,505, due to the pollution remediation liability reported for the Carpenter Landfill. The remediation funding has been incorporated into the utility fees related to garbage rates to cover the anticipated cost.

The Golf Enterprise Fund has a net position deficit of \$1,459,554, 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 \$55,025,905. 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 \$14,966,774, due mainly to the recognition of settlements that were reached both in the current and 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 based on this methodology being factored into the Internal Service Fund allocation that is distributed to City departments.

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	-	-	\$ 84,473	\$ 65,000	\$ 68,640	-	\$ 618,091	\$ 836,204
Other Governmental	\$ 4,146,400	\$ 161,725	190,612	-	-	\$ 82,419	142,360	4,723,516
Water	315,500	-	-	-	-	-	-	315,500
Sewer	114,000	-	-	-	-	17,719	154,722	286,441
Bus	1,500	-	-	-	-	-	-	1,500
Other Enterprise	1,443,776	-	-	700,000	-	-	-	2,143,776
Internal Service	-	16,110	185,663	42,172	6,648	14,218	16,126	280,937
Grand Total	\$ 6,021,176	\$ 177,835	\$ 460,748	\$ 807,172	\$ 75,288	\$ 114,356	\$ 931,299	\$ 8,587,874

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, 2017, one of the obligations under the Successor Agency trust is associated with the 10th 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, 2017 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. \$15,796,300

Annual debt service requirements to maturity are as follows:

Year Ending June 30,	Principal	Interest	Total
2018	\$491,550	\$846,886	\$1,338,436
2019	539,400	858,041	1,397,441
2020	580,000	826,731	1,406,731
2021	629,300	789,305	1,418,605
2022	693,100	750,050	1,443,150
2023-2027	4,370,300	3,042,802	7,413,102
2028-2032	5,802,900	1,539,354	7,342,254
2033-2035	2,689,750	107,912	2,797,662
Total	<u>\$15,796,300</u>	<u>\$8,761,081</u>	<u>\$24,557,381</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.

Future debt service requirements to maturity for loans payable, as of June 30, 2017, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 405,000	\$ -	\$ 405,000
Total	\$ 405,000	\$ -	\$ 405,000

As of June 30, 2017, 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. \$9,760,000

Future debt service requirements to maturity for the Certificates of Participation, as of June 30, 2017, are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	1,385,000	264,625	1,649,625
2022	1,455,000	193,625	1,648,625
2023-2024	3,145,000	159,125	3,304,125
Total	\$9,760,000	\$1,804,500	\$11,654,500

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 \$54,208,522 net of \$167,637 allowance for doubtful accounts, consist of loans made for low-income housing rehabilitation, first-time homebuyers, 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 \$246,654 consist of amounts being held for housing projects using funds provided by federal grants. This liability is expected to be liquidated in less than a year.

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, 2017, the City reported a pollution remediation liability from the Water and Sewer funds in the amount of \$8,677,433 and \$7,495,053, respectively.

In addition, in the Compost Fund, a liability was reported related to the Carpenter Road Landfill which is a 39-acre City owned landfill, located on both the east and west sides of Carpenter Road between Kenneth and Robertson Roads and the Tuolumne River, which was in operation from 1956 to 1968. This landfill precedes Subtitle-D and had no liner or leachate collection or removal system. In 1993, six methane gas monitoring wells were installed. In December 2005, there was a spike in the methane gas level at the landfill's Northern boundary. The State required the City to determine the cause and develop a mitigation and monitoring plan to ensure the landfill remained in compliance with the state statutes. In November of 2010, a Corrective Action Plan was proposed for the landfill involving hydrogen releasing compound injection. In October 2014, a revised Corrective Action Plan and post closure maintenance plan was submitted to the Central Valley Regional Water Quality Control Board (CVRWQCB). In March 2015, a Cleanup and Abatement Order was issued to the City of Modesto for the Carpenter Road Landfill by the California Regional Water Quality Control Board to complete the clean closure correction action plan by January 15, 2017. Construction was to begin in Spring of 2017, however, due to flooding during the Winter of 2016, the groundwater level increased to a level too high to begin construction. The City has submitted a request to the CVRWQCB to delay the project until Spring of 2018. As of June 30, 2017, the City reported a pollution remediation liability from Compost Fund in the amount of \$2,600,000.

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 reported deferred inflow of resources in the amount of \$ 28,065,876 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 in the 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.

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 four excess layers, of \$10,000,000 each and one additional layer of \$5,000,000 above \$45,000,000; for additional total coverage of \$50,000,000 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, 2017 is \$27,884,781 consisting of \$23,042,810 workers' compensation, \$4,610,484 general liability, \$190,785 dental, and \$40,702 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 3% (general liability) and 3% (workers' compensation). The undiscounted workers' compensation and liability claims totaled \$27,482,468 and \$4,902,954, respectively. The actuarial liability for workers' compensation and general liability were based on January 2017 actuarial reports.

The current portion of the total claims liability is estimated to be \$5,682,904 and the balance of \$22,201,877 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, 2016 through June 30, 2017 were:

	<u>Claims Liability July 1</u>	<u>Current-Year Claims and Changes in Estimates</u>	<u>Current-Year Claim Payments</u>	<u>Claims Liability June 30</u>
2015-16	\$22,530,631	\$9,732,872	\$(8,666,972)	\$23,596,531
2016-17	23,596,531	13,619,346	(9,331,096)	27,884,781

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, 2017, the balance of these districts' outstanding debt was as follows:

<u>Issue</u>	<u>Outstanding Amount</u>
Village One #2 Community Facilities District	\$28,525,000
Fairview Village Community Facilities District	4,155,000

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, 2017, 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 \$7,475,000.

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, as disclosed in Note III-A. The City is a defendant in various matters of litigation.

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 both operating and capital commitments of \$16,581,596 for the City's governmental funds as of June 30, 2017 for contracts awarded but not completed and other outstanding purchase requisitions and orders. This amount consists of \$2,854,307 in the General Fund, \$712,248 in the Housing and Community Development, and \$13,015,041 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, 2017, there are major contracts for water (Conco West Inc - \$5.9 million), sewer system improvements (Myers-Rados - \$16.1 million), street improvement projects (Knife River Construction - \$2.6 million), State Route 132 Project (Dokken Engineering \$6.7 million) and Pelandale interchange reconstruction (Teichert - \$1.1 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 \$162,693 for the fiscal year ended June 30, 2017. As of June 30, 2017 the City's investment in this joint venture was \$803,331, 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, 2017 was \$74,678. The City's investment in this joint venture was estimated to be \$154,973 as of June 30, 2017, 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. Starting in January 1, 2018 the County Sheriff's office will become the fiscal administrator.

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, 2017, the City's payments to the Agency were \$923,882 for operations and capital reserve. The City's equity interest in the Agency is \$8,550,313, 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, 2017, the City has no equity interest. Stanislaus County Treasurer's office prepares the Agency's financial statements.

Consolidated Emergency Dispatch Agency

The Modesto/Stanslaus 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/Stanslaus 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.

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, 2017, 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-G, the City participates in an agent multiple-employer plan which 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, 2017, there were 349 retirees receiving these health care benefits or a buy-out contribution to a retirement health savings account. If an employee elects to receive a buy-out contribution, they will be removed from the City's medical plan and will no longer be allowed to return to the City's medical plan.

The OPEB Plan provisions and benefits in effect at June 30, 2017, are summarized as follows:

Benefit Types Provided	Police (including Management) Medical, dental and vision	General Employees Medical, dental and vision	Management Medical, dental and vision	Fire Medical, dental and vision	Fire Management Medical, dental and vision
Duration of Benefits	One month per eight hours of converted sick leave	One month per eight hours of converted sick leave	One month per eight hours of converted sick leave	Lifetime	One month per eight hours of converted sick leave
City Health Allowance per month*	\$621 for retiree; \$858 for retiree plus spouse; \$1,214 with dependents	\$621 for retiree; \$858 for retiree plus spouse; \$1,214 with dependents	\$621 for retiree; \$858 for retiree plus spouse; \$1,214 with dependents	\$128.00	\$621 for retiree; \$858 for retiree plus spouse; \$1,214 with dependents
City Health Allowance per month**	N/A	\$621 for retiree; \$858 for retiree plus spouse; \$1,214 with dependents	Management N/A	Fire N/A	Fire Management 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 22892.

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, 2017 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) 6.5% graded down to ultimate 4.5% rate over 8 years Medical cost trend rate; 4.5% 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, 2017 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 \$8,814,712 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, 2017 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
6/30/2015	\$ 3,189,054	\$ 2,382,790	\$ (4,383,246)	\$ 1,188,598	\$ 3,806,476	\$ 56,951,862	320.25%
6/30/2016	3,189,054	2,382,790	(4,383,246)	1,188,598	1,949,129	56,191,331	163.99%
6/30/2017	2,806,942	2,247,653	(4,134,656)	919,939	2,611,886	54,499,384	283.92%

The Schedule of Funding Progress is based on the most recent actuarial valuation as of January 1, 2017.

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]
01/01/2017	\$0	\$28,645,234	(\$28,645,234)	0.00%	\$43,842,302	-65.34%

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.

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, 2017 are summarized as follows:

Miscellaneous Plan:

	Prior to January 17, 2012	January 17, 2012 to December 31, 2012	On or after January 1, 2013
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:

	Prior to September 11, 2012	September 11, 2012 through December 31, 2012	On or after January 1, 2013
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, 2016 (the measurement date) for the Plans, the average active employee contribution rate was 6.846% of annual pay for Miscellaneous and 9.183% for Safety and the employer's contribution rate is 7.079% of annual payroll for Miscellaneous and 19.089% for Safety. The employee and employer contributions made in for fiscal year June 30, 2017 was \$11.66 million for the Miscellaneous plan and \$15.76 million for the Safety plan. 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, 2016, using an annual actuarial valuation as of June 30, 2015 rolled forward to June 30, 2016 using standard update procedures.

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

Actuarial Cost Method	Miscellaneous Plan	Safety Plan
Actuarial Assumptions:	Entry-Age Normal	Entry-Age Normal
Discount Rate	7.65%	7.65%
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% ⁽¹⁾	7.5% ⁽¹⁾
Mortality Rate Table ⁽²⁾	CalPERS Membership Data	CalPERS Membership Data
Post Retirement Benefit Increase	Up to 2.75%	Up to 2.75%

⁽¹⁾ Net of Pension Plan Investment and Administrative Expenses; includes inflation

⁽²⁾ 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, 2015 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 7.65 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 7.65 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long-term expected discount rate of 7.65 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.

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 as of the target allocation for the June 30, 2016 measurement date. 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.

Asset Class	New Strategic Allocation	Real Return Years 1 – 10 ⁽¹⁾	Real Return Years 11+ ⁽²⁾
Global Equity	51.0%	5.25%	5.71%
Global Fixed Income	20.0	0.99	2.43
Inflation Sensitive	6.0	0.45	3.36
Private Equity	10.0	6.83	6.95
Real Estate	10.0	4.50	5.13
Infrastructure and Forestland	2.0	4.50	5.09
Liquidity	1.0	(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, 2015 (1)	\$ 398,719,890	\$ 315,056,908	\$ 83,662,982
Changes Recognized for the Measurement Period:			
Service Cost	6,092,179	-	6,092,179
Interest on the Total Pension Liability	29,752,178	-	29,752,178
Changes of Assumptions	-	-	-
Differences between Expected and Actual Experience	(2,005,545)	-	(2,005,545)
Plan to Plan Resource Movement	-	(1,118)	1,118
Contributions - Employer	-	6,920,358	(6,920,358)
Contributions - Employees	-	3,349,400	(3,349,400)
Net Investment Income	-	1,667,540	(1,667,540)
Benefit Payments, including Refunds of Employee	(21,686,131)	(21,686,131)	-
Administrative Expense	-	(192,011)	192,011
Net Change during 2015-16	12,152,681	(9,941,962)	22,094,643
Balance at June 30, 2016 (1)	\$ 410,872,571	\$ 305,114,946	\$ 105,757,625

(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.

Safety Plan:

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability/(Asset) (c) = (a) - (b)
Balance at June 30, 2015 (1)	\$ 508,339,261	\$ 367,858,289	\$ 140,480,972
Changes Recognized for the Measurement Period:			
Service Cost	8,193,455	-	8,193,455
Interest on the Total Pension Liability	38,004,835	-	38,004,835
Changes of Assumptions	-	-	-
Differences between Expected and Actual Experience	(2,184,871)	-	(2,184,871)
Plan to Plan Resource Movement	-	1,118	(1,118)
Contributions - Employer	-	11,137,899	(11,137,899)
Contributions - Employees	-	2,962,566	(2,962,566)
Net Investment Income	-	1,898,536	(1,898,536)
Benefit Payments, including Refunds of Employee	(26,911,771)	(26,911,771)	-
Administrative Expense	-	(224,190)	224,190
Net Change during 2015-16	17,101,648	(11,135,842)	28,237,490
Balance at June 30, 2016 (1)	\$ 525,440,909	\$ 356,722,447	\$ 168,718,462

(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.

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 7.65 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 (6.65 percent) or 1 percentage-point higher (8.65 percent) than the current rate:

Miscellaneous Plan:

	Discount Rate - 1% (6.65%)	Current Discount Rate (7.65%)	Discount Rate + 1% (8.65%)
Plan's Net Pension Liability/ (Asset)	\$ 156,954,819	\$ 105,757,625	\$ 63,129,842

Safety Plan:

	Discount Rate - 1% (6.65%)	Current Discount Rate (7.65%)	Discount Rate + 1% (8.65%)
Plan's Net Pension Liability/ (Asset)	\$ 240,006,863	\$ 168,718,462	\$ 110,259,534

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

As of the start of the measurement period (July 1, 2015), the net pension liability was \$83,662,982 for the Miscellaneous Plan and \$140,480,972 for the Safety Plan.

For the measurement period ended June 30, 2016 (the measurement date), the City incurred a pension expense of \$7,977,607 for the Miscellaneous Plan and \$15,612,477 for the Safety Plan.

As of June 30, 2017, 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
Change of Assumptions	\$ -	\$ (2,981,936)
Differences between Expected and Actual Experiences	-	(2,875,591)
Net Difference between Projected and Actual Earnings on Pension Plan Investments	16,532,404	-
Contributions subsequent to the measurement date	8,380,299	-
Total	\$ 24,912,703	\$ (5,857,527)

Safety Plan:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Change of Assumptions	\$ -	\$ (4,914,722)
Differences between Expected and Actual Experiences	-	(2,079,143)
Net Difference between Projected and Actual Earnings on Pension Plan Investments	19,429,205	-
Contributions subsequent to the measurement date	12,960,477	-
Total	\$ 32,389,682	\$ (6,993,865)

The amounts above are net of outflows and inflows recognized in the 2015-2016 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, 2017.

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
2018	(1,099,761)	(282,906)
2019	(1,256)	(282,907)
2020	7,387,260	7,868,176
2021	4,388,634	5,132,977
2022	-	-
Thereafter	-	-
Total	\$ 10,674,877	\$ 12,435,340

H. DEFICIENCY OF EXPENDITURES OVER APPROPRIATIONS

For the fiscal year ended June 30, 2017, expenditures exceeded appropriations as follows:

General Fund

<u>Expenditures</u>	<u>Amount</u>
Interest Expenditures	\$5,606

Other Governmental Funds

<u>Expenditures</u>	<u>Amount</u>
Local Transportation Fund – Transfer out	\$4,506
Special Gas Tax Street Improvement Fund - Transfer out	156,506

I. SUBSEQUENT EVENTS

In September 2016, the Finance Committee received an informational report about potential net present value savings of \$1.2 million to \$1.6 million on a refunding of the outstanding Modesto Wastewater Revenue Bonds, Series 2006 A in the amount of \$14,735,000.

REQUIRED SUPPLEMENTARY INFORMATION

City of Modesto
Schedule of Changes in the Net Pension Liability and Related Ratios
For the Year Ended June 30th

Miscellaneous Plan

Measurement Period	2015-2016	2014-2015	2013-2014
TOTAL PENSION LIABILITY			
Service Cost	\$ 6,092,179	\$ 5,768,082	\$ 6,400,912
Interest on Total Pension Liability	29,752,178	28,873,755	28,037,915
Changes of Assumptions	-	(6,709,358)	-
Difference Between Expected and Actual Experience	(2,005,545)	(3,177,191)	-
Benefit Payments, Including Refunds of Employee Contributions	(21,686,131)	(20,945,229)	(20,334,821)
Net Change in Total Pension Liability	12,152,681	3,810,059	14,104,006
Total Pension Liability – Beginning	398,719,890	394,909,831	380,805,825
Total Pension Liability – Ending (a)	\$ 410,872,571	\$ 398,719,890	\$ 394,909,831
PLAN FIDUCIARY NET POSITION			
Contributions – Employer	\$ 6,920,358	\$ 5,632,179	\$ 4,654,055
Contributions – Employee	3,349,400	3,061,157	2,853,492
Net Investment Income	1,667,540	7,093,159	48,702,803
Benefit Payments, Including Refunds of Employee Contributions	(21,686,131)	(20,945,229)	(20,334,821)
Plan to Plan Resource Movement	(1,118)	(188)	-
Administrative Expense	(192,011)	(355,544)	-
Net Change in Fiduciary Net Position	(9,941,962)	(5,514,466)	35,875,529
Plan Fiduciary Net Position – Beginning	315,056,908	320,571,374	284,695,845
Plan Fiduciary Net Position – Ending (b)	305,114,946	315,056,908	320,571,374
Plan Net Pension Liability – Ending (a) - (b)	\$ 105,757,625	\$ 83,662,982	\$ 74,338,457
Plan Fiduciary Net Position as a Percentage of the Total Pension	74.26%	79.02%	81.18%
Covered Payroll (1)	\$ 45,207,621	\$ 41,562,776	\$ 44,125,963
Plan Net Pension Liability as a Percentage of Covered Payroll	233.94%	201.29%	168.47%

Benefit Changes: The figures above do not include any liability impact that may have resulted from plan changes, which occurred after June 30, 2015 as they have minimal cost impact. 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: In 2016, there were no changes. In 2015, the discount rate was changed from 7.5 percent (net of administrative expenses) to 7.65 percent.

The pension schedules are required to show ten years of data and the additional years' information will be displayed as it becomes available.

City of Modesto
Schedule of Changes in the Net Pension Liability and Related Ratios
For the Year Ended June 30th

Safety Plan

Measurement Period	2015-2016	2014-2015	2013-2014
TOTAL PENSION LIABILITY			
Service Cost	\$ 8,193,455	\$ 8,633,865	\$ 8,970,868
Interest on Total Pension Liability	38,004,835	36,721,112	35,310,732
Changes of Assumptions	-	(9,188,394)	-
Difference Between Expected and Actual Experience	(2,184,871)	(849,707)	-
Benefit Payments, Including Refunds of Employee Contributions	(26,911,771)	(25,426,619)	(24,313,823)
Net Change in Total Pension Liability	17,101,648	9,890,257	19,967,777
Total Pension Liability – Beginning	508,339,261	498,449,004	478,481,227
Total Pension Liability – Ending (a)	\$ 525,440,909	\$ 508,339,261	\$ 498,449,004
PLAN FIDUCIARY NET POSITION			
Contributions – Employer	\$ 11,137,899	\$ 10,210,101	\$ 8,963,542
Contributions – Employee	2,962,566	2,800,626	2,939,117
Net Investment Income	1,898,536	8,215,387	56,385,743
Benefit Payments, Including Refunds of Employee Contributions	(26,911,771)	(25,426,619)	(24,313,823)
Plan to Plan Resource Movement	1,118	211	-
Administrative Expense	(224,190)	(414,089)	-
Net Change in Fiduciary Net Position	(11,135,842)	(4,614,383)	43,974,579
Plan Fiduciary Net Position – Beginning	367,858,289	372,472,672	328,498,093
Plan Fiduciary Net Position – Ending (b)	356,722,447	367,858,289	372,472,672
Plan Net Pension Liability – Ending (a) - (b)	\$ 168,718,462	\$ 140,480,972	\$ 125,976,332
Plan Fiduciary Net Position as a Percentage of the Total Pension	67.89%	72.36%	74.73%
Covered Payroll (1)	\$ 30,022,552	\$ 31,202,983	\$ 31,090,551
Plan Net Pension Liability as a Percentage of Covered Payroll	561.97%	450.22%	405.19%

Benefit Changes: The figures above do not include any liability impact that may have resulted from plan changes, which occurred after June 30, 2015 as they have minimal cost impact. 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: In 2016, there were no changes. In 2015, the discount rate was changed from 7.5 percent (net of administrative expenses) to 7.65 percent.

