

CITY OF  
**Modesto, California**

**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
**Fiscal Year Ended June 30, 2007**

Prepared by  
Finance Department

**CITY OF MODESTO**  
 June 30, 2007  
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## **INTRODUCTORY SECTION**





## CITY of MODESTO

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December 21, 2007

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

The City of Modesto City Charter and Municipal Code require that a complete financial statement and report on the finances of the City be submitted to the City Council at the end of each fiscal year. This report is being submitted to fulfill that requirement for the fiscal year ended June 30, 2007.

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

The Charter also requires an annual audit by an independent certified public accountant selected by the City Council. The accounting firm of Maze & Associates was selected in 2003 to perform the City's annual financial audits. The auditors have issued an unqualified ("clean") opinion on the financial statements for the year ended June 30, 2007, which is presented on page 3. In addition to meeting the City Charter audit requirements, the audit was also designed to meet the requirements of the federal Single Audit Act of 1996 and related OMB Circular A-133. The auditor's reports related specifically to the Single Audit will be presented separately at a later date.

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

### **City of Modesto Profile**

Modesto is a dynamic city located in the heart of California's San Joaquin Valley and is the retail, service and financial center of Stanislaus County. The City currently occupies a land area of approximately 36 square miles and serves a population of over 209,000. Periodically, as allowed by state statute, the City extends its corporate limits by annexation when deemed appropriate by the City Council.

Incorporated in 1884, Modesto adopted its City Charter on March 12, 1951, and has operated under the council-manager form of government since that date. Under this form of government, policy-making and legislative authority are vested in an elected council consisting of the Mayor and six members. The Modesto City Council is elected by chair on a non-partisan basis,

meaning 6 members represent the entire City rather than specific geographical areas within the City's boundaries. The Mayor is elected separately on a non-partisan basis. The Mayor and City Council are responsible for passing ordinances, adopting and amending the operating and capital budgets, appointing various committee members, and hiring the City Manager, City Attorney, and City Clerk/Auditor. The City Manager of Modesto is charged with carrying out the policies and ordinances of the City Council, overseeing the day-to-day operations of the City, and for appointing the Deputy City Manager and department heads, with general responsibilities for the Economic Development and Health, Safety & Culture components of the City's Vision. Support services departments, like Finance, Personnel and Information Technology report to the City Manager.

The City provides services typically associated with a municipality. These include administrative services; police and fire protection; highway, street, and utility infrastructure construction and maintenance; sanitation; planning and zoning; recreational activities and cultural events. Parking, airport facilities, water, sewer, storm drainage and bus services are also provided.

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

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

### **Local economy**

Modesto area employment in retail and manufacturing remained strong over the past year. Retail sector jobs account for one-sixth of Stanislaus County's wage and salary workers with the manufacturing sector trailing close behind. Stanislaus County consistently ranks among the top 10 California counties in terms of annual agricultural production values. The county's leading commodities are milk, almonds and poultry.

The unemployment rate has remained fairly steady for the last several years and is 6.8%. Just over 10 years ago the unemployment rate was 15%. Since 2000, over 12,000 jobs have been added to the local economy, representing cumulative growth of more than 8%. Industries recording the most growth were: educational and health services; retail sales, and construction. Employees within the community enjoy an average commute time of 26 minutes.

Building permit activity has boomed over the past decade. In fiscal year 1996, the City issued 4,186 permits with estimated cost of construction valued at \$114 million. Permit activity peaked in 2001, when 7,155 permits with construction valued at \$477 million were issued, and activity has remained above 5,000 permits annually since 2001. During fiscal year 2007, 5,174 permits were issued valued at \$228 million.

Since 2000, the City's population grew 11.1% to 209,174. This population growth is largely attributable to the relatively low cost of housing compared to the Bay Area and to the growth of employment within the region.