The pension schedules are required to show ten years of data and the additional years' information will be displayed as it becomes available.

City of Modesto
Schedule of Plan Contributions (1)

Miscellaneous Plan

Fiscal Year	2016-2017	2015-2016	2014-2015	2013-2014
Actuarially Determined Contribution (2)	\$ 8,380,299	\$ 6,920,358	\$ 5,632,179	\$ 4,654,055
Contributions in Relation to the Actuarially Determined Contribution (2)	(8,380,299)	(6,920,358)	(5,632,179)	(4,654,055)
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -
Covered-Employee Payroll (3)(4)	\$ 49,151,757	\$ 45,207,621	\$ 41,562,776	\$ 44,125,963
Contributions as a Percentage of Covered-Employee Payroll (3)	17.05%	15.31%	13.55%	10.55%

Safety Plan

Fiscal Year	2015-2016	2015-2016	2014-2015	2013-2014
Actuarially Determined Contribution (2)	\$ 12,960,477	\$ 11,137,899	\$ 10,210,101	\$ 8,963,542
Contributions in Relation to the Actuarially Determined Contribution (2)	(12,960,477)	(11,137,899)	(10,210,101)	(8,963,542)
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -
Covered-Employee Payroll (3)(4)	\$ 31,404,842	\$ 30,022,552	\$ 31,202,983	\$ 31,090,551
Contributions as a Percentage of Covered-Employee Payroll (3)	41.27%	37.10%	32.72%	28.83%

(1) Historical information is required only for fiscal year for which GASB 68 is applicable. As prescribed in GASB 68, paragraph 46, the information presented in the Schedule of Plan Contributions should also be determined as of the employer's most recent fiscal year-end. The employer is responsible for determining this information as prescribed by the standard as this data is not available to CalPERS.

(2) Employers are assumed to make contributions equal to the actuarially determined contributions. However, some employers may choose to make additional contributions towards their unfunded liability. Employer contributions for such plans exceed the actuarially determined contributions.

The pension schedules are required to show ten years of data and the additional years' information will be displayed as it becomes available.

Notes to schedule:

The actuarial methods and assumptions used to set the actuarially determined contributions for Fiscal Year 2015-16 were as follows for June 30, 2014 actuarial valuations.

Actuarial Cost Method	Entry Age Normal
Amortization Method/Period	For details, see June 30, 2014 Funding Valuation Report.
Asset Valuation Method	Market 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]
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%)
1/1/2017	0	28,645,234	(28,645,234)	0.00%	43,842,302	(65.34%)

(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, 2017

	Budget		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
<u>TAXES</u>				
Utility users tax	\$ 20,150,000	\$ 20,150,000	\$ 20,113,023	\$ (36,977)
Property tax	14,445,241	14,445,241	15,384,518	939,277
Transient occupancy tax	2,150,000	2,150,000	2,669,484	519,484
Franchise tax	5,525,849	5,525,849	4,837,344	(688,505)
Business license tax	11,479,228	11,479,228	12,255,062	775,834
Total taxes	53,750,318	53,750,318	55,259,431	1,509,113
<u>LICENSES AND PERMITS</u>	87,537	87,537	109,784	22,247
<u>INTERGOVERNMENTAL</u>				
Sales tax	30,050,000	30,050,000	30,204,125	154,125
In-lieu sales tax				
Motor vehicle license fees	14,934,334	14,934,334	15,385,069	450,735
State	720,000	720,000	881,171	161,171
County	64,782	66,356	38,533	(27,823)
Federal	-	-	19,542	19,542
Other intergovernmental	1,568,000	1,568,000	2,292,586	724,586
Total intergovernmental	47,337,116	47,338,690	48,821,026	1,482,336
<u>CHARGES FOR SERVICES</u>				
General government	2,225,822	2,253,322	1,917,776	(335,546)
Community development	2,678,588	2,678,588	2,664,612	(13,976)
Public works	1,682,060	1,716,077	1,630,103	(85,974)
Parks and recreation	978,315	992,315	834,050	(158,265)
Public safety	1,506,324	1,551,873	3,147,021	1,595,148
Indirect cost recovery	3,164,981	3,164,981	3,168,791	3,810
Total charges for services	12,236,090	12,357,156	13,362,353	1,005,197
<u>INTEREST AND RENT</u>	601,580	650,837	819,908	169,071
<u>NET DECREASE IN FAIR VALUE OF INVESTMENTS</u>	-	-	(206,156)	(206,156)
<u>FINES AND FORFEITS</u>	388,854	568,854	560,250	(8,604)
<u>MISCELLANEOUS</u>				
Mandated cost recovery	78,700	78,700	85,573	6,873
Other	263,963	263,963	-	(263,963)
Total miscellaneous	342,663	342,663	85,573	(257,090)
Total revenues	\$ 114,744,158	\$ 115,096,055	\$ 118,812,169	\$ 3,716,114

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, 2017

	Budget		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
General government:				
City council	\$ 400,616	\$ 408,017	\$ 392,240	\$ 15,777
Human resources	1,615,353	1,668,820	1,282,002	386,818
City manager	1,783,146	2,630,356	2,315,922	314,434
City attorney	2,156,463	2,170,659	2,026,615	144,044
City clerk/auditor	799,358	833,889	651,219	182,670
Finance	5,011,607	4,517,812	4,218,012	299,800
Other	656,000	446,000	383,211	62,789
Total general government	<u>12,422,543</u>	<u>12,675,552</u>	<u>11,269,221</u>	<u>1,406,331</u>
Community development:	<u>6,946,085</u>	<u>7,172,747</u>	<u>6,372,162</u>	<u>800,585</u>
Public works:				
Administration	376,025	383,304	361,516	21,788
Operations Service and maintenance	5,105,131	5,263,141	5,236,003	27,138
Facilities	1,108,301	1,596,315	919,191	677,124
Total public works	<u>6,589,457</u>	<u>7,242,760</u>	<u>6,516,710</u>	<u>726,050</u>
Parks and recreation:				
Administration	872,782	1,005,805	876,478	129,327
Planning and development	449,917	446,557	377,761	68,796
Recreation division	2,274,871	2,215,195	1,949,280	265,915
Total parks and recreation	<u>3,597,570</u>	<u>3,667,557</u>	<u>3,203,519</u>	<u>464,038</u>
Public safety:				
Fire protection	28,158,706	34,697,149	34,615,598	81,551
Police protection	58,373,882	57,262,077	54,470,398	2,791,679
Total public safety	<u>86,532,588</u>	<u>91,959,226</u>	<u>89,085,996</u>	<u>2,873,230</u>
Debt service:				
Principal retirement	642,019	471,801	467,093	4,708
Interest expenditures	10,278	10,278	15,884	(5,606)
Total debt service	<u>652,297</u>	<u>482,079</u>	<u>482,977</u>	<u>(898)</u>
Total expenditures	<u>\$ 116,740,540</u>	<u>\$ 123,199,921</u>	<u>\$ 116,930,585</u>	<u>\$ 6,269,336</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, 2017

	<u>Budget</u>		<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Intergovernmental - federal grants	\$ 2,609,380	\$ 3,611,652	\$ 4,277,482	\$ 665,830
Interest and rent - interest	13,556	13,556	-	(13,556)
Miscellaneous	-	-	3,242	3,242
Total revenues	<u>2,622,936</u>	<u>3,625,208</u>	<u>4,280,724</u>	<u>655,516</u>
EXPENDITURES				
Community development	2,020,441	2,605,515	2,120,560	484,955
Debt service:				
Principal retirement	233,000	233,000	233,000	-
Interest	50,951	50,951	50,951	-
Total expenditures	<u>2,304,392</u>	<u>2,889,466</u>	<u>2,404,511</u>	<u>484,955</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>318,544</u>	<u>735,742</u>	<u>1,876,213</u>	<u>1,140,471</u>
OTHER FINANCING SOURCES (USES):				
Transfers out	-	(637,554)	(177,835)	459,719
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>(637,554)</u>	<u>(177,835)</u>	<u>459,719</u>
CHANGES IN FUND BALANCE	318,544	98,188	1,698,378	1,600,190
FUND BALANCE, JULY 1	<u>25,533,233</u>	<u>25,533,233</u>	<u>25,533,233</u>	<u>-</u>
FUND BALANCE, JUNE 30	<u>\$ 25,851,777</u>	<u>\$ 25,631,421</u>	<u>\$ 27,231,611</u>	<u>\$ 1,600,190</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
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FISCAL YEAR ENDED JUNE 30, 2017

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, 2017

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.

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**COMBINING AND INDIVIDUAL FUND
STATEMENTS AND SCHEDULES**

Nonmajor Governmental Funds

Nonmajor Special Revenue Funds

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

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

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

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

DOWNTOWN IMPROVEMENT DISTRICT FUND – To account for the fiscal activities of Business Improvement Area A and Downtown Modesto Community Benefit District 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.

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

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

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, 2017

	Special Revenue					
	Operating Grants	Local Transportation	Traffic Safety	Downtown Improvement District	Strategic Planning and Development	Special Gas Tax Street Improvement
ASSETS						
Cash and cash equivalents	\$ -	\$ 1,369,099	\$ -	\$ 83,539	\$ 1,006,830	\$ 5,809,229
Receivables:						
Accounts, net	16,950	-	-	-	381,775	26,812
Interest	3,041	3,525	-	171	2,294	13,657
Taxes	81,810	-	-	5,075	-	304,024
Due from governments	3,065,329	-	3,358	-	-	42,675
Prepaid expenditures	115	-	-	-	-	600
Restricted assets:						
Cash and cash equivalents	-	244,580	3,087,018	-	-	-
Cash and cash equivalents with fiscal agent	652,290	-	-	-	-	-
Due from governments	-	-	111,743	-	-	-
Notes receivable, net	70,179	-	-	-	-	-
Advances to other funds	-	-	-	-	-	-
Total assets	\$ 3,889,714	\$ 1,617,204	\$ 3,202,119	\$ 88,785	\$ 1,390,899	\$ 6,196,997
LIABILITIES AND AND FUND BALANCES						
Liabilities:						
Accounts payable	\$ 460,809	\$ -	\$ 496	\$ 10,270	\$ 62,504	\$ 258,755
Accrued salaries and benefits	134,834	-	2,862	-	-	88,752
Interest payable	-	-	-	-	-	-
Due to other funds	414,329	-	-	-	-	-
Unearned revenue	162,932	1,372,624	-	-	-	13,816
Refundable deposits	4,000	-	-	-	-	-
Advances from other funds	10,814	-	-	-	-	-
Total liabilities	1,187,718	1,372,624	3,358	10,270	62,504	361,323
Deferred inflows of resources:						
Unavailable revenue	3,981,605	-	-	-	-	-
Fund balances:						
Nonspendable	115	-	-	-	-	600
Restricted	722,469	244,580	3,198,761	-	-	-
Assigned	-	-	-	78,515	1,328,395	5,835,074
Unassigned	(2,002,193)	-	-	-	-	-
Total fund balances	(1,279,609)	244,580	3,198,761	78,515	1,328,395	5,835,674
Total liabilities and fund balances	\$ 3,889,714	\$ 1,617,204	\$ 3,202,119	\$ 88,785	\$ 1,390,899	\$ 6,196,997

Capital Projects						
Special Fund for Capital Outlays	Parks	Securities for Future Improvements	Capital Grants	Community Facilities Districts	Successor Redevelopment Housing Agency	Capital Facility Fees
\$ 295,754	\$ 2,076	\$ -	\$ 6,781	\$ 232,698	\$ -	\$ 412,016
10,000	-	-	-	-	557	-
32	1,774	-	-	38,468	-	64,977
-	-	-	-	13,419	-	-
-	-	-	3,464,446	184	1,192,004	824,242
-	-	-	-	-	-	-
-	855,557	66,397	-	16,774,444	-	29,284,573
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	2,211,000	-
-	-	-	-	-	-	80,000
<u>\$ 305,786</u>	<u>\$ 859,407</u>	<u>\$ 66,397</u>	<u>\$ 3,471,227</u>	<u>\$ 17,059,213</u>	<u>\$ 3,403,561</u>	<u>\$ 30,665,808</u>
\$ 14,310	\$ 3,850	\$ -	\$ 650,779	\$ 255,724	\$ -	\$ 231,362
-	-	-	-	12,865	-	-
-	-	-	-	-	1,634	-
-	-	-	3,616,793	-	592,795	-
10,000	-	-	-	-	-	-
-	-	-	-	16,180	-	-
-	-	-	-	-	145,727	1,069,873
<u>24,310</u>	<u>3,850</u>	<u>-</u>	<u>4,267,572</u>	<u>284,769</u>	<u>740,156</u>	<u>1,301,235</u>
-	-	-	265,943	-	-	-
-	-	-	-	-	-	80,000
-	855,557	66,397	-	16,774,444	2,211,000	29,284,573
281,476	-	-	-	-	452,405	-
-	-	-	(1,062,288)	-	-	-
<u>281,476</u>	<u>855,557</u>	<u>66,397</u>	<u>(1,062,288)</u>	<u>16,774,444</u>	<u>2,663,405</u>	<u>29,364,573</u>
<u>\$ 305,786</u>	<u>\$ 859,407</u>	<u>\$ 66,397</u>	<u>\$ 3,471,227</u>	<u>\$ 17,059,213</u>	<u>\$ 3,403,561</u>	<u>\$ 30,665,808</u>

CITY OF MODESTO
COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2017

	Debt Service Public Financing Authority	Total
<u>ASSETS</u>		
Cash and cash equivalents	\$ -	\$ 9,218,022
Receivables:		
Accounts, net	-	436,094
Interest	-	127,939
Taxes	-	404,328
Due from governments	-	8,592,238
Prepaid expenditures	292	1,007
Restricted assets:		
Cash and cash equivalents	-	50,312,569
Cash and cash equivalents with fiscal agent	4,942,019	5,594,309
Due from governments	-	111,743
Notes receivable, net	-	2,281,179
Advances to other funds	-	80,000
	\$ 4,942,311	\$ 77,159,428
Total assets		
<u>LIABILITIES AND FUND BALANCES</u>		
Liabilities:		
Accounts payable	\$ 33,257	\$ 1,982,116
Accrued salaries and benefits	-	239,313
Interest payable	-	1,634
Due to other funds	58,941	4,682,858
Unearned revenue	-	1,559,372
Refundable deposits	-	20,180
Advances from other funds	-	1,226,414
	92,198	9,711,887
Total liabilities		
Deferred inflows of resources:		
Unavailable revenue	-	4,247,548
Fund balances:		
Nonspendable	292	81,007
Restricted	4,942,019	58,299,800
Assigned	-	7,975,865
Unassigned	(92,198)	(3,156,679)
	4,850,113	63,199,993
Total fund balances		
Total liabilities and fund balances	\$ 4,942,311	\$ 77,159,428

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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, 2017

	Special Revenue					
	Operating Grants	Local Transportation	Traffic Safety	Downtown Improvement District	Strategic Planning and Development	Special Gas Tax Street Improvement
REVENUES:						
Taxes	\$ 383,589	\$ -	\$ -	\$ 192,540	\$ -	\$ 1,210,290
Licenses and permits	58,224	-	-	-	-	33,437
Intergovernmental	1,620,094	2,725	-	-	366,775	3,968,029
Charges for services	4,994,538	-	193,771	-	19,070	1,068,376
Special assessments levied	57,619	-	-	678,616	-	-
Interest and rent	4,687	11,481	-	628	9,714	65,516
Net increase (decrease) in fair value of investments	(6,347)	(8,492)	-	(402)	(6,244)	(42,077)
Fines and forfeits	-	-	703,157	-	-	-
Miscellaneous	121,118	-	-	-	75,645	151,482
Total revenues	7,233,522	5,714	896,928	871,382	464,960	6,455,053
EXPENDITURES:						
Current:						
General government	272,910	-	-	-	-	-
Community development	872,793	-	-	850,528	457,243	-
Highways and streets	-	2,697	-	-	-	9,067,903
Public works	4,402,392	-	-	-	-	-
Parks and recreation	65,841	-	-	-	-	-
Public safety	3,622,769	-	188,746	-	-	-
Capital outlay:						
General government	-	-	-	-	-	-
Community development	-	-	-	-	33,883	-
Highways and streets	-	(25,177)	-	-	-	47,954
Public works	5,764	-	-	-	-	-
Parks and recreation	-	-	-	-	-	-
Public safety	146,561	-	10,955	-	-	-
Debt service:						
Principal retirement	-	-	-	-	-	-
Interest	-	-	-	-	-	-
Other	-	-	-	-	-	-
Total expenditures	9,389,030	(22,480)	199,701	850,528	491,126	9,115,857
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(2,155,508)	28,194	697,227	20,854	(26,166)	(2,660,804)
OTHER FINANCING SOURCES (USES):						
Transfers in	408,512	-	-	-	367,000	125,000
Transfers out	(167,365)	(4,506)	-	-	-	(204,174)
Sale of assets	8,465	-	-	-	-	19,095
TOTAL OTHER FINANCING SOURCES (USES)	249,612	(4,506)	-	-	367,000	(60,079)
CHANGES IN FUND BALANCES	(1,905,896)	23,688	697,227	20,854	340,834	(2,720,883)
FUND BALANCES, JULY 1	626,287	220,892	2,501,534	57,661	987,561	8,556,557
FUND BALANCES, JUNE 30	\$ (1,279,609)	\$ 244,580	\$ 3,198,761	\$ 78,515	\$ 1,328,395	\$ 5,835,674

Capital Projects

Special Fund for Capital Outlays	Parks	Securities for Future Improvements	Capital Grants	Community Facilities Districts	Successor Redevelopment Housing Agency	Capital Facility Fees
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-
-	-	-	11,412,110	1,830	11,005	287,580
-	4,365	-	-	732,999	-	4,078,814
-	-	-	-	2,278,533	-	-
1,448	6,977	-	-	190,398	(6,398)	261,936
-	-	-	-	-	-	-
143	(4,707)	-	-	(135,808)	4,361	(166,887)
-	-	-	-	-	-	-
-	21,463	-	-	58,321	-	-
<u>1,591</u>	<u>28,098</u>		<u>11,412,110</u>	<u>3,126,273</u>	<u>8,968</u>	<u>4,461,443</u>
-	-	-	-	-	-	-
17,461	-	-	-	2,505,936	-	84,281
-	-	-	170,054	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
59,620	-	-	-	859,045	-	230
-	-	-	11,984,735	-	-	1,200,693
-	-	-	-	-	-	-
-	42,930	-	181,041	-	-	318,813
125,605	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>202,686</u>	<u>42,930</u>		<u>12,335,830</u>	<u>3,364,981</u>	<u>-</u>	<u>1,604,017</u>
(201,095)	(14,832)	-	(923,720)	(238,708)	8,968	2,857,426
463,696	70,000	-	352,106	-	-	230
-	(230)	-	-	-	-	(84,473)
-	-	-	-	-	-	-
<u>463,696</u>	<u>69,770</u>	<u>-</u>	<u>352,106</u>	<u>-</u>	<u>-</u>	<u>(84,243)</u>
262,601	54,938	-	(571,614)	(238,708)	8,968	2,773,183
18,875	800,619	66,397	(490,674)	17,013,152	2,654,437	26,591,390
<u>\$ 281,476</u>	<u>\$ 855,557</u>	<u>\$ 66,397</u>	<u>\$ (1,062,288)</u>	<u>\$ 16,774,444</u>	<u>\$ 2,663,405</u>	<u>\$ 29,364,573</u>

CITY OF MODESTO
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
FISCAL YEAR ENDED JUNE 30, 2017