During the past ten years, public safety costs have risen not only in amount, but also as a percentage of total expenditures. Public safety represented 68% of total General Fund expenditures in 2007, compared with 62.4% ten years ago. Expenses for other governmental functions have remained steady or decreased compared to total fund expenses during the same time period. Increased staffing, driven by the growth in the population, as well as higher salaries and charges for retirement, have caused the increase in public safety charges.

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

In Fiscal Year 2003, the City Council adopted a policy of maintaining at least 8% of General Fund expenditures in reserve. At the end of Fiscal Year 2007, the General Fund unreserved and undesignated balance was \$10.7 million representing 8.3% of total General Fund outflows (expenditures and transfers out).

### **State Impacts**

Between Fiscal Years 1991 and 2005, the State of California diverted \$36.6 million in local revenues from the City of Modesto into its own coffers. In 2005 the state enacted new legislation known as the Triple-Flip. As the name implies, a series of revenue exchanges take place leaving the City with 25% less sales tax revenue and more property tax revenue in its place. A similar exchange takes place leaving the City with property tax revenue in place of 67% of the In-Lieu Vehicle License Fees. These exchanges not only affect the character and amount of the revenues received by the City but also affect City cash flow, because a monthly stream of payments has been replaced by semi-annual payments.

### **Important Financial Policies**

In 2003, the City Council adopted a series of financial policies that direct how the City's financial business is conducted. In addition to the 8% General Fund reserve level, these policies include direction on departmental annual budget savings, tracking of all transfers to the Redevelopment Agency for future payback, capital budgeting, interfund loan interest rates and investment pool interest allocation. These policies were reviewed and revised at the start of the 2007 Fiscal Year.

### **Major Initiatives**

During Fiscal Year 2005, California voters approved Proposition 1A. This initiative places stricter controls on the state's ability to divert local revenue. While this protection is seen as beneficial to local government, local revenues are still affected by the Triple-Flip component of the legislation described above. In Fiscal Year 2006, the last payment to be made under the revised legislation that shifted local property tax dollars to the Education Revenue Augmentation Fund was made. Now, with the State of California facing a \$10 billion shortfall in revenues, it remains to be seen how the legislature will affect local revenues under Proposition 1A.

### **Awards and Acknowledgments**

For the twenty-third consecutive year, the Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Modesto for its comprehensive annual financial report for the fiscal year ended June 30, 2006. To receive this recognition, the City must publish an easily readable and efficiently organized report. The report must satisfy both generally accepted accounting principles and applicable legal requirements. The award is valid for a period of one year. We believe that the current Comprehensive Annual Financial Report continues to meet the requirements of the program, and it will be submitted to the GFOA to determine its eligibility.

The Comprehensive Annual Financial Report is the result of the cooperative work of many people. We wish to convey our appreciation to all members of the Finance Department team who assisted and contributed to its successful completion. In particular, we commend the Accounting Division staff responsible for the preparation of the report.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "M. Wayne Padilla". The signature is fluid and cursive, with a large initial "M" and "W".

M. Wayne Padilla, CPA  
Director of Finance

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Modesto  
California

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2006

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director

# CITIZENS OF MODESTO

## CITY COUNCIL

Jim Ridenour, Mayor

Bob Dunbar

Janice Keating

Brad Hawn

Garrad Marsh

Kristin Olsen

Will O'Bryant

*VOTERS ELECT*

City Attorney  
Susana Alcala Wood

City Manager  
George Britton

City Clerk & Auditor  
Jean Morris

*MAYOR AND  
CITY COUNCIL  
APPOINT*

Deputy City  
Manager  
Judith Ray

*CITY MANAGER  
APPOINTS DIRECTORS*

Finance  
Wayne Padilla  
Director

Personnel  
Robin  
Renwick  
Director

Public Works  
Nick Pinhey  
Director

Information  
Technology  
Gary Cook  
Director

Police  
Roy W.  
Wasden  
Chief

Parks,  
Recreation &  
Neighborhoods  
Jim Niskanen  
Director

Community  
& Economic  
Development  
Brent Sinclair  
Director

Fire  
Jim Miguel  
Chief

## Citizens Advisory Boards, Commissions and Committees

Airport Advisory Committee  
Board of Building Appeals  
Board of Zoning Adjustments  
Charter Review Committee  
Citizen Housing & Community Development  
Citizens Advisory Committee on Recycling  
Citizens Redevelopment Advisory Committee  
Community Qualities Forum  
Culture Commission  
Disabled Access Appeals Board