	Debt Service Public Financing Authority	Total
REVENUES:		
Taxes	\$ -	\$ 1,786,419
Licenses and permits	-	91,661
Intergovernmental	1,301,083	18,971,231
Charges for services	-	11,091,933
Special assessments levied	-	3,014,768
Interest and rent	36,092	582,479
Net increase (decrease) in fair value of investments	-	(366,460)
Fines and forfeits	-	703,157
Miscellaneous	-	428,029
Total revenues	1,337,175	36,303,217
EXPENDITURES:		
Current:		
General government	-	272,910
Community development	-	4,788,242
Highways and streets	-	9,240,654
Public works	-	4,402,392
Parks and recreation	-	65,841
Public safety	-	3,811,515
Capital outlay:		
General government	-	
Community development	-	952,778
Highways and streets	-	13,208,205
Public works	-	5,764
Parks and recreation	-	542,784
Public safety	-	283,121
Debt service:		
Principal retirement	1,835,000	1,835,000
Interest	2,008,367	2,008,367
Other	430,779	430,779
Total expenditures	4,274,146	41,848,352
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(2,936,971)	(5,545,135)
OTHER FINANCING SOURCES (USES):		
Transfers in	2,936,972	4,723,516
Transfers out	-	(460,748)
Sale of assets	-	27,560
TOTAL OTHER FINANCING SOURCES (USES)	2,936,972	4,290,328
CHANGES IN FUND BALANCES	1	(1,254,807)
FUND BALANCES, JULY 1	4,850,112	64,454,800
FUND BALANCES, JUNE 30	\$ 4,850,113	\$ 63,199,993

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, 2017

	Budget		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Taxes	\$ -	\$ 400,000	\$ 383,589	\$ (16,411)
Licenses and permits	70,000	70,000	58,224	(11,776)
Intergovernmental	189,561	2,225,068	1,620,094	(604,974)
Charges for services	5,286,297	5,286,297	4,994,538	(291,759)
Special assessments	69,308	69,308	57,619	(11,689)
Interest and rent - interest	-	-	4,687	4,687
Net decrease in fair value of investments	-	-	(6,347)	(6,347)
Miscellaneous	142,360	142,360	121,118	(21,242)
Total revenues	<u>5,757,526</u>	<u>8,193,033</u>	<u>7,233,522</u>	<u>(959,511)</u>
EXPENDITURES:				
General government	284,720	509,945	272,910	237,035
Community development	939,487	939,599	872,793	66,806
Public works	5,639,406	4,553,116	4,408,156	144,960
Parks and recreation	189,561	630,888	65,841	565,047
Public safety	<u>2,367,535</u>	<u>7,608,914</u>	<u>3,769,330</u>	<u>3,839,584</u>
Total expenditures	<u>9,420,709</u>	<u>14,242,462</u>	<u>9,389,030</u>	<u>4,853,432</u>
(DEFICIENCY) OF REVENUES (UNDER) EXPENDITURES	<u>(3,663,183)</u>	<u>(6,049,429)</u>	<u>(2,155,508)</u>	<u>3,893,921</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	142,360	496,905	408,512	(88,393)
Transfers out	-	(178,716)	(167,365)	11,351
Sale of assets	<u>-</u>	<u>-</u>	<u>8,465</u>	<u>8,465</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>142,360</u>	<u>318,189</u>	<u>249,612</u>	<u>2,030,376</u>
CHANGES IN FUND BALANCE	(3,520,823)	(5,731,240)	(1,905,896)	5,924,297
FUND BALANCE, JULY 1	<u>626,287</u>	<u>626,287</u>	<u>626,287</u>	<u>-</u>
FUND BALANCE (DEFICIT), JUNE 30	<u><u>\$ (2,894,536)</u></u>	<u><u>\$ (5,104,953)</u></u>	<u><u>\$ (1,279,609)</u></u>	<u><u>\$ 5,924,297</u></u>

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, 2017

	<u>Original</u>	<u>Final</u>	<u>Actual</u>	Variance with Final Budget - Positive (Negative)
REVENUES:				
Intergovernmental	\$ -	\$ -	\$ 2,725	\$ 1,848
Interest and rent - interest	-	-	11,481	11,481
Net decrease in fair value of investments	-	-	(8,492)	(8,492)
Total revenues	<u>-</u>	<u>-</u>	<u>5,714</u>	<u>4,837</u>
EXPENDITURES:				
Highways and streets	<u>-</u>	<u>-</u>	<u>(22,480)</u>	<u>22,480</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>-</u>	<u>-</u>	<u>28,194</u>	<u>28,194</u>
OTHER FINANCING SOURCES (USES):				
Transfers out	<u>-</u>	<u>-</u>	<u>(4,506)</u>	<u>(4,506)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>-</u>	<u>(4,506)</u>	<u>(4,506)</u>
CHANGES IN FUND BALANCE	-	-	23,688	23,688
FUND BALANCE, JULY 1	220,892	220,892	220,892	-
FUND BALANCE, JUNE 30	<u>\$ 220,892</u>	<u>\$ 220,892</u>	<u>\$ 244,580</u>	<u>\$ 23,688</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, 2017

	Budget		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Charges for services	\$ 146,190	\$ 146,190	\$ 193,771	\$ 47,581
Motor vehicle fines	330,057	330,057	703,157	373,100
Total revenues	<u>476,247</u>	<u>476,247</u>	<u>896,928</u>	<u>420,681</u>
EXPENDITURES:				
Public safety	<u>558,767</u>	<u>616,814</u>	<u>199,701</u>	<u>417,113</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(82,520)	(140,567)	697,227	837,794
OTHER FINANCING USES:				
Transfers out	<u>(500,000)</u>	<u>(500,000)</u>	-	<u>500,000</u>
CHANGES IN FUND BALANCE	(582,520)	(640,567)	697,227	1,337,794
FUND BALANCE, JULY 1	<u>2,501,534</u>	<u>2,501,534</u>	<u>2,501,534</u>	<u>-</u>
FUND BALANCE, JUNE 30	<u>\$ 1,919,014</u>	<u>\$ 1,860,967</u>	<u>\$ 3,198,761</u>	<u>\$ 1,337,794</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, 2017

	Budget		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Taxes - business license tax	\$ 176,010	\$ 176,010	\$ 192,540	\$ 16,530
Special assessments levied	700,000	700,000	678,616	(21,384)
Interest and rent - interest	-	-	628	628
Net decrease in fair value of investments	-	-	(402)	(402)
Total revenues	<u>876,010</u>	<u>876,010</u>	<u>871,382</u>	<u>(4,628)</u>
EXPENDITURES:				
Community development	<u>873,498</u>	<u>873,664</u>	<u>850,528</u>	<u>23,136</u>
CHANGES IN FUND BALANCE	2,512	2,346	20,854	18,508
FUND BALANCE, JULY 1	<u>57,661</u>	<u>57,661</u>	<u>57,661</u>	<u>-</u>
FUND BALANCE, JUNE 30	<u>\$ 60,173</u>	<u>\$ 60,007</u>	<u>\$ 78,515</u>	<u>\$ 18,508</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, 2017

	Budget		Actual	Variance with
	Original	Final		Final Budget - Positive (Negative)
REVENUES:				
Charges for services	\$ 91,560	\$ 101,560	\$ 19,070	\$ (82,490)
Intergovernmental	100,000	272,302	366,775	94,473
Interest and rent - interest	150,054	150,054	9,714	(140,340)
Net decrease in fair value of investments	(75)	(75)	(6,244)	(6,169)
Miscellaneous	-	-	75,645	75,645
Total revenues	<u>341,539</u>	<u>523,841</u>	<u>464,960</u>	<u>(58,881)</u>
EXPENDITURES:				
Community development	<u>903,094</u>	<u>1,615,396</u>	<u>491,126</u>	<u>1,124,270</u>
(DEFICIENCY) OF REVENUES (UNDER) EXPENDITURES	(561,555)	(1,091,555)	(26,166)	1,065,389
OTHER FINANCING SOURCES:				
Transfers in	<u>600,000</u>	<u>725,000</u>	<u>367,000</u>	<u>(358,000)</u>
CHANGES IN FUND BALANCE	38,445.00	(366,555)	340,834	707,389
FUND BALANCE, JULY 1	<u>987,561</u>	<u>987,561</u>	<u>987,561</u>	<u>-</u>
FUND BALANCE, JUNE 30	<u>\$ 1,026,006</u>	<u>\$ 621,006</u>	<u>\$ 1,328,395</u>	<u>\$ 707,389</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, 2017

	Budget		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Intergovernmental:				
Federal grants	\$ 4,266,705	\$ 5,266,705	\$ 3,968,029	\$ (1,298,676)
Taxes	1,000,000	-	1,210,290	1,210,290
Licenses and permits	-	-	33,437	33,437
Charges for services	546,215	546,215	1,068,376	522,161
Interest and rent	15,000	15,000	65,516	50,516
Net decrease in fair value of investments	-	-	(42,077)	(42,077)
Miscellaneous	-	-	151,482	151,482
Total revenues	<u>5,827,920</u>	<u>5,827,920</u>	<u>6,455,053</u>	<u>627,133</u>
EXPENDITURES:				
Highway and streets	<u>9,451,180</u>	<u>9,542,654</u>	<u>9,115,857</u>	<u>426,797</u>
(DEFICIENCY) OF REVENUES (UNDER) EXPENDITURES	<u>(3,623,260)</u>	<u>(3,714,734)</u>	<u>(2,660,804)</u>	<u>1,053,930</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	125,000	125,000	125,000	-
Transfers out	-	(47,668)	(204,174)	(156,506)
Sale of assets	-	-	19,095	19,095
TOTAL OTHER FINANCING SOURCES (USES)	<u>125,000</u>	<u>77,332</u>	<u>(60,079)</u>	<u>(137,411)</u>
CHANGES IN FUND BALANCE	(3,498,260)	(3,637,402)	(2,720,883)	916,519
FUND BALANCE, JULY 1	<u>8,556,557</u>	<u>8,556,557</u>	<u>8,556,557</u>	<u>-</u>
FUND BALANCE, JUNE 30	<u>\$ 5,058,297</u>	<u>\$ 4,919,155</u>	<u>\$ 5,835,674</u>	<u>\$ 916,519</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, 2017

	Parking	Storm Drain	Compost
<u>ASSETS</u>			
Current assets:			
Cash and cash equivalents	\$ 454,254	\$ 10,483,768	\$ 4,300,162
Receivables:			
Accounts	4,222	2,774	921,520
Interest	949	23,222	10,567
Taxes	-	-	-
Utilities, net	-	498,843	310,314
Prepaid expenses	299	23,753	-
Due from governments	-	13,615	152,788
Inventories	-	-	-
	<u>459,724</u>	<u>11,045,975</u>	<u>5,695,351</u>
Total current assets			
Noncurrent assets:			
Restricted cash and cash equivalents with fiscal agent	-	-	-
Land and construction in progress	3,131,804	2,128,939	1,140,000
Other capital assets, net of accumulated depreciation	5,136,419	12,884,761	1,389,238
Total noncurrent assets	<u>8,268,223</u>	<u>15,013,700</u>	<u>2,529,238</u>
Total assets	<u>8,727,947</u>	<u>26,059,675</u>	<u>8,224,589</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>			
Deferred pensions	165,577	251,680	1,489,958
Total assets and deferred outflows of resources	<u>\$ 8,893,524</u>	<u>\$ 26,311,355</u>	<u>\$ 9,714,547</u>
<u>LIABILITIES</u>			
Current liabilities:			
Accounts payable	\$ 30,667	\$ 142,941	\$ 1,731,458
Accrued salaries and benefits	10,903	12,808	84,584
Interest payable	-	-	-
Due to other funds	-	-	-
Unearned revenue	-	6,726	17,808
Current portion - long-term debt	-	-	-
Total current liabilities	<u>41,570</u>	<u>162,475</u>	<u>1,833,850</u>
Noncurrent liabilities:			
Pollution remediation liability	-	-	2,600,000
Certificates of participation	-	-	-
Advances from other funds	-	1,324,704	889,200
Net pension liability	661,330	1,095,013	6,285,986
Total liabilities	<u>702,900</u>	<u>2,582,192</u>	<u>11,609,036</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>			
Deferred pensions	27,131	42,357	317,016
Total deferred inflows of resources	<u>27,131</u>	<u>42,357</u>	<u>317,016</u>
<u>NET POSITION</u>			
Net investment in capital assets	8,268,223	15,013,700	2,529,238
Unrestricted	(104,730)	8,673,106	(4,740,743)
Total net position	<u>8,163,493</u>	<u>23,686,806</u>	<u>(2,211,505)</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 8,893,524</u>	<u>\$ 26,311,355</u>	<u>\$ 9,714,547</u>

Airport	Golf	Community Center	Abatement and Public Nuisance Fund	Total
\$ 1,418,220	\$ -	\$ 126,674	\$ 640,711	\$ 17,423,789
19,645	319,285	37,443	13,386	1,318,275
2,928	15,368	-	1,424	54,458
1,752	-	-	-	1,752
-	-	-	-	809,157
208	-	-	-	24,260
131,430	-	-	-	297,833
-	34,521	-	-	34,521
<u>1,574,183</u>	<u>369,174</u>	<u>164,117</u>	<u>655,521</u>	<u>19,964,045</u>
-	684,986	-	-	684,986
3,877,655	275,741	3,667,020	-	14,221,159
8,408,971	1,163,780	3,540,176	-	32,523,345
<u>12,286,626</u>	<u>2,124,507</u>	<u>7,207,196</u>	<u>-</u>	<u>47,429,490</u>
13,860,809	2,493,681	7,371,313	655,521	67,393,535
154,113	-	131,377	-	2,192,705
<u>\$ 14,014,922</u>	<u>\$ 2,493,681</u>	<u>\$ 7,502,690</u>	<u>\$ 655,521</u>	<u>\$ 69,586,240</u>
\$ 118,707	\$ 41,884	\$ 36,780	\$ 554	\$ 2,102,991
9,808	6,846	8,654	-	133,603
-	33,890	-	-	33,890
-	530,026	-	-	530,026
4,622	420,589	-	9,345	459,090
-	355,000	-	-	355,000
<u>133,137</u>	<u>1,388,235</u>	<u>45,434</u>	<u>9,899</u>	<u>3,614,600</u>
-	-	-	-	2,600,000
-	2,565,000	-	-	2,565,000
-	-	-	-	2,213,904
<u>631,162</u>	<u>-</u>	<u>587,795</u>	<u>-</u>	<u>9,261,286</u>
<u>764,299</u>	<u>3,953,235</u>	<u>633,229</u>	<u>9,899</u>	<u>20,254,790</u>
<u>9,780</u>	<u>-</u>	<u>40,525</u>	<u>-</u>	<u>436,809</u>
<u>9,780</u>	<u>-</u>	<u>40,525</u>	<u>-</u>	<u>436,809</u>
12,286,626	(795,493)	7,207,196	-	44,509,490
<u>954,217</u>	<u>(664,061)</u>	<u>(378,260)</u>	<u>645,622</u>	<u>4,385,151</u>
<u>13,240,843</u>	<u>(1,459,554)</u>	<u>6,828,936</u>	<u>645,622</u>	<u>48,894,641</u>
<u>\$ 14,014,922</u>	<u>\$ 2,493,681</u>	<u>\$ 7,502,690</u>	<u>\$ 655,521</u>	<u>\$ 69,586,240</u>

CITY OF MODESTO
COMBINING STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET POSITION - NONMAJOR ENTERPRISE FUNDS
FISCAL YEAR ENDED JUNE 30, 2017

	<u>Parking</u>	<u>Storm Drain</u>	<u>Compost</u>
OPERATING REVENUES:			
Charges for services	\$ 1,284,269	\$ 5,894,268	\$ 8,902,276
Miscellaneous	-	16,720	1,641
Total operating revenues	<u>1,284,269</u>	<u>5,910,988</u>	<u>8,903,917</u>
OPERATING EXPENSES:			
Salaries and wages	424,024	513,747	3,509,986
Contractual services	254,048	555,996	1,705,883
Utilities	161,183	36,615	30,732
Maintenance and supplies	59,336	2,169,811	1,901,761
Insurance	61,038	8,617	101,778
Employee benefits	149,386	190,125	1,399,985
Administration services	32,897	2,077,655	771,095
Allocated indirect administrative costs	31,484	87,927	241,041
Depreciation	448,424	521,532	149,997
Total operating expenses	<u>1,621,820</u>	<u>6,162,025</u>	<u>9,812,258</u>
OPERATING INCOME (LOSS)	<u>(337,551)</u>	<u>(251,037)</u>	<u>(908,341)</u>
NONOPERATING REVENUES (EXPENSES):			
Gain on disposition of capital assets	-	2,304	39,944
Operating grants	-	-	325,147
Tax revenue	-	-	-
Tax expense	(20,141)	-	-
Interest income	4,247	72,384	38,583
Net decrease in fair value of investments	(2,930)	(60,410)	(26,959)
Rental income	-	-	-
Interest expense	-	-	-
Trustee fees	-	-	-
Total nonoperating revenues (expenses)	<u>(18,824)</u>	<u>14,278</u>	<u>376,715</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	<u>(356,375)</u>	<u>(236,759)</u>	<u>(531,626)</u>
Capital contributions	-	-	-
Transfers in	-	700,000	206,632
Transfers out	-	-	(114,356)
CHANGES IN NET POSITION	<u>(356,375)</u>	<u>463,241</u>	<u>(439,350)</u>
NET POSITION (DEFICIT), JULY 1	<u>8,519,868</u>	<u>23,223,565</u>	<u>(1,772,155)</u>
NET POSITION (DEFICIT), JUNE 30	<u>\$ 8,163,493</u>	<u>\$ 23,686,806</u>	<u>\$ (2,211,505)</u>

	Airport	Golf	Community Center	Abatement and Public Nuisance Fund	Total
\$	594,767	\$ 2,236,100	\$ 301,124	\$ 117,677	\$ 19,330,481
	1,385	-	4,312	-	24,058
	<u>596,152</u>	<u>2,236,100</u>	<u>305,436</u>	<u>117,677</u>	<u>19,354,539</u>
	343,815	-	443,403	-	5,234,975
	224,739	2,218,241	152,452	52,865	5,164,224
	105,757	52,312	219,164	-	605,763
	46,277	231,871	150,008	146	4,559,210
	30,174	34,782	27,697	-	264,086
	144,929	-	120,468	-	2,004,893
	93,827	109,665	82,653	5,718	3,173,510
	31,639	45,346	2,957	-	440,394
	738,580	51,227	752,830	-	2,662,590
	<u>1,759,737</u>	<u>2,743,444</u>	<u>1,951,632</u>	<u>58,729</u>	<u>24,109,645</u>
	<u>(1,163,585)</u>	<u>(507,344)</u>	<u>(1,646,196)</u>	<u>58,948</u>	<u>(4,755,106)</u>
	-	-	-	-	42,248
	303,449	-	-	-	628,596
	199,124	-	-	-	199,124
	(508)	-	-	-	(20,649)
	3,383	(9,980)	-	5,452	114,069
	(2,548)	(13,613)	-	(3,567)	(110,027)
	125,838	95,722	462,031	-	683,591
	-	(151,666)	-	-	(151,666)
	-	(3,638)	-	-	(3,638)
	<u>628,738</u>	<u>(83,175)</u>	<u>462,031</u>	<u>1,885</u>	<u>1,381,648</u>
	(534,847)	(590,519)	(1,184,165)	60,833	(3,373,458)
	1,773,826	-	-	-	1,773,826
	-	701,652	535,492	-	2,143,776
	-	-	-	-	(114,356)
	1,238,979	111,133	(648,673)	60,833	429,788
	<u>12,001,864</u>	<u>(1,570,687)</u>	<u>7,477,609</u>	<u>584,789</u>	<u>48,464,853</u>
\$	<u>13,240,843</u>	<u>(1,459,554)</u>	<u>6,828,936</u>	<u>645,622</u>	<u>48,894,641</u>

CITY OF MODESTO
COMBINING STATEMENT OF CASH FLOWS - NONMAJOR ENTERPRISE FUNDS
FISCAL YEAR ENDED JUNE 30, 2017

	Parking	Storm Drain	Compost
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers and users	\$ 1,280,067	\$ 5,887,091	\$ 8,748,439
Receipts from interfund services provided	-	50,277	-
Payments to suppliers	(366,794)	(1,829,340)	(1,265,975)
Payments to employees	(575,479)	(712,422)	(4,956,782)
Payments for interfund services used	(251,915)	(3,351,516)	(2,826,605)
Net cash provided (used) by operating activities	85,879	44,090	(300,923)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Operating grants received	-	-	325,147
Taxes received	-	-	-
Transfers in	-	700,000	206,632
Transfers out	-	-	(114,356)
Payments on advances from other funds	-	-	(34,200)
Net cash provided (used) by noncapital financing activities	-	700,000	383,223
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Acquisition and construction of capital assets	(176,702)	(521,115)	(55,961)
Proceeds from sale of capital assets	-	2,304	42,769
Principal repayments	-	-	-
Interest paid	-	-	-
Trustee fees	-	-	-
Capital contributions	-	-	-
Net cash provided (used) by capital and related financing activities	(176,702)	(518,811)	(13,192)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest received (paid)	4,348	71,883	39,791
Net increase in the fair value of investments	(2,930)	(60,410)	(26,959)
Rental income received	-	-	-
Net cash provided (used) by investing activities	1,418	11,473	12,832
Net increase (decrease) in cash and cash equivalents	(89,405)	236,752	81,940
CASH AND CASH EQUIVALENTS, JULY 1	543,659	10,247,016	4,218,222
CASH AND CASH EQUIVALENTS, JUNE 30	\$ 454,254	\$ 10,483,768	\$ 4,300,162
RECONCILIATION TO STATEMENT OF NET POSITION:			
Cash and cash equivalents	\$ 454,254	\$ 10,483,768	\$ 4,300,162
Restricted cash and cash equivalents with fiscal agent	-	-	-
TOTAL CASH AND CASH EQUIVALENTS	\$ 454,254	\$ 10,483,768	\$ 4,300,162

	Airport	Golf	Community Center	Abatement and Public Nuisance Fund	Total
\$	1,680,743	\$ 2,449,342	\$ 345,059	\$ 133,640	\$ 20,524,381
	-	-	-	-	50,277
	(1,479,346)	(2,428,771)	(471,113)	(78,153)	(7,919,492)
	(491,170)	1,535	(568,849)	-	(7,303,167)
	(269,525)	(237,375)	(180,154)	-	(7,117,090)
	<u>(559,298)</u>	<u>(215,269)</u>	<u>(875,057)</u>	<u>55,487</u>	<u>(1,765,091)</u>
	303,449	-	-	-	628,596
	199,124	-	-	-	199,124
	-	701,652	535,492	-	2,143,776
	-	-	-	-	(114,356)
	-	-	-	-	(34,200)
	<u>502,573</u>	<u>701,652</u>	<u>535,492</u>	<u>-</u>	<u>2,822,940</u>
	(1,836,361)	-	(40,006)	-	(2,630,145)
	-	-	-	-	45,073
	-	(340,000)	-	-	(340,000)
	-	(117,776)	-	-	(117,776)
	-	(3,638)	-	-	(3,638)
	<u>1,773,826</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,773,826</u>
	<u>(62,535)</u>	<u>(461,414)</u>	<u>(40,006)</u>	<u>-</u>	<u>(1,272,660)</u>
	3,293	(49,234)	-	5,263	75,344
	(2,548)	(13,613)	-	(3,567)	(110,027)
	125,838	95,722	462,031	-	683,591
	<u>126,583</u>	<u>32,875</u>	<u>462,031</u>	<u>1,696</u>	<u>648,908</u>
	7,323	57,844	82,460	57,183	434,097
	<u>1,410,897</u>	<u>627,142</u>	<u>44,214</u>	<u>583,528</u>	<u>17,674,678</u>
\$	<u>1,418,220</u>	<u>684,986</u>	<u>126,674</u>	<u>640,711</u>	<u>18,108,775</u>
\$	1,418,220	\$ -	\$ 126,674	\$ 640,711	\$ 17,423,789
	-	684,986	-	-	684,986
\$	<u>1,418,220</u>	<u>684,986</u>	<u>126,674</u>	<u>640,711</u>	<u>18,108,775</u>

(continued)

CITY OF MODESTO
COMBINING STATEMENT OF CASH FLOWS - NONMAJOR ENTERPRISE FUNDS (Continued)
FISCAL YEAR ENDED JUNE 30, 2017

	Parking	Storm Drain	Compost
RECONCILIATION OF OPERATING INCOME (LOSS)			
TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
Operating income (loss)	\$ (337,551)	\$ (251,037)	\$ (908,341)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	448,424	521,532	149,997
Taxes paid	(20,141)	-	-
Change in assets, liabilities, and deferred resources:			
(Increase) decrease in accounts receivable	(4,202)	1,864	(111,140)
Increase in taxes receivable	-	-	-
(Increase) decrease in utilities receivable	-	17,791	(50,174)
(Increase) decrease in due from other governments	-	(1)	(11,972)
Increase (decrease) in accounts payable	1,717	(222,987)	659,056
Decrease in inventories	-	-	-
(Increase) decrease in prepaid expenses	(299)	(21,248)	654
Increase (decrease) in accrued salaries and benefits	697	(4,545)	(22,594)
Decrease in net pension liability and deferred resources	(2,766)	(4,005)	(24,217)
Increase in due to other funds	-	-	-
Increase (decrease) in unearned revenue	-	6,726	17,808
Total adjustments	423,430	295,127	607,418
Net cash provided (used) by operating activities	\$ 85,879	\$ 44,090	\$ (300,923)

<u>Airport</u>	<u>Golf</u>	<u>Community Center</u>	<u>Abatement and Public Nuisance Fund</u>	<u>Total</u>
\$ <u>(1,163,585)</u>	\$ <u>(507,344)</u>	\$ <u>(1,646,196)</u>	\$ <u>58,948</u>	\$ <u>(4,755,106)</u>
738,580	51,227	752,830	-	2,662,590
(508)	-	-	-	(20,649)
6,146	26,457	39,623	6,618	(34,634)
(1,752)	-	-	-	(1,752)
-	-	-	-	(32,383)
1,075,575	-	-	-	1,063,602
(1,215,742)	(36,623)	(16,565)	(19,424)	(850,568)
-	1,804	-	-	1,804
(208)	60,890	229	-	40,018
97	1,535	(2,905)	-	(27,715)
(2,523)	-	(2,073)	-	(35,584)
-	187,646	-	-	187,646
4,622	(861)	-	9,345	37,640
<u>604,287</u>	<u>292,075</u>	<u>771,139</u>	<u>(3,461)</u>	<u>2,990,015</u>
\$ <u><u>(559,298)</u></u>	\$ <u><u>(215,269)</u></u>	\$ <u><u>(875,057)</u></u>	\$ <u><u>55,487</u></u>	\$ <u><u>(1,765,091)</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, 2017

	Fleet Management	Central Services	Information & Technology Services
<u>ASSETS</u>			
Current assets:			
Cash and cash equivalents	\$ 8,981,025	\$ 1,561,495	\$ 4,559,712
Receivables:			
Accounts	19,726	-	-
Interest	19,303	3,585	11,068
Prepaid expenses	584	182	1,896
Due from governments	-	-	-
Inventories	-	19,142	-
Total current assets	9,020,638	1,584,404	4,572,676
Noncurrent assets:			
Advances to other funds	-	-	-
Restricted assets - cash and cash equivalents	-	-	-
Restricted assets - cash from fiscal agent	-	-	-
Land and construction in progress	1,167,334	-	1,320,900
Other capital assets, net of accumulated depreciation	12,518,430	66,385	4,084,368
Total noncurrent assets	13,685,764	66,385	5,405,268
Total assets	22,706,402	1,650,789	9,977,944
<u>DEFERRED OUTFLOWS OF RESOURCES</u>			
Deferred pensions	741,185	79,659	1,159,212
Total assets and deferred outflows of resources	\$ 23,447,587	\$ 1,730,448	\$ 11,137,156
<u>LIABILITIES</u>			
Current liabilities:			
Accounts payable	\$ 153,342	\$ 4,387	\$ 241,964
Accrued salaries and benefits	42,628	1,083	61,256
Unearned revenue	14,335	-	-
Current portion - compensated absences	-	-	-
Current portion - claims liability	-	-	-
Total current liabilities	210,305	5,470	303,220
Noncurrent liabilities:			
Compensated absences	-	-	-
Claims liability	-	-	-
Net OPEB obligation	-	-	-
Net pension liability	3,139,056	441,856	5,111,605
Total liabilities	3,349,361	447,326	5,414,825
<u>DEFERRED INFLOWS OF RESOURCES</u>			
Deferred pensions	181,585	42,312	366,037
<u>NET POSITION</u>			
Net investment in capital assets	13,685,764	66,385	5,405,268
Restricted	-	-	-
Unrestricted	6,230,877	1,174,425	(48,974)
Total net position	19,916,641	1,240,810	5,356,294
Total liabilities, deferred inflows of resources, and net position	\$ 23,447,587	\$ 1,730,448	\$ 11,137,156

<u>Insurance</u>	<u>Employee Benefits Management</u>	<u>Building Services</u>	<u>Total</u>
\$ 12,015,889	\$ -	\$ 883,360	\$ 28,001,481
1,261,189	33,750	-	1,314,665
116,565	18,997	2,053	171,571
488,826	-	-	491,488
-	-	45,291	45,291
-	-	-	19,142
<u>13,882,469</u>	<u>52,747</u>	<u>930,704</u>	<u>30,043,638</u>
-	88,647	-	88,647
-	8,814,712	-	8,814,712
150,262	-	-	150,262
-	-	-	2,488,234
-	-	81,851	16,751,034
<u>150,262</u>	<u>8,903,359</u>	<u>81,851</u>	<u>28,292,889</u>
14,032,731	8,956,106	1,012,555	58,336,527
<u>151,798</u>	<u>59,721</u>	<u>188,905</u>	<u>2,380,480</u>
<u>\$ 14,184,529</u>	<u>\$ 9,015,827</u>	<u>\$ 1,201,460</u>	<u>\$ 60,717,007</u>
\$ 531,080	\$ 35,734	\$ 115,370	\$ 1,081,877
8,583	2,888	10,613	127,051
82,051	-	-	96,386
-	3,176,739	-	3,176,739
5,682,904	-	-	5,682,904
<u>6,304,618</u>	<u>3,215,361</u>	<u>125,983</u>	<u>10,164,957</u>
-	5,965,142	-	5,965,142
22,201,877	-	-	22,201,877
-	54,499,384	-	54,499,384
604,712	334,996	701,138	10,333,363
<u>29,111,207</u>	<u>64,014,883</u>	<u>827,121</u>	<u>103,164,723</u>
<u>40,096</u>	<u>26,849</u>	<u>13,310</u>	<u>670,189</u>
-	-	81,851	19,239,268
-	8,814,712	-	8,814,712
(14,966,774)	(63,840,617)	279,178	(71,171,885)
<u>(14,966,774)</u>	<u>(55,025,905)</u>	<u>361,029</u>	<u>(43,117,905)</u>
<u>\$ 14,184,529</u>	<u>\$ 9,015,827</u>	<u>\$ 1,201,460</u>	<u>\$ 60,717,007</u>

CITY OF MODESTO
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET POSITION - INTERNAL SERVICE FUNDS
FISCAL YEAR ENDED JUNE 30, 2017

	<u>Fleet Management</u>	<u>Central Services</u>
OPERATING REVENUES:		
Charges for services	\$ 6,964,494	\$ 16,695
Sales	-	1,486,322
Total operating revenues	<u>6,964,494</u>	<u>1,503,017</u>
OPERATING EXPENSES:		
Salaries and wages	1,286,378	140,666
Cost of sales	-	1,111,541
Contractual services	2,067,722	75,131
Utilities	3,964	656
Maintenance and supplies	1,587,341	132,617
Insurance	68,735	4,022
Claims	-	-
Employee benefits	575,954	65,354
Administration services	346,444	30,500
Allocated indirect administrative costs	274,466	-
Depreciation	2,372,920	11,370
Total operating expenses	<u>8,583,924</u>	<u>1,571,857</u>
OPERATING INCOME (LOSS)	<u>(1,619,430)</u>	<u>(68,840)</u>
NONOPERATING REVENUES (EXPENSES):		
Gain (loss) on disposition of capital assets	37,426	5,487
Interest income	78,983	14,626
Net decrease in fair value of investments	<u>(53,073)</u>	<u>(9,749)</u>
Total nonoperating revenues (expenses)	<u>63,336</u>	<u>10,364</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	(1,556,094)	(58,476)
Capital contributions	22,242	-
Transfers in	112,824	-
Transfers out	<u>(154,722)</u>	<u>(16,126)</u>
CHANGES IN NET POSITION	(1,575,750)	(74,602)
NET POSITION (DEFICIT), JULY 1	<u>21,492,391</u>	<u>1,315,412</u>
NET POSITION (DEFICIT), JUNE 30	<u>\$ 19,916,641</u>	<u>\$ 1,240,810</u>

Information & Technology Services	Insurance	Employee Benefits Management	Building Services	Total
\$ 4,761,759	\$ 21,861,923	\$ 3,390,609	\$ 2,785,311	\$ 39,780,791
-	-	-	-	1,486,322
<u>4,761,759</u>	<u>21,861,923</u>	<u>3,390,609</u>	<u>2,785,311</u>	<u>41,267,113</u>
2,304,356	319,865	101,879	428,997	4,582,141
-	-	-	-	1,111,541
861,795	601,125	184,399	1,786,086	5,576,258
103,289	233	-	152,815	260,957
874,195	7,914	15,692	66,134	2,683,893
29,146	16,246,164	2,286	5,309	16,355,662
-	13,619,346	-	-	13,619,346
849,529	220,150	2,378,365	155,269	4,244,621
28,565	29,817	33,286	175,123	643,735
-	-	-	-	274,466
640,913	-	-	3,059	3,028,262
<u>5,691,788</u>	<u>31,044,614</u>	<u>2,715,907</u>	<u>2,772,792</u>	<u>52,380,882</u>
<u>(930,029)</u>	<u>(9,182,691)</u>	<u>674,702</u>	<u>12,519</u>	<u>(11,113,769)</u>
(6,113)	-	-	-	36,800
44,839	436,840	76,777	8,015	660,080
<u>(31,939)</u>	<u>(277,156)</u>	<u>(52,278)</u>	<u>(5,391)</u>	<u>(429,586)</u>
<u>6,787</u>	<u>159,684</u>	<u>24,499</u>	<u>2,624</u>	<u>267,294</u>
(923,242)	(9,023,007)	699,201	15,143	(10,846,475)
-	-	-	-	22,242
167,365	-	-	748	280,937
<u>(142,360)</u>	<u>-</u>	<u>(618,091)</u>	<u>-</u>	<u>(931,299)</u>
(898,237)	(9,023,007)	81,110	15,891	(11,474,595)
<u>6,254,531</u>	<u>(5,943,767)</u>	<u>(55,107,015)</u>	<u>345,138</u>	<u>(31,643,310)</u>
<u>\$ 5,356,294</u>	<u>\$ (14,966,774)</u>	<u>\$ (55,025,905)</u>	<u>\$ 361,029</u>	<u>\$ (43,117,905)</u>

CITY OF MODESTO
COMBINING STATEMENT OF CASH FLOWS - INTERNAL SERVICE FUNDS
FISCAL YEAR ENDED JUNE 30, 2017

	Fleet Management	Central Services	Information & Technology Services
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers and users	\$ 295,386	\$ -	\$ -
Receipts from interfund services provided	6,672,154	1,503,017	4,761,759
Payments to suppliers	(3,722,136)	(1,211,902)	(1,924,423)
Payment of insurance claims	-	-	-
Payments to employees	(1,871,324)	(212,099)	(3,178,681)
Payments for interfund services used	(1,207,555)	(115,809)	(119,798)
Net cash provided (used) by operating activities	166,525	(36,793)	(461,143)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Receipts on advances to other funds	-	-	-
Transfers in	112,420	-	167,365
Transfers out	-	(14,974)	(142,360)
Net cash provided (used) by noncapital financing activities	112,420	(14,974)	25,005
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Acquisition and construction of capital assets	(2,816,066)	(19,324)	(1,210,187)
Proceeds from sale of capital assets	193,262	5,825	-
Net cash provided (used) by capital and related financing activities	(2,622,804)	(13,499)	(1,210,187)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest received	78,754	14,436	47,516
Net increase in the fair value of investments	(53,073)	(9,749)	(31,939)
Net cash provided by investing activities	25,681	4,687	15,577
Net increase (decrease) in cash and cash equivalents	(2,318,178)	(60,579)	(1,630,748)
CASH AND CASH EQUIVALENTS, JULY 1	11,299,203	1,622,074	6,190,460
CASH AND CASH EQUIVALENTS, JUNE 30	\$ 8,981,025	\$ 1,561,495	\$ 4,559,712
RECONCILIATION TO STATEMENT OF NET POSITION:			
Cash and cash equivalents	\$ 8,981,025	\$ 1,561,495	\$ 4,559,712
Restricted cash and cash equivalents	-	-	-
Restricted cash and cash equivalents with fiscal agent	-	-	-
TOTAL CASH AND CASH EQUIVALENTS	\$ 8,981,025	\$ 1,561,495	\$ 4,559,712

	Insurance	Employee Benefits Management	Building Services	Total
\$	-	\$ 517,177	\$ 675,930	\$ 1,488,493
	22,067,061	2,873,432	2,082,933	39,960,356
	(18,211,754)	(184,193)	(1,859,068)	(27,113,476)
	(9,331,096)	-	-	(9,331,096)
	(542,593)	(3,835,575)	(588,109)	(10,228,381)
	(56,040)	(57,835)	(320,988)	(1,878,025)
	<u>(6,074,422)</u>	<u>(686,994)</u>	<u>(9,302)</u>	<u>(7,102,129)</u>
	-	75,000	-	75,000
	-	-	-	279,785
	-	-	-	(157,334)
		<u>75,000</u>	<u>-</u>	<u>197,451</u>
	-	-	-	(4,045,577)
	-	-	-	199,087
	-	-	-	<u>(3,846,490)</u>
	409,958	77,515	7,970	636,149
	<u>(277,156)</u>	<u>(52,278)</u>	<u>(5,391)</u>	<u>(429,586)</u>
	<u>132,802</u>	<u>25,237</u>	<u>2,579</u>	<u>206,563</u>
	(5,941,620)	(586,757)	(6,723)	(10,544,605)
	<u>18,107,771</u>	<u>9,401,469</u>	<u>890,083</u>	<u>47,511,060</u>
\$	<u>12,166,151</u>	<u>8,814,712</u>	<u>883,360</u>	<u>36,966,455</u>
\$	12,015,889	\$ -	\$ 883,360	\$ 28,001,481
	-	8,814,712	-	8,814,712
	150,262	-	-	150,262
\$	<u>12,166,151</u>	<u>8,814,712</u>	<u>883,360</u>	<u>36,966,455</u>

CITY OF MODESTO
COMBINING STATEMENT OF CASH FLOWS - INTERNAL SERVICE FUNDS (Continued)
FISCAL YEAR ENDED JUNE 30, 2017

	Fleet Management	Central Services
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating income (loss)	\$ (1,619,430)	\$ (68,840)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	2,372,920	11,370
Change in assets, liabilities, and deferred resources:		
(Increase) decrease in accounts receivable	(11,289)	-
Increase in due from governments	-	-
(Increase) decrease in prepaid expenses	7,820	3,247
Decrease in inventories	-	314,097
Increase (decrease) in accounts payable	(588,839)	(290,588)
Increase (decrease) in accrued salaries and benefits	3,052	(4,994)
Increase in compensated absences	-	-
Decrease in net OPEB obligation	-	-
Decrease in net pension liability and deferred resources	(12,044)	(1,085)
Increase in unearned revenue	14,335	-
Increase in claims liability	-	-
Total adjustments	1,785,955	32,047
Net cash provided (used) by operating activities	\$ 166,525	\$ (36,793)
 NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:		
Capital asset transfers	\$ (154,318)	\$ (1,152)
Interfund loan transfer correction	-	-

Information & Technology Services	Insurance	Employee Benefits Management	Building Services	Total
\$ (930,029)	\$ (9,182,691)	\$ 674,702	\$ 12,519	\$ (11,113,769)
640,913	-	-	3,059	3,028,262
-	180,205	-	-	168,916
-	-	-	(26,448)	(26,448)
264,447	(484,614)	-	116	(208,984)
-	-	-	-	314,097
(411,678)	(897,927)	(6,365)	5,295	(2,190,102)
(6,326)	(23)	(14,515)	(588)	(23,394)
-	-	351,931	-	351,931
-	-	(1,691,947)	-	(1,691,947)
(18,470)	(2,555)	(800)	(3,255)	(38,209)
-	24,933	-	-	39,268
-	4,288,250	-	-	4,288,250
468,886	3,108,269	(1,361,696)	(21,821)	4,011,640
\$ (461,143)	\$ (6,074,422)	\$ (686,994)	\$ (9,302)	\$ (7,102,129)
\$	\$	\$	\$	\$
	-	-	748	(154,722)
	-	(618,091)	-	(618,091)

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, Riverbank, 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.