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

*ALSO  
APPOINTED BY  
THE MAYOR  
AND CITY  
COUNCIL*

## **FINANCIAL SECTION**



**INDEPENDENT AUDITOR'S REPORT  
ON BASIC FINANCIAL STATEMENTS**

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Modesto as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion the basic financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Modesto as of June 30, 2007 and the respective changes in the financial position and cash flows, where applicable, thereof for the year then ended, in conformity with generally accepted accounting principles in the United States of America.

In accordance with Government Auditing Standards, we have also issued reports dated December 14, 2007 on our consideration of the City's internal control structure and on its compliance with laws and regulations.

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

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

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

*Maze and Associates*

December 14, 2007

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## Management's Discussion and Analysis

This section of the City of Modesto (City) comprehensive annual financial report presents a discussion and analysis of the City's financial performance during the fiscal year ended June 30, 2007. 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 2007 fiscal year by \$724,416,295 (*total net assets*). Of this amount, \$127,047,078 (*unrestricted net assets*) may be used to meet ongoing obligations to citizens and creditors, \$93,168,664 is restricted for a specific purpose (*restricted net assets*), and \$504,200,553 is invested in capital assets, net of related debt.
- The City's total net assets increased by \$21,948,132. All of this increase is attributable to business type activities.
- As of June 30, 2007, the City's governmental funds reported combined fund balances of \$138,763,177, a decrease of \$10,898,940 in comparison with the prior year. Approximately 68% of the combined fund balances, \$94,853,284 is available to meet the City's current and future needs (*unreserved fund balance*).
- At the end of the fiscal year, the General Fund fund balance was \$14,448,883, or 12% of total General Fund expenditures. Of this, \$3.7 million is reserved for encumbrances and non-current assets. The unreserved/undesignated balance of \$10,713,910 represents 8.3% of total General Fund outflows. The City Council has adopted a goal of maintaining an 8% reserve level.
- The City's total long-term debt showed a net increase of \$69,006,844 in comparison with the prior year. Lease revenue bonds were partially refunded for a net increase of \$3.9 million, including \$2.6 million of new construction funds, new debt was issued for Water and Sewer projects (\$46.3 and \$16.5 million, respectively), and an increase in compensated absences liabilities of approximately \$6.3 million were offset by principal and other reductions of approximately \$4 million.

### OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

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

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

The government-wide financial statements can be found on pages 17-19 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 18 individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures and changes in fund balances for the General Fund, the Capital Facility Fees Fund and the Communities Facility District Fund. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* elsewhere in this report.

**The governmental funds financial statements can be found on pages 20-23 of this report**

*Proprietary funds* are maintained two ways. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its Water, Sewer, Parking, Storm Drain, Compost, Airport, Bus, Golf and Community Center operations. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its Fleet Management, Central Services, Information and Technology Services, Insurance, Employee Benefits Management and Building Services functions. Because these services predominantly benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements. Internal services benefiting business-type functions have been allocated as "internal balances".

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The Water, Sewer and Bus funds are considered to be major funds of the City. The City's six internal service funds are combined into a single, aggregated presentation in the proprietary funds financial statements. Individual fund data for the internal service funds is provided in the form of *combining statements* elsewhere in this report.

**The proprietary funds financial statements can be found on pages 24-27 of this report.**

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

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

**Notes to Basic Financial Statements** provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes can be found on pages 29-54 of this report.

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

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

**Required supplementary information can be found on pages 56-58 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 62 –98 of this report.

### GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$724,416,295 at the close of the most recent fiscal year.

#### Net Assets

	Governmental activities		Business-type activities		Total	
	2007	2006	2007	2006	2007	2006
Current and other assets	\$235,977,387	\$235,172,812	\$151,849,527	\$75,157,357	\$387,826,914	\$310,330,169
Capital assets	376,422,992	362,971,175	294,466,111	284,722,417	670,889,103	647,693,592
Total assets	<u>612,400,379</u>	<u>598,143,987</u>	<u>446,315,638</u>	<u>359,879,774</u>	<u>1,058,716,017</u>	<u>958,023,761</u>
Current and other liabilities	21,587,793	15,574,156	10,152,964	6,429,320	31,740,757	22,003,476
Long-term liabilities	176,800,687	167,533,635	125,758,279	66,018,487	302,558,966	233,552,122
Total liabilities	<u>198,388,480</u>	<u>183,107,791</u>	<u>135,911,243</u>	<u>72,447,807</u>	<u>334,299,723</u>	<u>255,555,598</u>
Net assets:						
Invested in capital assets, net of related debt	333,409,532	296,401,824	170,791,021	220,881,691	504,200,553	517,283,515
Restricted net assets	93,168,664	120,937,678			93,168,664	120,937,678
Unrestricted net assets	(12,566,297)	(2,303,306)	139,613,374	66,550,276	127,047,077	64,246,970
Total net assets	<u>\$414,011,899</u>	<u>\$415,036,196</u>	<u>\$310,404,395</u>	<u>\$287,431,967</u>	<u>\$724,416,294</u>	<u>\$702,468,163</u>

The largest portion of the City's net assets, \$504,200,553 (70 percent), reflects its investment in capital assets (e.g. land, buildings, improvements, furnishings and equipment, buses and fare boxes, pipelines, and infrastructure), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Another significant portion of the City's net assets represents *unrestricted net assets* of \$127,047,077 (17 percent), which may be used to meet the City's ongoing obligations to citizens and creditors.

The remaining balance of the City's net assets of \$93,168,664 (13 percent) represents resources that are subject to external restrictions on how they may be used.

At the end of the 2007 fiscal year, the City reported positive balances in all three categories of net assets for the City as a whole.

The City's net assets increased by \$21,948,132 during the current fiscal year. All of this increase is attributable to Business-type activities.