MODESTO-CERES FIRE PROTECTION AGENCY - To record and distribute the special assessments for fire protection that were established under the Industrial Fire District. This is a joint powers agency between the 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.

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, 2017

Special Districts	Balance June 30, 2016	Additions	Deletions	Balance June 30, 2017
<u>ASSETS</u>				
Cash and cash equivalents	\$ 680,457	\$ 1,856,688	\$ 2,071,544	\$ 465,601
Cash and cash equivalents with fiscal agent	2,936,138	2,042,710	2,036,369	2,942,479
	<u>\$ 3,616,595</u>	<u>\$ 3,899,398</u>	<u>\$ 4,107,913</u>	<u>\$ 3,408,080</u>
<u>LIABILITIES</u>				
Due to special district bondholders	\$ 3,616,595	\$ 3,899,398	\$ 4,107,913	\$ 3,408,080
<hr/>				
Tuolumne River Regional Park				
<u>ASSETS</u>				
Cash and cash equivalents	\$ 22,126	\$ 1,363,804	\$ 1,378,975	\$ 6,955
<u>LIABILITIES</u>				
Deposits held as agent for others	\$ 22,126	\$ 1,363,804	\$ 1,378,975	\$ 6,955
<hr/>				
Stanislaus Drug Enforcement Agency				
<u>ASSETS</u>				
Cash and cash equivalents	\$ 2,616,832	\$ 2,030,376	\$ 2,309,594	\$ 2,337,614
<u>LIABILITIES</u>				
Deposits held as agent for others	\$ 2,616,832	\$ 2,030,376	\$ 2,309,594	\$ 2,337,614
<hr/>				
Modesto-Ceres Fire Protection Agency				
<u>ASSETS</u>				
Cash and cash equivalents	\$ 207,093	\$ 575,926	\$ 562,683	\$ 220,336
<u>LIABILITIES</u>				
Deposits held as agent for others	\$ 207,093	\$ 575,926	\$ 562,683	\$ 220,336
<hr/>				
City/County Joint Powers Financing Authority				
<u>ASSETS</u>				
Cash and cash equivalents	\$ 18,631	\$ 1,848	\$ 117	\$ 20,362
<u>LIABILITIES</u>				
Deposits held as agent for others	\$ 18,631	\$ 1,848	\$ 117	\$ 20,362
<hr/>				
Totals - All Agency Funds				
<u>ASSETS</u>				
Cash and cash equivalents	\$ 3,545,139	\$ 5,828,642	\$ 6,322,913	\$ 3,050,868
Cash and cash equivalents with fiscal agent	2,936,138	2,042,710	2,036,369	2,942,479
	<u>\$ 6,481,277</u>	<u>\$ 7,871,352</u>	<u>\$ 8,359,282</u>	<u>\$ 5,993,347</u>
<u>LIABILITIES</u>				
Due to special district bondholders	\$ 3,616,595	\$ 3,899,398	\$ 4,107,913	\$ 3,408,080
Deposits held as agent for others	2,864,682	3,971,954	4,251,369	2,585,267
	<u>\$ 6,481,277</u>	<u>\$ 7,871,352</u>	<u>\$ 8,359,282</u>	<u>\$ 5,993,347</u>

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STATISTICAL SECTION

Statistical Section

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

Financial Trends

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

1. Net 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

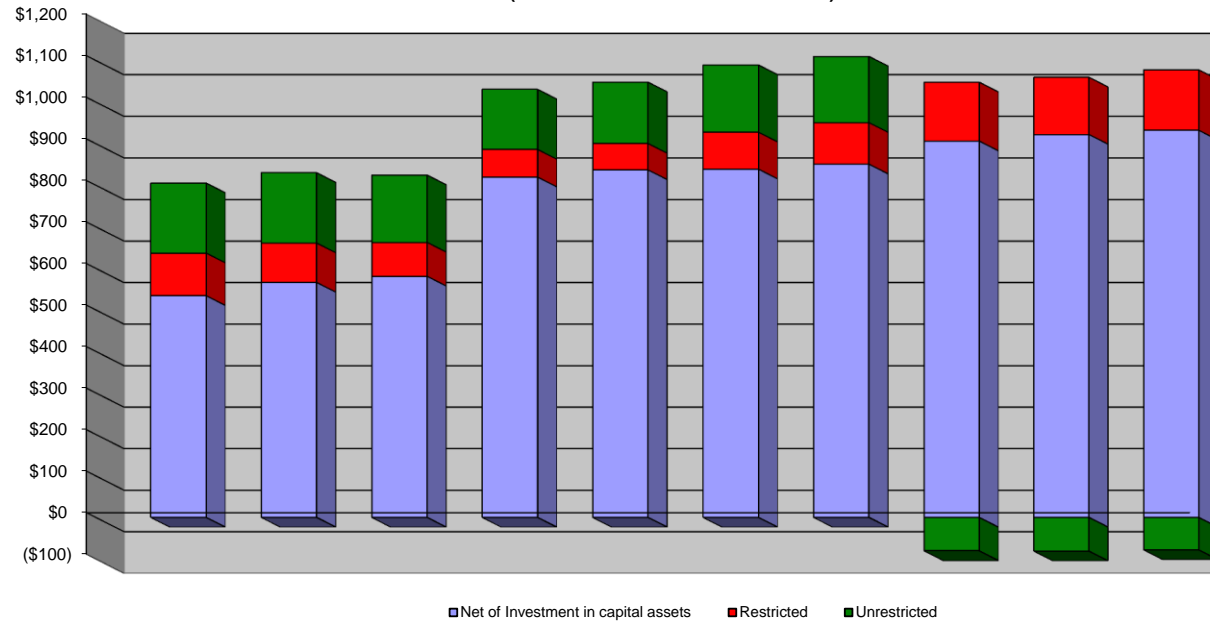
Operating Information

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 (1)
LAST TEN FISCAL YEARS
(ACCRUAL BASIS OF ACCOUNTING)**



	2008	2009	2010	2011	2012	2013	2014	2015 (2)	2016	2017
Governmental activities										
Net investment in capital assets	\$339,396,266	\$347,357,492	\$329,592,169	\$338,010,133	\$362,755,958	\$361,582,237	\$347,647,419	\$378,145,625	\$381,887,289	\$376,743,556
Restricted	102,602,698	94,819,773	81,528,516	66,570,581	63,498,187	63,381,356	77,564,677	121,105,182	115,619,807	123,851,082
Unrestricted	4,627,884	(472,402)	14,399,778	6,540,870	(4,326,456)	(1,102,658)	9,167,253	(179,570,210)	(173,275,294)	(191,483,628)
Total governmental activities net position	<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>	<u>\$324,231,802</u>	<u>\$309,111,010</u>
Business-type activities										
Net investment in capital assets	\$194,435,373	\$218,432,739	\$251,025,494	\$481,186,894	\$473,757,198	\$476,681,835	\$502,684,950	\$527,784,338	\$539,821,175	\$555,163,217
Restricted	-	-	-	-	-	25,571,860	22,398,957	20,622,619	22,052,595	21,525,961
Unrestricted	163,792,245	169,639,845	147,661,517	138,033,147	152,003,655	162,882,299	150,187,831	99,450,370	92,324,550	113,595,981
Total business-type activities net position	<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>	<u>\$654,198,320</u>	<u>\$690,285,159</u>
Primary government										
Net investment in capital assets	\$533,831,639	\$565,790,231	\$580,617,663	\$819,197,027	\$836,513,156	\$838,264,072	\$850,332,369	\$905,929,963	\$921,708,464	\$931,906,773
Restricted	102,602,698	94,819,773	81,528,516	66,570,581	63,498,187	88,953,216	99,963,634	141,727,801	137,672,402	145,377,043
Unrestricted	168,420,129	169,167,443	162,061,295	144,574,017	147,677,199	161,779,641	159,355,084	(80,119,840)	(80,950,744)	(77,887,647)
Total primary government net position	<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>	<u>\$978,430,122</u>	<u>\$999,396,169</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)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Expenses										
Governmental activities:										
General government	\$15,997,582	\$12,700,264	\$12,093,091	\$12,473,794	\$14,236,573	\$12,041,953	\$11,221,704	\$12,085,051	\$12,838,583	\$13,945,824
Community development	14,619,525	14,694,997	18,912,766	28,301,160	14,206,876	25,162,533	13,002,466	11,888,475	12,552,115	15,419,529
Highways and streets	26,436,475	23,682,253	23,668,779	24,114,799	21,009,521	20,525,496	21,316,315	21,269,704	20,149,011	22,481,002
Public works	11,471,344	9,151,786	6,759,562	7,393,809	6,780,882	4,064,497	3,241,135	9,810,989	10,749,465	13,169,149
Parks and recreation	14,264,334	15,070,007	13,268,871	10,310,549	11,741,352	13,036,579	11,659,816	4,641,611	3,493,743	3,947,898
Public safety	88,651,249	84,395,987	80,254,834	83,381,310	83,568,633	83,857,207	72,301,682	86,782,741	86,907,876	104,348,464
Interest on long-term debt	4,998,482	6,114,875	5,766,421	3,609,345	3,066,897	3,193,997	2,958,471	3,204,203	2,691,894	2,500,849
Total governmental activities expenses	176,438,991	165,810,169	160,724,324	169,584,766	154,610,734	161,882,262	135,701,589	149,682,774	149,382,687	175,812,715
Business-type activities:										
Water	1,982,066	2,011,386	1,826,401	1,518,955	1,482,640	1,252,660	1,605,829	54,718,239	59,127,625	63,008,231
Sewer	36,713,351	38,190,214	43,619,704	36,305,860	53,730,665	48,656,862	63,498,896	30,281,361	33,093,921	36,248,877
Bus	23,974,989	22,416,713	28,055,056	28,497,430	29,366,025	24,155,935	31,895,568	18,614,175	19,709,745	21,979,360
Parking	6,349,113	6,140,963	5,201,741	7,619,939	6,674,100	4,239,567	6,372,418	1,513,185	1,625,943	1,628,226
Storm drain	1,312,511	1,130,816	1,480,068	4,112,837	4,426,031	4,350,079	4,951,441	3,913,204	5,312,896	6,119,472
Compost	1,444,667	1,682,644	1,918,113	2,157,180	1,640,733	1,534,242	2,291,222	7,841,048	11,998,345	9,648,481
Airport	14,834,612	15,210,224	15,671,731	16,064,104	16,944,803	18,025,010	19,618,547	2,025,146	1,787,081	1,744,557
Golf	2,497,161	2,440,599	2,473,968	2,366,052	2,279,650	2,197,368	2,845,109	2,998,505	3,130,536	2,871,167
Community center	2,465,825	2,303,256	2,346,175	2,284,082	2,352,173	1,864,996	2,031,928	1,852,585	1,981,307	1,934,179
Abatement and public nuisance	-	-	-	-	34,609	42,879	31,877	93,067	84,152	51,624
Total business-type activities expenses	91,574,295	91,526,815	102,592,957	100,926,439	118,931,429	106,319,598	135,142,835	123,850,515	137,851,551	145,234,174
Total primary government expenses	\$268,013,286	\$257,336,984	\$263,317,281	\$270,511,205	\$273,542,163	\$268,201,860	\$270,844,424	\$273,533,289	\$287,234,238	\$321,046,889
Program revenues										
Governmental activities:										
Charges for services:										
General government	\$6,726,893	\$6,987,127	\$6,323,865	\$6,804,398	\$6,799,202	\$6,262,963	\$5,825,407	\$5,912,157	\$6,539,908	\$5,082,405
Community development	7,869,742	4,788,324	2,941,932	4,730,263	4,430,690	4,123,811	4,537,984	3,385,050	6,885,850	10,378,999
Highway and streets	5,804,342	8,222,178	2,801,213	3,179,788	4,178,567	761,394	873,566	1,744,505	1,154,290	1,101,813
Public works	5,110,428	1,349,956	3,344,967	2,909,677	2,936,299	3,565,048	4,146,641	6,621,704	5,469,419	5,908,332
Parks and recreation	5,590,196	4,006,123	6,038,468	3,105,490	3,221,072	3,623,647	3,004,001	1,444,923	771,733	1,614,443
Public safety	4,868,612	4,625,935	4,325,231	4,977,440	3,338,783	3,668,302	3,123,758	4,218,000	3,868,346	4,847,914
Operating grants and contributions	14,221,390	11,424,548	14,559,357	19,861,492	10,270,642	16,477,474	5,868,684	5,862,566	3,630,185	5,050,771
Capital grants and contributions	17,930,957	6,595,213	10,876,018	7,334,967	9,509,584	9,046,762	8,206,154	5,878,550	1,708,602	2,117,867
Total governmental activities program revenues	\$68,122,560	\$47,999,404	\$51,211,051	\$52,903,515	\$44,684,839	\$47,529,401	\$35,586,195	\$34,967,455	\$30,028,333	\$36,102,544
Business-type activities:										
Charges for services:										
Water	\$1,297,484	\$1,256,360	\$1,239,995	\$1,274,482	\$1,291,401	\$1,169,293	\$1,092,347	\$59,800,535	\$55,992,533	\$69,075,873
Sewer	51,679,042	53,218,692	54,670,041	55,345,414	57,534,190	61,474,235	60,254,110	46,193,997	47,859,680	49,905,078
Bus	29,340,615	35,854,857	37,310,731	39,142,045	41,825,928	43,414,773	46,046,304	3,424,662	3,352,615	3,253,046
Parking	5,338,838	5,301,150	5,428,291	6,152,211	5,783,694	5,780,644	5,831,133	1,239,439	1,289,211	1,284,269
Storm drain	1,075,032	1,397,708	1,706,189	4,490,110	4,672,517	8,012,611	4,853,133	5,874,349	5,588,169	5,910,988
Compost	593,349	661,524	675,565	1,019,177	619,689	619,904	634,530	7,191,145	7,352,767	8,903,917
Airport	3,182,762	2,944,108	2,769,814	2,877,492	2,892,539	2,946,937	2,989,504	551,373	622,383	596,152
Golf	2,124,672	1,984,769	1,924,015	1,647,400	1,759,818	1,568,532	2,196,280	2,574,496	2,431,904	2,236,100
Community center	532,471	492,989	489,562	433,460	420,059	263,581	230,801	257,991	326,839	305,436
Abatement and public nuisance	-	-	-	-	71,567	302,563	201,825	128,636	166,641	117,677
Operating grants and contributions	12,459,707	11,462,346	13,706,512	12,629,219	12,694,058	13,766,061	13,721,179	14,223,954	14,153,568	15,975,703
Capital grants and contributions	9,793,356	4,527,875	2,898,489	4,856,649	12,021,793	4,282,549	4,971,940	13,820,127	4,753,223	19,617,513
Total business-type activities program revenue	117,417,328	119,102,378	122,819,204	129,867,659	141,587,253	143,601,683	143,023,086	155,280,704	143,889,533	177,181,752
Total primary government program revenues	\$185,539,888	\$167,101,782	\$174,030,255	\$182,771,174	\$186,272,092	\$191,131,084	\$178,609,281	\$190,248,159	\$173,917,866	\$213,284,296
Net (Expense)/Revenue										
Governmental activities	(\$108,316,431)	(\$117,810,765)	(\$109,513,273)	(\$116,681,251)	(\$109,925,895)	(\$114,352,861)	(\$100,115,394)	(\$114,715,319)	(\$119,354,354)	(\$139,710,171)
Business-type activities	25,843,033	27,575,563	20,226,247	28,941,220	22,655,824	37,282,085	7,880,251	31,430,189	6,037,982	31,947,578
Total primary government net expense	(\$82,473,398)	(\$90,235,202)	(\$89,287,026)	(\$87,740,031)	(\$87,270,071)	(\$77,070,776)	(\$92,235,143)	(\$83,285,130)	(\$113,316,372)	(\$107,762,593)

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

	<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>	<u>2016</u>	<u>2017</u>
General Revenues and Other Changes in Net Position										
Governmental activities:										
Taxes:										
Utility users tax	\$ 19,173,295	\$ 19,093,222	\$ 19,117,518	\$ 19,119,037	\$ 19,230,879	\$ 20,399,116	\$ 20,153,653	\$ 19,591,170	\$ 19,564,921	\$ 20,113,023
Property taxes, levied for general purposes (2)	16,202,587	13,863,471	12,306,702	12,107,226	11,863,902	11,618,481	12,304,010	13,551,827	14,552,304	15,384,518
Property taxes, generated by and allocated to the airport	5,813,822	6,228,634	6,521,515	5,750,235	2,884,357	-	-	-	-	-
Transient occupancy tax	2,038,255	1,853,732	1,460,613	1,639,761	1,769,106	1,884,188	1,879,825	2,097,952	2,523,087	2,669,484
Franchise tax	7,735,131	4,779,854	3,962,159	3,940,364	4,236,705	5,785,355	5,003,130	5,768,146	6,194,733	6,431,223
Business license tax, levied for general purposes	9,680,721	9,330,563	9,068,219	9,339,077	9,694,722	10,176,791	10,573,820	11,421,759	11,944,291	12,255,062
Business license tax, levied for downtown improvement district	202,100	196,253	169,471	172,520	177,026	170,222	181,689	188,247	186,123	192,540
Grants and contributions not restricted to specific programs:										
Sales tax (state appropriation)	26,305,982	24,578,230	22,301,060	24,110,596	25,958,263	27,110,911	27,651,939	28,437,594	29,878,815	30,204,125
Motor vehicle license fee	16,856,108	15,255,503	13,945,172	13,419,232	13,072,804	12,038,983	12,494,642	13,871,248	14,548,427	15,385,069
Gas tax funding	-	-	-	-	-	-	-	5,924,101	4,533,572	3,968,029
Community facilities district fees	-	-	-	-	-	-	-	4,570,403	3,829	1,830
Special assessments, levied	-	-	-	-	-	-	-	1,924,623	3,168,260	3,014,768
Proceeds from Modesto Regional Fire Authority dissolution	-	-	-	-	-	-	-	2,500,721	-	-
Other	917,347	3,285,651	1,286,466	9,718,308	11,794,261	12,844,926	15,269,250	25,866,105	13,101,149	15,842,047
Unrestricted investment earnings	9,960,367	5,247,506	1,211,702	696,848	(411,571)	52,893	441,383	564,314	582,565	362,856
Miscellaneous	3,469,916	5,809,581	2,502,397	1,630,466	1,821,336	1,861,660	5,402,480	2,281,008	2,440,696	515,206
Transfers	(779,437)	(5,490,881)	402,303	1,503,170	2,838,873	1,055,670	(41,312)	(775,377)	(567,177)	(1,750,401)
Total governmental activities	<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>	<u>122,655,595</u>	<u>124,589,379</u>
Business-type activities:										
Taxes:										
Property taxes, generated by and allocated to the airport	182,031	202,460	265,587	309,699	253,974	257,687	254,200	237,546	206,854	199,124
Business license tax, generated by and allocated to the airport	19,188	-	-	-	-	-	-	-	-	-
Unrestricted investment earnings	7,099,765	6,227,615	3,155,954	1,947,417	2,095,947	1,184,422	2,726,148	554,180	2,247,061	872,935
Connection fees (3)	-	-	-	-	-	1,200,800	524,914	-	-	-
Miscellaneous	-	253,032	-	-	-	-	-	1,214,729	1,368,761	1,316,801
Settlements	779,437	5,490,881	(402,303)	(1,503,170)	(2,838,873)	(1,055,670)	41,317	13,851	-	-
Transfers, net	14,525,389	-	447,102	187,096	222,379	116,711	110,376	775,377	567,177	1,750,401
Special item (4)	(625,620)	(2,211,514)	(1,326,309)	(727,310)	(826,133)	(1,143,257)	(1,356,418)	-	-	-
Total business-type activities	<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>	<u>4,389,853</u>	<u>4,139,261</u>
Total primary government	<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>	<u>\$127,045,448</u>	<u>\$128,728,640</u>
Change in Net Position										
Governmental activities	\$9,259,763	(\$13,779,446)	(\$15,257,976)	(\$13,534,411)	(\$4,995,232)	(\$9,353,665)	\$11,199,115	\$23,068,522	\$3,301,241	(\$15,120,792)
Business-type activities	47,823,223	37,538,037	22,366,278	29,154,952	21,563,118	37,842,778	10,180,788	34,225,872	10,427,835	36,086,839
Total primary government	<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>	<u>\$13,729,076</u>	<u>\$20,966,047</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>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011 (b)</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
General Fund										
Reserved	\$ 3,816,559	\$ 3,568,273	\$ 2,871,715	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved	11,942,168	11,185,485	10,103,645	-	-	-	-	-	-	-
Nonspendable	-	-	-	-	123,061	126,603	102,152	2,770,844	2,647,692	2,515,146
Restricted	-	-	-	4,313,287	3,998,539	3,713,640	3,718,682	1,341,972	2,092,126	1,970,622
Committed	-	-	-	-	-	-	3,000,000	3,000,000	3,000,000	15,800,000
Assigned	-	-	-	458,415	519,051	1,173,377	1,024,149	3,119,753	6,503,769	4,854,307
Unassigned	-	-	-	10,215,682	10,806,111	11,758,746	12,069,864	14,586,931	12,822,134	4,509,693
Total General Fund	<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>	<u>\$ 27,065,721</u>	<u>\$ 29,649,768</u>
All Other Governmental Funds										
Reserved	\$ 42,799,130	\$ 39,607,945	\$ 39,686,892	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved, reported in:										
Special revenue funds	8,746,111	12,808,809	6,867,750	-	-	-	-	-	-	-
Capital project funds	71,780,583	58,718,023	54,341,594	-	-	-	-	-	-	-
Nonspendable	-	-	-	-	119	746	3,907	88,057	86,242	81,007
Restricted	-	-	-	118,919,268	109,145,041	106,724,809	108,672,378	79,643,971	80,563,574	85,531,411
Assigned	-	-	-	3,647,941	2,604,281	3,965,851	3,700,733	14,962,522	10,063,058	7,975,865
Unassigned	-	-	-	(23,614,308)	(18,852,239)	(32,965,286)	(34,656,617)	(3,866,450)	(724,841)	(3,156,679)
Total all other governmental funds	<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>	<u>\$ 89,988,033</u>	<u>\$ 90,431,604</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)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenues										
Taxes	\$57,142,392	\$55,345,729	\$52,606,197	\$52,068,220	\$49,856,697	\$50,034,153	\$50,096,127	\$52,619,101	\$54,965,459	\$57,045,850
Licenses and permits	153,545	132,459	138,811	139,073	131,302	175,720	174,734	149,888	186,624	201,445
Intergovernmental	71,179,504	63,606,634	61,551,617	74,242,596	68,682,778	75,737,161	67,426,885	88,906,770	76,317,229	72,069,739
Charges for services	33,319,642	27,051,151	23,509,170	22,638,801	19,897,159	19,800,718	19,457,298	22,337,357	20,429,860	24,454,286
Special assessments levied	35,294	37,299	38,520	1,852,529	1,860,905	1,781,896	2,063,784	1,924,623	3,168,260	3,014,768
Interest and rent	5,236,476	2,909,155	1,322,005	838,178	1,145,251	835,994	1,019,357	957,846	1,297,734	1,402,387
Net increase (decrease) in fair value of investments	1,404,913	860,820	399,322	(89,608)	(452,987)	(584,090)	(423,827)	(320,398)	102,422	(572,616)
Fines and forfeits	2,614,523	2,443,506	2,253,014	2,929,182	2,169,482	2,004,133	1,844,607	1,171,076	904,802	1,263,407
Miscellaneous	3,469,916	5,809,581	2,502,397	1,630,467	1,821,336	2,081,776	4,653,746	2,784,295	2,286,597	516,844
Total Revenues	174,556,205	158,196,334	144,321,053	156,249,438	145,111,923	151,867,461	146,312,711	170,530,558	159,658,987	159,396,110
Expenditures										
Current:										
General government	15,107,461	13,715,577	11,482,240	10,879,751	12,411,413	11,169,669	11,643,579	11,334,202	12,414,982	11,542,131
Community development	13,820,295	14,137,095	18,536,120	26,077,905	12,831,734	23,673,373	12,589,817	11,511,154	12,453,678	13,264,050
Highways and streets	12,549,018	9,721,445	8,102,327	11,530,856	8,434,681	8,560,717	8,744,899	9,672,790	8,498,783	9,240,654
Public works	9,719,098	7,667,125	6,124,685	6,035,524	5,283,123	2,993,702	3,088,701	9,228,780	10,393,169	10,919,102
Parks and recreation	12,605,651	13,307,764	12,138,077	8,722,311	9,756,888	11,299,979	11,947,862	4,212,301	3,385,484	3,269,360
Public safety	82,707,285	78,103,260	75,081,791	73,207,608	72,131,852	74,094,399	74,595,533	81,353,131	84,022,670	86,475,891
Capital outlay	22,745,308	27,663,037	16,655,242	11,219,489	20,839,517	26,616,638	12,901,002	30,339,677	19,817,025	21,431,186
Debt service:										
Principal retirement	2,265,000	1,093,000	2,045,000	2,234,000	2,397,000	1,451,000	1,596,000	1,789,335	2,345,362	2,535,093
Interest	3,473,369	3,033,829	4,032,612	3,620,851	3,229,440	2,330,962	2,159,672	2,417,840	2,043,278	2,075,202
Other	1,337,611	1,395,211	1,408,771	57,557	48,738	932,460	872,350	783,264	697,405	430,779
Total Expenditures	176,330,096	169,837,343	155,606,865	153,585,852	147,364,386	163,122,899	140,139,415	162,642,474	156,071,836	161,183,448
Excess of revenues over (under) expenditures	(1,773,891)	(11,641,009)	(11,285,812)	2,663,586	(2,252,463)	(11,255,438)	6,173,296	7,888,084	3,587,151	(1,787,338)
Other Financing Sources (Uses)										
Transfers in	24,429,880	19,237,526	12,346,246	10,557,218	11,384,460	18,230,774	7,962,817	8,157,278	6,960,425	5,559,720
Transfers out	(22,579,265)	(18,149,564)	(12,402,937)	(13,069,195)	(14,223,663)	(18,417,413)	(11,164,994)	(10,682,539)	(10,572,346)	(6,659,759)
Proceeds of loan payable	244,650	209,575	-	-	-	-	-	-	-	-
Proceeds of lease revenue bonds	-	65,170,000	-	-	-	-	-	-	-	-
Refunding of lease revenue bonds	-	(65,210,000)	-	-	-	-	-	-	-	-
Capital leases	-	-	-	-	-	-	-	1,070,472	330,947	5,883,756
Sale of assets	-	34,900	-	-	-	72,489	200,838	94,489	106,582	31,239
Payments to refunded debt escrow agent	-	(2,431,247)	-	-	-	-	-	-	-	-
Total other financing sources (uses)	2,095,265	(1,138,810)	(56,691)	(2,511,977)	(2,839,203)	(114,150)	(3,001,339)	(1,360,300)	(3,174,392)	4,814,956
Extraordinary Items:										
RDA dissolution transactions	-	-	-	-	(403,850)	-	-	-	-	-
RDA advance receivable elimination	-	-	-	-	(966,127)	-	-	-	-	-
Total extraordinary items	-	-	-	-	(1,369,977)	-	-	-	-	-
Change in fund balances	321,374	(12,779,819)	(11,342,503)	151,609	(6,461,643)	(11,369,588)	3,171,957	6,527,784	412,759	3,027,618
FUND BALANCES, July 1	138,763,177	139,084,551	125,888,535	113,871,596	113,940,285	108,343,964	94,498,486	97,635,248	115,647,600	117,053,754
PRIOR PERIOD ADJUSTMENTS	-	(416,197)	(674,436)	(82,920)	865,322	(2,475,890)	(35,195)	11,484,568	993,395	-
FUND BALANCES, June 30	\$139,084,551	\$125,888,535	\$113,871,596	\$113,940,285	\$108,343,964	\$94,498,486	\$97,635,248	\$115,647,600	\$117,053,754	\$120,081,372
Debt service as a percentage of noncapital expenditures	0.04830	0.04041	0.05695	0.04333	0.04696	0.03577	0.03775	0.03920	0.03877	0.03742

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, 2017)

Ten Largest Customers of Water Utility System, Year Ended 06/30/2017

<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) Modesto City Schools	347,228	1.70%	\$ 796,932	1.36%
2) City of Modesto-Stores	274,205	1.34%	\$ 796,192	1.36%
3) Stanislaus Food Products	385,849	1.88%	\$ 650,097	1.11%
4) Foster Farms	322,837	1.58%	\$ 567,002	0.97%
5) Seneca Foods	257,370	1.26%	\$ 419,120	0.71%
6) Modesto Irrigation District	191,324	0.93%	\$ 378,262	0.64%
7) Stanislaus Housing Authority	122,298	0.60%	\$ 325,320	0.55%
8) Sunopta	171,687	0.84%	\$ 308,870	0.53%
9) Yosemite Community College	99,435	0.49%	\$ 237,710	0.40%
10) E & J Gallo	109,387	0.53%	\$ 233,701	0.40%
Total Top Ten	<u>2,281,620</u>	<u>11.14%</u>	<u>\$ 4,713,206</u>	<u>8.03%</u>

Total Flat/Metered Revenues (Water Sales)

\$ 58,728,175

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

Water Sales Revenue, Year Ended 06/30/2017

Residential - Flat Rates

\$ 6,767,446

Commercial, Industrial and Municipal - Metered Rates

\$ 51,960,729

Total Water Sales (2)

\$ 58,728,175

Water Rates and Charges as of 07/01/2016

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

\$ 54.72

Commercial Accounts:

Meter Size

3/4"	\$ 20.79
1"	\$ 29.30
1 1/2"	\$ 50.58
2"	\$ 76.11
3"	\$ 156.98
4"	\$ 276.14
6"	\$ 561.28
8"	\$ 1,029.42
10"	\$ 1,625.23
12"	\$ 2,135.93

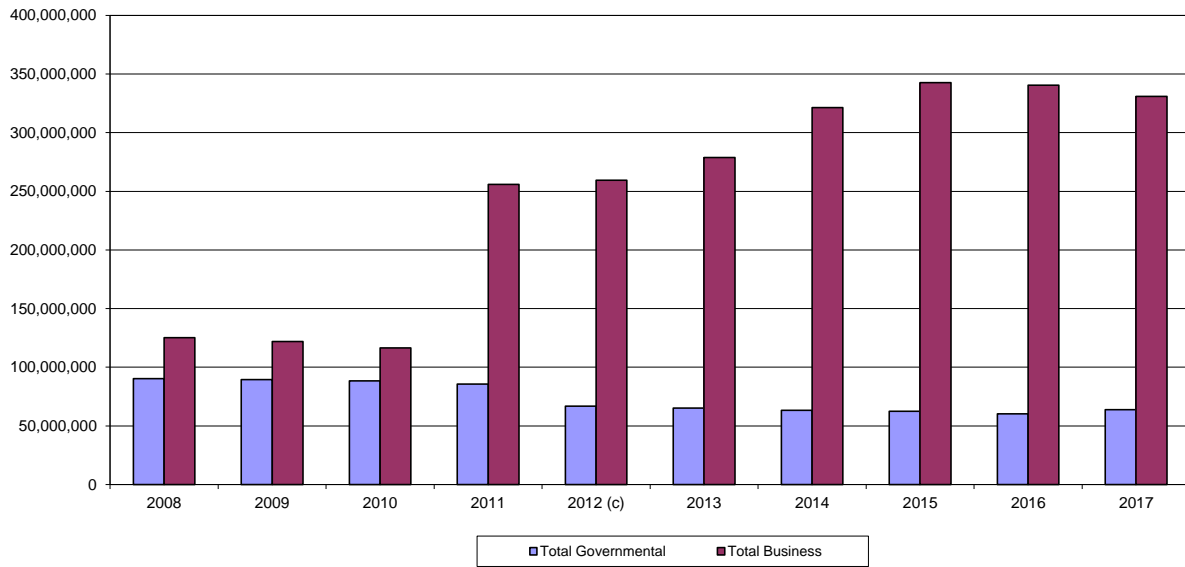
In addition to these minimum charges, commercial accounts are charged \$1.79 per 100 cubic feet of water used.

(2) Water sales only reflect the revenues in the Water Operating Fund and do not include revenue generated from developer fees and fleet replacement revenues.

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 (h)	Certificates of Participation	Lease Revenue Bonds	Notes Payable	Obligations Under Capital Leases	Total
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	905,000	18,015,000	64,275,000	3,802,436	1,221,553	88,218,989
2011	905,030	16,975,000	63,255,000	3,594,658	975,955	85,705,643
2012 (c)	500,000	-	62,130,000	3,392,000	742,937	66,764,937
2013	500,000	-	60,870,000	3,201,000	502,622	65,073,622
2014	500,000	-	59,475,000	3,000,000	256,945	63,231,945
2015	500,000	-	57,970,000	2,789,000	1,070,472	62,329,472
2016	500,000	-	56,305,000	2,568,000	942,057	60,315,057
2017	500,000	-	54,470,000	2,335,000	6,358,720	63,663,720

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)
2008	\$ 1,754,300	\$ 71,915,000	-	\$ 51,420,000	\$ 77,485	\$ 125,166,785	\$ 215,330,185	3.76%	\$ 1,025
2009	1,543,554	70,545,000	-	49,760,000	-	121,848,554	211,375,569	3.78%	999
2010	1,326,174	67,066,213	-	48,050,000	-	116,442,387	204,661,376	3.90%	1,017
2011 (d)	6,522,243	50,757,779	-	198,654,489	-	255,934,511	341,640,154	5.43%	1,693
2012 (d)	16,098,866	50,237,067	-	193,098,177	-	259,434,110	326,199,047	7.14%	1,584
2013	41,921,784	49,681,357	-	187,251,865	-	278,855,006	343,928,628	7.29%	1,663
2014	88,922,403	49,634,062	-	182,792,914	-	321,349,379	384,581,324	8.15%	1,860
2015	117,690,257	48,989,556	137,055,810	39,057,561	-	342,793,184	405,122,656	8.63%	1,937
2016 (g)	125,787,342	48,330,053	132,375,084	33,945,516	-	340,437,995	400,753,052	8.21%	1,891
2017	124,280,500	47,630,552	127,484,358	31,605,936	-	331,001,346	394,665,066	8.13%	1,859

- (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.
- (g) Starting in 2016, the amounts presented include net of unamortized premiums or discounts.
- (h) Starting in 2010, governmental activities loans payables were previously incorrectly reported as \$1,638 less than they should have. The amounts here reflect corrected amounts.

CITY OF MODESTO
COMPUTATION OF DIRECT AND OVERLAPPING DEBT
JUNE 30, 2017

<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>63,663,720</u>	100%	\$ <u>63,663,720</u>
Overlapping General Obligation debt - school districts:			
Ceres Unified School District	65,088,815	4.50%	2,927,561
Hart-Ransom Union School District	5,478,381	30.82%	1,688,691
Modesto Elementary School District	8,710,677	77.78%	6,775,554
Modesto High School District	34,857,498	67.70%	23,598,982
Paradise Elementary School District	365,000	0.00%	-
Salida Union Elementary District	410,000	28.99%	118,859
Stanislaus Union School District	28,609,931	74.54%	21,325,857
Sylvan School District	49,789,283	77.87%	38,768,708
Yosemite Community College District	<u>282,693,267</u>	33.60%	<u>94,988,074</u>
Total overlapping debt	<u>476,002,852</u>		<u>190,192,286</u>
Total direct and overlapping debt	\$ <u><u>539,666,572</u></u>		\$ <u><u>253,856,006</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.

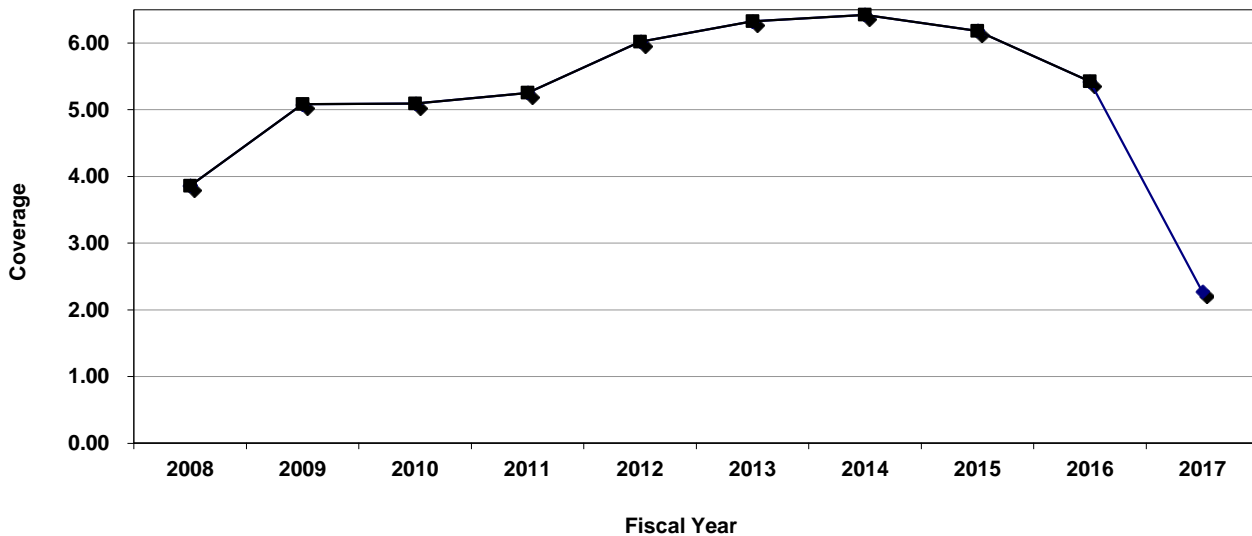
CITY OF MODESTO
COMPUTATION OF LEGAL DEBT MARGIN
JUNE 30, 2017

Net assessed value (1)(3)		\$ 14,678,535,296
Plus homeowners' exemption (1)(3)		<u>201,745,315</u>
Gross assessed value (1)(3)		<u>\$ 14,880,280,611</u>
Debt limit - 15% of gross assessed value (2)		\$ 2,232,042,092
Amount of debt applicable to debt limit:		
Total general bonded debt, including special assessment debt	\$	<u>-</u>
Less: Assets in debt service funds available for payment of principal	\$	<u>-</u>
Other deductions: Special assessment debt		<u>-</u>
Total deductions		<u>-</u>
Total amount of debt applicable to debt limit		<u>-</u>
Legal debt margin		<u>\$ 2,232,042,092</u>

<u>Fiscal Year</u>	<u>Debt Limit</u>	<u>Total Net Debt Applicable to Limit</u>	<u>Legal Debt Margin</u>	<u>Total Net Debt Applicable to the Limit as a Percentage of Debt Limit</u>
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%
2016	2,120,160,392	-	2,120,160,392	0%
2017	2,232,042,092	-	2,232,042,092	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

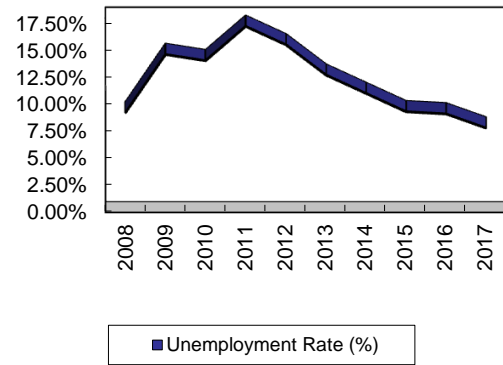
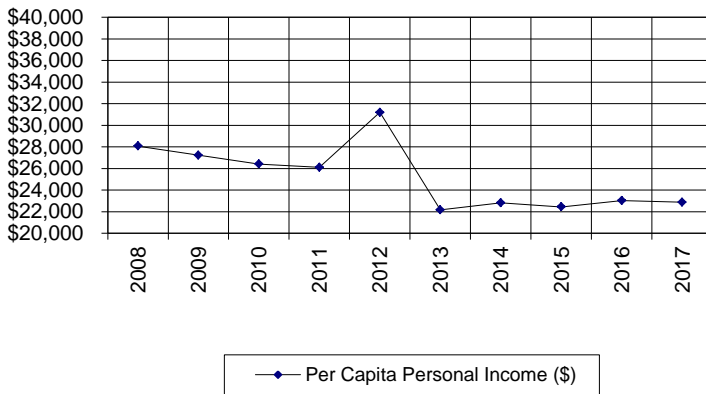
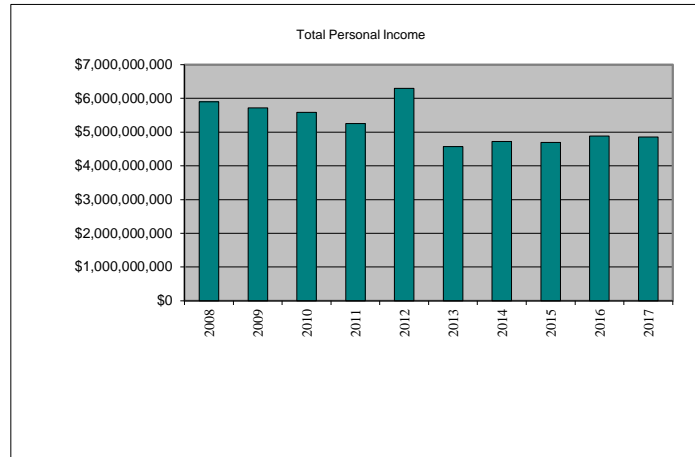
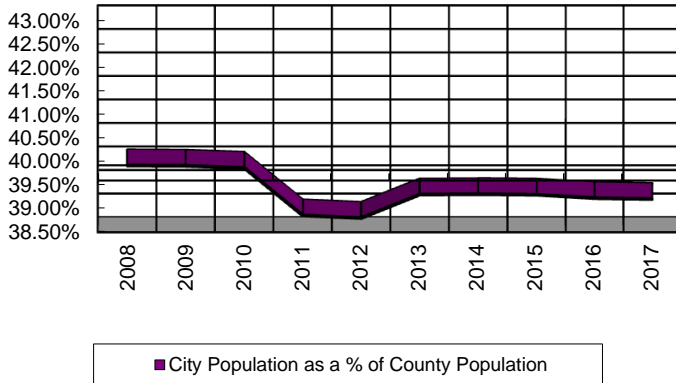
CITY OF MODESTO
REVENUE BOND COVERAGE
WASTEWATER REVENUE BONDS
LAST TEN FISCAL YEARS (4)



<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>
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
2016	50,207,559	25,418,140	24,789,419	4,570,286	5.42
2017	50,907,228	25,212,214	25,695,014	11,311,098	2.27

- 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. In fiscal year 2016-17, began repaying State Revolving Fund loan for Phase 2 - Tertiary Treatment Project debt service.
 - (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**



Fiscal Year	City Population	Total Personal Income	Per Capita Personal Income (\$)	Unemployment Rate (%)	Stanislaus County Population	City Population % of County
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%
2016	211,903	4,880,973,702	23,034	9.10%	540,214	39.23%
2017	212,287	4,856,701,986	22,878	7.80%	541,466	39.21%

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	2016/17			2008/09		
	Number of (1) Employees	Rank	Percentage of Total City Employment	Number of (1) Employees	Rank	Percentage of Total City Employment
Modesto City Schools				3,231	2	3.2%
Gallo Vineyards, Inc	3,000	1	1.31%			
Doctors Medical Center	2,260	2	0.99%	2,000	6	2.00%
Seneca				2,100	4	2.1%
Memorial Medical Center	2,056	3	0.90%	2,071	3	2.00%
Carlo Rossi Winery	2,000	4	0.87%			
E & J Gallo	2,000	4	0.87%	3,250	1	2.00%
Ecco Domani Winery	2,000	4	0.87%			
Peter Vella Winery	2,000	4	0.87%			
Zabaco Winery	2,000	4	0.87%			
Stanislaus Food Products				1,600	8	1.6%
Kaiser Permanente Modesto				1,500	9	1.5%
DelMonte Foods, Inc	1,500	5	0.65%	2,000	5	2.00%
City of Modesto	1,219	6	0.53%	1,239	10	1.2%
Modesto Junior College	1,007	7	0.44%	1,746	7	1.7%
Copperidge Winery	1,001	8	0.44%			
Community Services Agency	1,000	9	0.44%			
Modesto Bee	651	10	0.28%			
Subtotal	<u>21,042</u>		<u>10.34%</u>	<u>17,506</u>		<u>16.09%</u>
Total Labor Force	229,200			102,100		
Total City Population	212,287			210,088		

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.

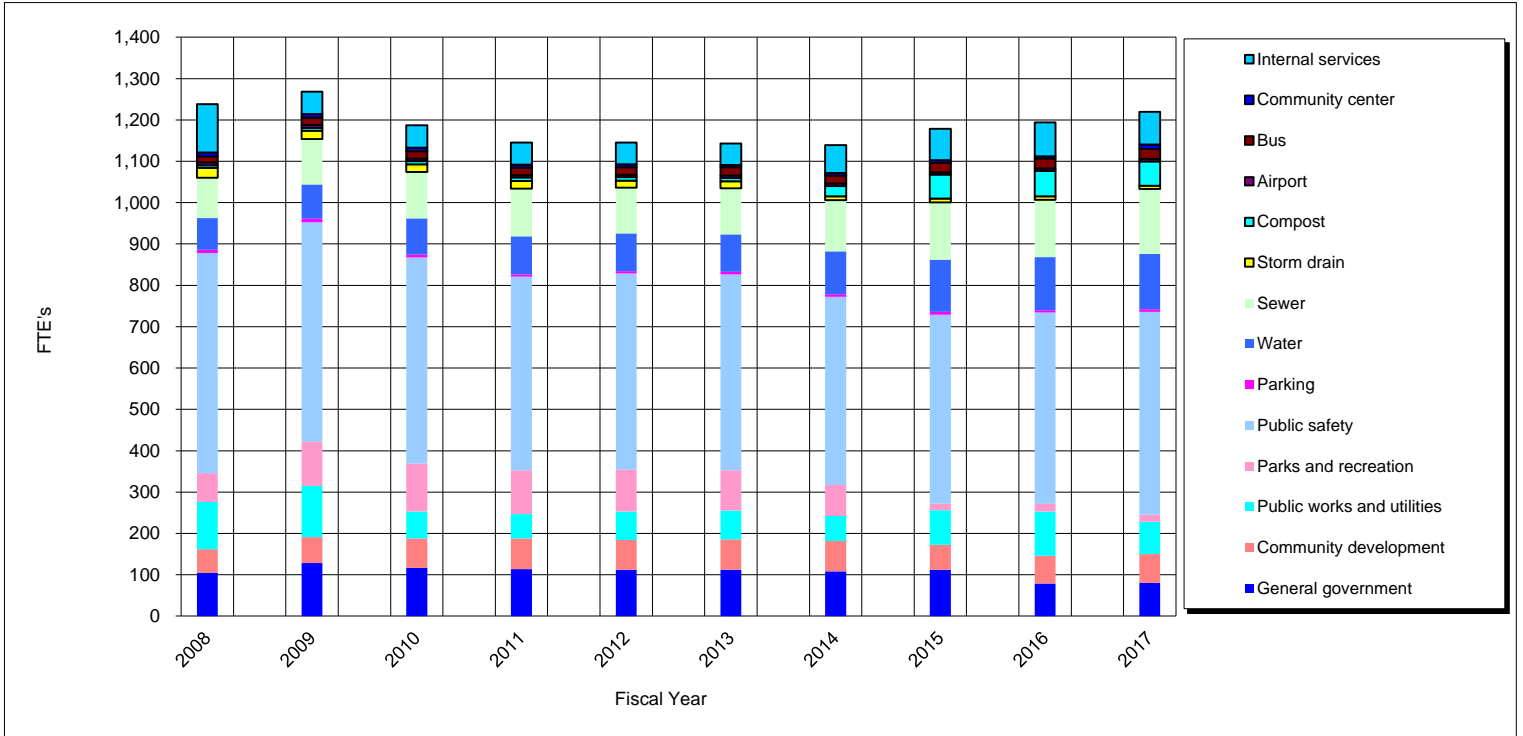
**CITY OF MODESTO
PRINCIPAL PROPERTY TAXPAYERS**

Employer	2016/17			2008/09		
	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	\$ 3,887,621	1	0.76%	\$ 1,838,227	4	0.33%
World International, LLC	3,212,117	2	0.63%	3,589,757	1	0.65%
Gallo Glass Co	3,040,497	3	0.59%	2,543,430	2	0.46%
Gallo E & J Winery	2,865,296	4	0.56%	1,980,255	3	0.36%
Bronco Wine Co	1,586,536	5	0.31%			
Excel Monte Vista LP	1,566,192	6	0.31%			
WR Griffin Patterson LLC	1,443,301	7	0.28%			
E & J Gallo Winery	1,435,809	8	0.28%			
SBC California				1,378,681	5	0.25%
Doctors Med Center of MOD Inc	1,397,390	9	0.27%	1,368,817	6	0.25%
Hunt Wesson Foods Inc	1,304,059	10	0.25%	1,141,780	9	0.21%
Del Monte Corp				1,099,179	10	0.20%
Recot Inc (Frito Lay)				1,215,949	7	0.22%
Foster Dairy Farms				1,167,115	8	0.21%
Subtotal	<u>\$ 21,738,818</u>		<u>4.24%</u>	<u>\$ 17,323,190</u>		<u>3.14%</u>
Total assessed value of \$	\$ 513,253,305			\$ 550,894,585		

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



	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Function										
General government	105.00	128.60	116.60	113.60	112.00	112.00	108.00	112.10	79.00	80.00
Community development	57.00	62.20	71.20	74.20	72.20	74.00	73.80	60.75	67.00	70.00
Public works and utilities	114.00	124.00	65.00	59.00	69.00	69.00	60.00	83.00	107.00	78.00
Parks and recreation	70.00	107.25	116.00	106.23	101.48	97.50	75.38	16.50	18.50	17.50
Public safety	532.00	530.75	499.00	467.75	473.75	474.00	455.00	456.50	462.50	490.50
Parking	8.00	8.00	7.00	6.00	6.00	6.00	6.00	7.00	6.00	6.00
Water	77.00	83.00	87.00	92.00	91.00	91.00	104.00	126.00	128.00	134.00
Sewer	97.00	110.00	112.00	115.00	111.00	111.00	124.00	139.00	139.00	157.00
Storm drain	24.00	20.00	19.00	19.00	17.00	17.00	9.00	9.00	8.00	8.00
Compost	6.00	7.00	8.00	8.00	8.00	8.00	24.80	57.80	61.80	58.80
Airport	7.00	6.75	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00
Bus	15.00	18.00	18.00	18.00	18.00	20.00	20.00	23.00	24.00	24.00
Community center	9.50	8.50	8.50	7.25	7.25	5.50	5.50	6.00	5.00	11.00
Internal services	117.00	54.00	54.00	53.00	53.00	52.00	67.30	76.00	82.00	79.00
Total	1,238.50	1,268.05	1,187.30	1,145.03	1,145.68	1,143.00	1,138.78	1,178.65	1,193.80	1,219.80

Source: City of Modesto

**CITY OF MODESTO
OPERATING INDICATORS BY FUNCTION**

Function/Program	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Public safety:										
Fire:										
Fire calls for service(1)	23,246	22,911	20,888	20,400	20,970	22,846	24,281	24,712	21,135	26,288
Primary fire inspections conducted	976	1,069	1,012	1,214	1,618	818	989	1,050	764	1,060
Police:										
Communication Center calls answered										
Police calls for service	121,434	116,383	167,576	154,549	168,242	174,113	123,357	122,270	129,439	129,802
Law violations:										
Part I and Part II crimes	60,595	57,844	52,182	49,914	47,175	52,272	53,032	50,729	53,609	53,142
Physical arrests (adult and juvenile)	14,185	12,471	15,105	11,872	11,536	12,418	15,039	18,634	12,303	11,760
Traffic violations	25,739	26,914	30,941	24,278	16,330	14,761	15,477	12,700	11,451	15,428
Parking violations	16,079	21,391	18,041	20,452	15,772	12,150	12,327	5,493	6,139	10,841
Public works										
Streets:										
Street resurfacing (lane miles)	9	1	7	6	-	6	12	8	4	12
Potholes repaired (square miles)	40,411	39,473	39,705	27,724	38,290	13,282	12,573	14,515	24,059	8,745
Water utility customer repaired (sq. ft)	-	58,737	6,990	58,044	112,136	81,261	29,108	611	-	-
Crack sealing (lane miles)	-	-	16	23	-	20	33	12	37	29
Airport:										
Number of passengers enplaned (2)	49,525	28,470	25,640	22,514	19,188	16,532	11,703	-	-	-
Number of tenant aircraft	195	184	190	183	184	184	172	162	173	162
Number of hangars	109	109	118	118	118	118	118	119	119	119
Number of runways	2	2	2	2	2	2	2	2	2	2
Annual fuel consumption in gallons	1,140,426	672,406	639,971	311,500	645,283	653,153	682,769	582,473	443,272	582,602
Bus service:										
Number of buses	56	56	56	63	55	65	55	56	60	59
Number of routes	20	20	20	20	20	20	20	21	21	21
Total route miles	362	362	362	362	362	362	362	362	362	362
Average weekday number of passengers	12,599	12,599	12,524	10,688	11,553	11,616	12,538	11,598	12,441	10,523
Total number of passengers carried	3,699,846	3,699,846	3,478,120	3,145,400	3,413,421	3,434,409	3,666,824	3,416,314	3,664,689	3,108,307
Community development										
Building safety & NPU:										
Permits issued	4,182	3,242	3,733	3,801	3,288	3,566	3,871	4,511	4,939	4,973
Estimated cost of construction	\$ 157,006,451	\$ 96,127,131	\$ 67,488,906	\$ 73,397,148	\$ 76,362,371	\$ 81,095,370	\$ 58,850,241	\$ 137,453,763	\$ 92,768,634	\$ 118,527,812
Building Inspections made	39,172	32,362	32,846	29,034	25,549	27,816	30,034	31,571	23,187	36,158
Traffic electrical:										
Street lights	13,595	13,764	13,765	13,765	13,765	13,765	13,761	13,764	13,764	13,764
Traffic signals	140	146	149	143	143	144	144	147	151	153
Lighted ped walks*	-	28	28	28	30	28	29	28	28	28
Beacons*	-	1	12	5	8	8	11	11	11	11
Four way flashers*	-	9	9	9	9	10	10	10	10	10
School flashers*	-	22	22	22	22	22	22	22	23	24
CCTV*	-	38	38	38	38	41	41	41	41	41
Hubs*	-	5	5	5	5	6	6	6	6	6
Culture and recreation:										
Recreation class participants	4,255	3,271	3,171	2,297	2,072	264,670	150,514	151,323	150,091	150,500
Solid waste:										
Recyclables processed (tons per year)	106,664	74,288	47,170	50,789	67,317	37,647	46,936	55,020	56,493	71,155
Yard waste	38,889	41,235	48,856	60,408	58,650	55,147	39,117	48,832	58,730	62,859
Commercial food waste	280	597	667	814	735	765	827	817	845	914
Waste tires	7,120	5,214	3,683	2,388	1,247	1,674	4,969	4,152	4,497	4,931

(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

(2) The enplanements subsided with the loss of commercial service in FY 2014.

CITY OF MODESTO
CAPITAL ASSET STATISTICS BY FUNCTION/PROGRAM

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Function/Program										
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	102	70	100	98	98	105	105	105	105	104
Public works										
Streets:										
Miles of streets (1)	675	675	675	676	684	684	691	691	692	692
Water:										
Miles of water mains	994	1,007	1,008	1,008	1,008	1,009	1,009	914	887	887
Fire hydrants	7,301	7,412	7,516	7,536	7,566	7,584	7,596	7,748	7,845	7,859
Storage capacity (thousands of gallons)	9,400,000	9,400,000	13,100,000	12,300,000	12,300,000	12,300,000	12,300,000	12,300,000	18,300,000	18,300,000
Wastewater:										
Miles of sanitary sewers	656.7	642	642	642	642	639	639	639	639	655
Miles of storm sewers	133.6	183	183	183	183	183	183	183	183	170
Number of treatment plants (2)	2	2	2	2	2	2	2	2	2	2
Treatment capacity (millions of gallons)(5)	70	72	72	72	72	70	70	70	70	19
Community services:										
City parks (3)	76	76	76	76	76	76	76	76	76	76
City parks acreage	1,088	1,088	1,088	1,088	1,088	1,110	1,110	1,110	1,240	1,240
Playgrounds	55	55	55	55	55	55	55	58	58	58
City trails	4	4	4	4	7	7	7	6	6	6
City trails miles	12	12	12	12	14	14	14	15	15	15
Regional park acreage	324	324	324	324	324	324	324	375	375	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	3	3
Community gardens	2	2	2	2	2	2	2	2	2	1
Community centers	6	7	7	6	6	7	7	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	13	13	13	4	4	4	4	4	4	1
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	29	29	29	29	29
Splash play in Existing parks	-	-	-	-	10	10	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.

(3) The number of parks for fiscal years 2013, 2014, 2015 was reported incorrectly as 77. Figures have been corrected to reflect accurately.

(4) The number of historic houses was reduced by one due to the Crismon House burning down. There are no plans to rebuild.

(5) The City has a new process and permit. Previous permit was 70 MGD seasonal Oct. through May. Current permit is 19 MGD year round.

Source: City of Modesto - Various Departments

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**CONTINUING DISCLOSURE
SECTION**

Continuing Disclosure Section

This part of the Comprehensive Annual Financial Report provides information in order to comply with the City's contractual commitment established by certain continuing disclosure undertaking of the City, entered into in accordance with Securities and Exchange Commission Rule 15c2-12 (the "Rule") for the City's bond obligations listed below. In contrast to the financial section, the continuing disclosure section information is not subject to independent audit.

1. Wastewater Revenue Bonds, Series 2006 A
2. Wastewater Revenue Refunding Bonds, Series 2015
3. Water Revenue Refinancing Certificates of Participation, 2008 Series A
4. Modesto Irrigation District Financing Authority Domestic Water Project Refunding Revenue Bonds, Series 2013G
5. Modesto Irrigation District Financing Authority Domestic Water Project Revenue Bonds, Series 2007F

CITY OF MODESTO
CONTINUING DISCLOSURE REQUIREMENTS INFORMATION
YEAR ENDED JUNE 30, 2017

Wastewater Revenue Bonds, Series 2006 A, and
Wastewater Revenue Refunding Bonds, Series 2015

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: \$2,643 per Equivalent Dwelling Unit for residential units. Commercial and industrial property charged based on type of business.
 Sub-trunk sewer charge: \$645 per acre
 Connection (lateral) charge: \$33 per linear foot of lot frontage adjacent to the sewer line.

<u>Category</u>	<u>Number of Accounts</u>	<u>% of Total Accounts</u>	<u>% of Sewer Fee Operating Revenue</u>
Residential	57,947	94.61%	49.56%
Commercial	3,259	5.32%	10.45%
Industrial	42	0.07%	29.80%
Total	61,248	100.00%	89.82%

Ten Largest Users of Sewer Facilities, Year Ended 6/30/17

<u>User</u>	<u>Sewer Fee Revenue</u>	<u>% of Sewer Fee Operating Revenue</u>
1) Stanislaus Food Products	\$ 1,409,172	3.17%
2) E & J Gallo Winery	\$ 1,358,209	3.06%
3) Foster Farms	\$ 1,152,448	2.59%
4) Frito Lay, Inc.	\$ 1,088,277	2.45%
5) Del Monte Foods	\$ 1,062,966	2.39%
6) City of Ceres	\$ 1,020,714	2.30%
7) Seneca	\$ 452,282	1.02%
8) Sunopta	\$ 430,868	0.97%
9) Nestle Food Company	\$ 395,568	0.89%
10) Rizo Lopez Foods	\$ 334,130	0.75%
Total (Top Ten Customers)	\$ 8,704,634	19.60%
Total (All Customers)	\$ 44,410,464	

The average single-family residence monthly sewer charge is: \$31.92

<u>Commercial Group</u>	<u>Charge Per 1,000 Gallons</u>	<u>Fixed Charge</u>
Group 1 (no food, just toilets or working facilities)	\$2.76	\$4.40
Group 2 (commercial laundromats, service stations, hotels without food)	\$3.78	\$4.40
Group 3 (industrial laundromats, hotels with food)	\$4.80	\$4.40
Group 4 (restaurants, bakeries, auto steam, markets)	\$6.03	\$4.40

Industrial users pay a minimum account charge of \$4.40 with additional charges of: \$2,604.00 per million gallons of flow, \$213.00 per 1,000 pounds of excess biochemical oxygen demand (BOD), and \$441.00 per 1,000 pounds of Total Suspended Solids (TSS).

Industrial users on the Cannery Segregation line pay a minimum account charge of \$4.40 with additional charges of: \$2,680.00 per \$1.39 per 1,000 pounds of excess biochemical oxygen demand (BOD), and \$4.04 per 1,000 pounds of Total Suspended Solids (TSS) while in production during the months of July, August and September.

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 51-52	(Note III-C)
Historical Debt Service Coverage	Page 137	
	(continued)	

**CITY OF MODESTO
WASTEWATER COMPARISON INFORMATION
 YEAR ENDED JUNE 30, 2017**

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>
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
2015-16	3.00
2016-17	6.00

Comparative Monthly Wastewater Service Charges.

The City's residential charges as of July 1, 2016 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, 2016**

<u>City</u>	<u>Monthly Residential Charge</u>
Fresno	\$25.75
Lodi	\$25.63
Modesto	\$29.36
Stockton	\$38.36
Tracy	\$34.00
Turlock	\$31.20

CITY OF MODESTO
CONTINUING DISCLOSURE REQUIREMENTS
YEAR ENDED JUNE 30, 2017

CITY OF MODESTO
WASTEWATER SYSTEM
Wastewater Connection Fees Comparison
As of July 1, 2016

<u>City</u>	<u>Connection Fee</u>
Fresno (1)	\$3,438.50
Lodi (2)	\$2,932.00
Modesto	\$2,643.00
Stockton	\$635.00
Tracy	\$6,727.00
Turlock	\$2,636.66

(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, 2017

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

Reserve Account Requirement as of 6/30/17	\$ 4,011,410
Surety Policy Value:	\$ (2,082,513)
Balance in Parity Reserve Account as of 6/30/17	\$ (1,942,080)
Shortfall/(Excess) Reserve Coverage:	<u>\$ (13,183)</u>

Balance in Rate Stabilization Account as of 6/30/17:

Ten Largest Customers of Water Utility System, Year Ended 6/30/17

Customer	Business Type	Usage (ccf) (2)	% of Total Usage	Water Sales Revenue (\$)	% of Total Water Sales Revenue
1) Modesto City Schools	Education	347,228	1.70%	\$796,932	1.68%
2) City of Modesto - Stores	Local Government	274,205	1.34%	\$796,192	1.67%
3) Stanislaus Food Products	Cannery	385,849	1.88%	\$650,097	1.37%
4) Foster Farms	Dairy Processor	322,837	1.58%	\$567,002	1.19%
5) Seneca Foods	Cannery	257,370	1.26%	\$419,120	0.88%
6) Modesto Irrigation District	Power Company	191,324	0.93%	\$378,262	0.80%
7) Stanislaus Housing Authority	Housing Authority	122,298	0.60%	\$325,320	0.68%
8) Sunpota	Cannery	171,687	0.84%	\$308,870	0.65%
9) Yosemite Community College	Education	99,435	0.49%	\$237,710	0.50%
10) E & J Gallo	Processor	109,387	0.53%	\$233,701	0.49%
Total Top Ten		<u>2,281,620</u>	<u>11.14%</u>	<u>\$4,713,206</u>	<u>9.91%</u>

Total Flat/Metered Revenues (Water Sales) \$47,562,579
(1) Grover Landscaping maintains City parks
(2) "ccf" means "hundred cubic feet"

Water Sales Revenue, Year Ended 6/30/2017

Residential - flat rates	\$ 6,767,446
Commercial, industrial and municipal - metered rates	<u>\$ 51,960,729</u>
Total Water Sales	<u>\$ 58,728,175</u>

The average monthly flat rate service charge for residential customers is: \$ 54.72

Current Water Rates as of 07/01/2015- Commercial Accounts

Meter Size	
3/4"	\$ 20.79
1"	\$ 29.30
1 1/2"	\$ 50.58
2"	\$ 76.11
3"	\$ 156.98
4"	\$ 276.14
6"	\$ 561.28
8"	\$ 1,029.42
10"	\$ 1,625.23
12"	\$ 2,135.93

In addition to these minimum charges, commercial accounts are charged \$1.79 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 6/30/2017, the balance of the 2013 G Bond was \$30,870,000 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

	2008	2009	2010	2011	2012	2013 (1)	2014	2015 (11)	2016 (12)	2017
Charges for services	\$ 52,927,134	\$ 52,990,138	\$ 51,572,801	\$ 51,876,505	\$ 53,453,708	\$ 56,906,488	\$ 56,940,812	\$ 54,779,417	\$ 51,489,077	\$ 63,253,114
Connection charges	1,943,456	1,113,082	647,579	452,021	516,839	295,632	357,432	1,024,626	935,987	1,435,654
Refunds, damages & recoveries	232,570	29,033	428,083	460,766	166,522	260,802	215,271	20,988	511,063	57,533
Interest and rental income	1,984,517	2,055,531	1,006,611	588,917	670,046	174,224	235,246	353,305	535,823	574,899
Draw from (deposit to) rate stabilization fund	-	-	-	-	-	-	-	-	-	-
Service credits ⁽²⁾	604,082	501,671	2,170,367	2,562,986	2,966,465	3,201,951	2,678,999	3,033,487	3,026,911	3,304,911
Miscellaneous	13,190	32,586	25,782	58,083	118,203	150,949	154,700	365,808	2,979,500	231,134
Total gross operating revenues	57,704,949	56,722,041	55,851,223	55,999,278	57,891,783	60,990,046	60,582,460	59,577,631	59,478,361	68,857,245
Operating expenses ⁽³⁾	23,664,217	28,359,392	30,219,002	26,638,348	30,755,822	28,530,554	36,598,298	33,773,198	38,722,320	35,508,887
Operating transfers ⁽⁴⁾⁽⁵⁾	65,000	482,503	765,000	776,000	1,257,406	838,421	765,000	765,000	765,954	765,000
CIP expenses moved to operating ⁽⁶⁾	2,156,833	3,054,407	1,127,185	-	-	-	-	-	-	-
Total operating expenses⁽⁷⁾	25,886,050	31,896,302	32,111,187	27,414,348	32,013,228	29,368,975	37,363,298	34,538,198	39,488,274	36,273,887
Net operating revenues	31,818,899	\$ 24,825,739	\$ 23,740,036	\$ 28,584,930	\$ 25,878,555	\$ 31,621,071	\$ 23,219,162	\$ 25,039,433	\$ 19,990,087	\$ 32,583,358
1997 Refunding Certificate of Participation ⁽⁸⁾	1,791,930	1,792,258	1,794,688	1,797,013	-	-	-	-	-	-
2006 Revenue Certificates of Participation	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	2,531,179	2,313,857	2,468,593
MID Treatment & Delivery Agreement ⁽⁹⁾	6,681,894	6,672,406	7,455,918	10,794,041	10,888,790	10,889,760	8,885,208	9,930,040	10,203,352	10,202,108
CDWR Loan	264,719	263,079	264,719	264,719	255,942	264,719	264,719	262,692	131,322	-
ARRA Grant	-	-	-	-	5,137	36,289	36,103	36,095	36,089	36,084
Total debt service \$	10,720,799	\$ 10,989,860	\$ 11,661,291	\$ 15,126,807	\$ 13,834,331	\$ 13,822,993	\$ 11,834,813	\$ 12,760,006	\$ 12,684,620	\$ 12,706,785
Debt service coverage (14)	2.97	2.26	2.04	1.89	1.87	2.50	1.96	1.96	1.58	2.56

(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. Reduced fiscal year 2016 Operating Expenses as the 131,322 CDWR Loan payment (along with 2 dollars attributed to rounding error) were counted both in Operating Expense and in the debt service section.

(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. Fiscal year 2016 Total operating expense reduced from 39,619,604 to 39,488,274 since the Operating expenses was adjusted (see note 3)

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

(9) Increased fiscal year 2015 2008 Revenue Certificates of Participation from 2,501,891 to 2,531,179 to account for actual expenditure instead of the internal transfer.

(10) Debt service payment increased by \$4.1 million in fiscal year 2010-11 due to the expiration of capitalized interest. Fiscal year 2015 MID Treatment & Delivery Agreement increased from 9,905,923 to 9,930,040 to account for actual expenditure.

(11) Reduced fiscal year 2014-15 Operating expenses from 40,349,338 to 33,773,198.

(12) The sale of the Waterford-Hickman Water System for \$2.6 million had a significant impact to the Water Fund debt service calculation. Without the sale of this system Water Fund debt service coverage would have been 1.35. Reduced fiscal year 2015-16 Operating Expenses as the 131,322 Del Estate Water Company loan payment (along with 2 dollars attributed to rounding error) were counted both in Operating Expense and in the Debt service section.

(13) Del Estate Water Company (CDWR) loan payment for fiscal year 2014-15 was reduced from 264,719 to 262,692 and fiscal year 2015-16 reduced from 264,719 to 131,322. Loan repayment was completed in fiscal year 2015-16.

(14) Changed fiscal year 2014-15 ARRA Grant from 36,290 to 36,095 and changed fiscal year 2015-16 ARRA Grant from 36,290 to 36,089.

(15) Fiscal year 2015-16 Debt service coverage increased from 1.55 to 1.57 and fiscal year 2014-15 Debt service coverage increased from 1.45 to 1.96 after above stated changes were made.

(16) The financial figures reported only reflect net operating revenues in the Water Operating Fund.

Source: City of Modesto

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

The City has prepared the following table of projections of operating results of the Water Utility System for the five fiscal years 2018-22. 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 2018	Fiscal Year Projected 2019	Fiscal Year Projected 2020	Fiscal Year Projected 2021 ⁽⁵⁾	Fiscal Year Projected 2022
Charges for services ⁽²⁾	\$ 66,000,000	\$ 71,940,000	\$ 78,415,000	\$ 85,472,000	\$ 85,472,000
Connection charges	346,000	331,000	331,000	331,000	331,000
Refunds, damages & recoveries	189,000	192,000	196,000	200,000	200,000
Interest and rental income	174,000	174,000	175,000	176,000	176,000
Draw from (deposit to) rate stabilization fund	-	-	-	-	-
Service credits	2,753,000	2,781,000	2,808,000	2,836,000	2,836,000
Miscellaneous	27,000	27,000	28,000	28,000	28,000
GF (parks loan) P/I	54,000	54,000	54,000	54,000	54,000
Total gross operating revenues	<u>\$69,543,000</u>	<u>\$75,499,000</u>	<u>\$82,007,000</u>	<u>\$89,097,000</u>	<u>\$89,097,000</u>
Operating expenses ⁽³⁾	41,756,000	42,542,000	43,369,000	44,213,000	45,097,260
Operating transfers	765,000	765,000	765,000	765,000	765,000
Total operating expenses ⁽⁴⁾	<u>\$42,521,000</u>	<u>\$43,307,000</u>	<u>\$44,134,000</u>	<u>\$44,978,000</u>	<u>\$45,862,260</u>
Net operating revenues	<u>27,022,000</u>	<u>32,192,000</u>	<u>37,873,000</u>	<u>44,119,000</u>	<u>43,234,740</u>
2008 Revenue Certificates of Participation	2,492,000	2,504,000	2,486,000	2,466,000	2,466,000
MID Treatment & Delivery Agreement	10,088,000	10,081,000	10,082,000	10,080,000	10,080,000
CDWR Loan	-	-	-	-	-
ARRA Grant	36,000	36,000	36,000	36,000	36,000
New Future Debt	-	2,468,000	2,468,000	2,468,000	2,468,000
Total debt service	<u>12,616,000</u>	<u>15,089,000</u>	<u>15,072,000</u>	<u>15,050,000</u>	<u>15,050,000</u>
Debt service coverage	2.14	2.13	2.51	2.93	2.87

* Please note that fiscal year 2018 thru fiscal year 2021 projection is derived from the May 2016 Water Rate and Fee Study. Fiscal year 2011-22 has been kept flat until another Water Rate and Fee Study is completed.

(2) Revenues do NOT include a Consumer Price Index (CPI) increase. There were approved water rate increases as follows: fiscal year 2016-17 at 25.04%, fiscal year 2017-18 at 11.08%, fiscal year 2018-19 at 9.00%, fiscal year 2019-20 at 9.00%, and

(3) Operating expenses have assumed an inflationary rate of 2% in 2018-22 thru fiscal year 2021-22.

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

(5) Increase in Debt Service Coverage from fiscal year 2017-18 to fiscal year 2020-21 is due to larger increase in water rates compared to operating expenses. See note (2) and note (3). The increase in water rates is intended to fund pay-as-you-go CIPs not reflected on this table.

Source: City of Modesto.

**CITY OF MODESTO
CITY WATER UTILITY SYSTEM STATISTICS
CONTINUING DISCLOSURE REQUIREMENTS
YEAR ENDED JUNE 30, 2017**

**CITY WATER UTILITY SYSTEM STATISTICS
(Calendar Years 2008 through 2017)**

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Number of Service Accounts	76,852.0	76,899.0	76,508.0	76,983.0	76,788.0	75,357.0	75,006.0	74,665.0	72,825.0	73,135.0
Total Water Production (MG)(1)	25,182.0	23,824.0	21,712.0	20,892.0	21,765.0	21,606.0	20,630.0	17,692.0	15,155.0	15,319.5
Capacity (MGD)(2)	166.0	166.0	166.0	166.0	175.2	175.2	175.2	175.2	175.2	175.2
Peak Daily Distribution (MGD)	116.5	113.0	110.0	98.5	97.2	99.8	95.3	84.6	74.7	84.3
Average Daily Distribution (MGD)	68.8	65.3	59.5	57.2	59.5	59.2	56.5	48.5	41.5	42.0

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

**CITY WATER UTILITY SYSTEM
Service Area Total Production (Billion Gallons)
(Fiscal Years 2008 through 2017)**

Fiscal Year Ended	Well Water	Surface Water	Total
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	16.48
2016	9.22	5.02	14.24
2017	8.63	5.86	14.49

**CITY WATER UTILITY SYSTEM
Average Monthly Water Rates Comparison
Flat Rate (1" Service)
As of July 1, 2016**

City	Flat Rate Typical Home
Fresno (1)	\$ 13.80
Lodi (2)	\$ 26.92
Modesto	\$ 54.72
Stockton (1)	\$ 31.00
Tracy (2)	\$ 20.40
Turlock (1)	\$ 21.20

- (1) Water is metered. Charge varies per meter size.
(2) Water is both metered and flat rate. Charge varies per meter and dwelling size.

CITY OF MODESTO
CONTINUING DISCLOSURE REQUIREMENTS
YEAR ENDED JUNE 30, 2017

The following table sets forth connection fees for all users except multi-family units by meter size for year 2016-2017:

CITY WATER UTILITY SYSTEM
Connection Fees Comparison
Except Multiple Family Units
(Fiscal Year 2016-2017)

<u>Meter Size</u>	<u>Connection Fees</u>
5/8" meter**	\$2,202
1" meter	\$3,671
1-1/2" meter	\$7,341
2" meter	\$11,746
3" meter	\$25,695
4" meter	\$46,250
6" meter	\$95,437
8" meter	\$176,191
10" meter	\$278,970
12" meter	\$367,065

**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, 2017**

**CITY WATER UTILITY SYSTEM
Sale of Water
(Year Ended June 30, 2017)***

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenues (\$000)										
Residential (Flat Rates)	\$31,495	\$30,585,450	\$21,256,928	\$16,888,754	\$14,464,689	\$12,955,005	\$10,723,594	\$9,037,477	\$7,320,096	\$6,767,446
Commercial, Industrial and Municipal (Metered)	17,890	20,445,393	28,758,412	33,190,426	37,162,861	42,452,862	44,093,862	43,118,855	40,242,493	51,960,729
Total Water Sales	<u>\$49,385</u>	<u>\$51,030,843</u>	<u>\$50,015,340</u>	<u>\$50,079,180</u>	<u>\$51,627,550</u>	<u>\$55,407,867</u>	<u>\$54,817,456</u>	<u>\$52,156,332</u>	<u>\$47,562,589</u>	<u>\$58,728,175</u>

The table below sets forth the adopted single family residential flat rates approved through fiscal year 2016-17.

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

Lot Size	Effective July 1, 2007	Effective July 1, 2008	Effective July 1, 2009	Effective November 1, 2010	Effective July 1, 2011	Effective July 1, 2012	Effective July 1, 2013	Effective July 1, 2014	Effective July 1, 2015	Effective July 1, 2016
0-5,000 sq. ft. lot	\$35.45	\$37.23	\$37.23	\$38.01	\$38.69	\$39.89	\$40.81	\$40.81	\$40.81	\$47.38
5,001-7,000 sq. ft. lot	40.30	42.31	42.31	43.20	43.98	45.34	46.38	46.38	46.38	54.72
7,001-11,000 sq. ft. lot	47.82	50.21	50.21	51.26	52.18	53.80	55.04	55.04	55.04	69.22
11,001-17,000 sq. ft. lot	50.76	53.30	53.30	54.42	55.40	57.12	58.43	58.43	58.43	90.88
over 17,000 sq. ft. lot	59.68	62.66	62.66	63.98	65.13	67.15	68.69	68.69	68.69	101.80

(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

CITY OF MODESTO
CONTINUING DISCLOSURE REQUIREMENTS INFORMATION
YEAR ENDED JUNE 30, 2017

The following table sets forth the adopted monthly service charge and volume charge for commercial accounts through fiscal year 2016-17.

CITY WATER UTILITY SYSTEM
Water Rates and Charges
Commercial Accounts

	Effective July 1, 2008	Effective July 1, 2009	Effective July 1, 2010	Effective November 1, 2010	Effective July 1, 2011	Effective July 1, 2012	Effective July 1, 2013	Effective July 1, 2014	Effective July 1, 2015	Effective July 1, 2016
Volume-based Rate (\$/hcf)	\$1.28	\$1.28	\$1.28	\$1.33	\$1.33	\$1.37	\$1.40	\$1.40	\$1.40	\$1.79
Fixed Monthly Meter Charge (in addition to volume-based charges)										
5/8"-3/4" meter	\$13.71	\$13.71	\$13.71	\$14.00	\$14.25	\$14.69	\$15.03	\$15.03	\$15.03	\$20.79
1" meter	19.45	19.45	19.45	19.86	20.22	20.85	21.33	21.33	21.33	29.30
1-1/2" meter	33.66	33.66	33.66	34.37	34.99	36.07	36.90	36.90	36.90	50.58
2" meter	50.79	50.79	50.79	51.86	52.79	54.43	55.68	55.68	55.68	76.11
3" meter	96.51	96.51	96.51	98.54	100.31	103.42	105.80	105.80	105.80	156.98
4" meter	147.88	147.88	147.88	150.99	153.71	158.48	162.13	162.13	162.13	276.14
6" meter	290.51	290.51	290.51	296.61	301.95	311.31	318.47	318.47	318.47	561.28
8" meter	461.75	461.75	461.75	471.45	479.94	494.82	506.20	506.20	506.20	1,029.42
10" meter	661.58	661.58	661.58	675.47	687.63	708.95	725.26	725.26	725.26	1,625.23
12" meter	1,232.31	1,232.31	1,232.31	1,258.19	1,280.84	1,320.55	1,350.92	1,350.92	1,350.92	2,135.93

Note: Additional financial information is available at www.modestogov.com

**CITY OF MODESTO
BOND RATINGS
FISCAL YEAR ENDED JUNE 30, 2017**

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

Sources: www.moodys.com
www.standardandpoors.com
www.Fitchratings.com

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