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

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

	Changes in Net Assets					
	Governmental activities		Business-type activities		Total	
	2007	2006	2007	2006	2007	2006
Revenues:						
Program revenues:						
Charges for services	\$39,977,342	\$39,789,386	\$87,816,684	\$79,482,231	\$127,794,026	119,271,617
Operating grants and contributions	12,701,177	11,892,511	11,059,129	8,317,889	23,760,306	20,210,400
Capital grants and contributions	4,207,389	38,484,548	7,962,675	10,467,873	12,170,064	48,952,421
General revenues:						
Taxes	56,747,933	52,816,226	222,776	207,749	56,970,709	53,023,975
Grants and contributions not restricted for specific purposes	48,287,468	48,685,311			48,287,468	48,685,311
Unrestricted investment earnings	8,330,079	3,255,401	5,406,639	2,504,291	13,736,718	5,759,692
Settlements and recoveries				3,784,295		3,784,295
Miscellaneous	3,582,325	2,827,161			3,582,325	2,827,161
Total revenues	<u>173,833,713</u>	<u>197,750,544</u>	<u>112,467,903</u>	<u>104,764,328</u>	<u>286,301,616</u>	<u>302,514,872</u>
Expenses:						
General government	17,227,876	15,529,735			17,227,876	15,529,735
Community development	12,025,105	12,241,213			12,025,105	12,241,213
Highways and streets	26,246,306	26,025,311			26,246,306	26,025,311
Public works	12,557,512	6,491,062			12,557,512	6,491,062
Parks and recreation	14,568,192	11,733,698			14,568,192	11,733,698
Public safety	83,793,361	74,500,043			83,793,361	74,500,043
Interest on long-term debt	7,286,026	5,178,130			7,286,026	5,178,130
Parking			1,475,340	1,287,450	1,475,340	1,287,450
Water			35,540,918	29,989,775	35,540,918	29,989,775
Sewer			24,156,577	22,716,100	24,156,577	22,716,100
Storm drain			6,924,335	5,795,746	6,924,335	5,795,746
Compost			1,225,462	941,919	1,225,462	941,919
Airport			2,039,988	1,342,645	2,039,988	1,342,645
Bus			13,758,421	12,119,311	13,758,421	12,119,311
Golf			2,479,447	2,461,470	2,479,447	2,461,470
Community center			2,543,121	2,465,644	2,543,121	2,465,644
Total expenses	<u>173,704,378</u>	<u>151,699,192</u>	<u>90,143,609</u>	<u>79,120,060</u>	<u>263,847,987</u>	<u>230,819,252</u>
Increase in net assets before transfers	129,335	46,051,352	22,324,294	25,644,268	22,453,629	71,695,620
Transfers	(1,153,632)	(1,416,790)	1,153,632	1,416,790		
Special item			(505,498)	(1,736,054)	(505,498)	(1,736,054)
Change in net assets	<u>(1,024,297)</u>	<u>44,634,562</u>	<u>22,972,428</u>	<u>25,325,004</u>	<u>21,948,131</u>	<u>69,959,566</u>
Net assets - beginning	<u>415,036,196</u>	<u>370,401,634</u>	<u>287,431,967</u>	<u>262,106,963</u>	<u>702,468,163</u>	<u>632,508,597</u>
Net assets - ending	<u>\$414,011,899</u>	<u>\$415,036,196</u>	<u>\$310,404,395</u>	<u>\$287,431,967</u>	<u>\$724,416,294</u>	<u>\$702,468,163</u>

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

**Governmental activities.** Governmental activities decreased the City's net assets by \$1,024,297. Taxes (mainly Property and Utility Users taxes) increased about \$4 million over 2006, due to rising tax *bases*; tax *rates* remained the same. Intergovernmental revenues in total were just slightly less than the previous year. However, Sales tax declined by \$1.7 million and Motor Vehicle License revenue increased \$1.2 million. Sales tax revenue from the State of California took a marked downturn in the fourth quarter (fiscal), while changes in the State's distribution of Motor Vehicle License revenues are now tied more to property tax trends than the purchase and licensing of new vehicles. The largest change from the prior year is in capital grants and contributions, with \$30 million coming from Community Facilities District (CFD) bonds issued in 2006, and not repeated in 2007. These CFD bonds have no City commitment, so the debt is not reported as long-term debt and the proceeds were recorded as revenues in the 2006 financial statements. Finally, investment earnings grew by \$5 million due to more favorable investment yields.

Expenses in total are up \$22 million, or 14%, due largely to salary and wage increases (3-3.5%). For 2007, the City's Community Forestry operation was moved to the Public Works function from Highways and Streets, resulting in a \$4 million shift between those functions.

**Business-type activities.** Business-type activities increased the City's net assets by \$22,972,428. As detailed in the schedule on page 12, the Water, Sewer, Compost and Airport enterprises posted net incomes during the period. Net losses were experienced by Parking, Bus, Storm Drain, Golf and Community Center operations. Depreciation expense, which is the major cause of these net losses, is not included in these funds' budgets or revenue-setting processes. Storm Drain rates will be reviewed in 2008.

Charges for services are up about \$8.3 million, due in part to a 5% water rate increase that became effective on July 1, 2006. Settlements and recoveries revenue decreased \$3.8 million, as PCE settlements slowed pending the outcome of litigation (see Note II. L). Investment earnings grew by \$2.9 million due to more favorable investment yields and growth in the investment portfolio resulting from the deposit of water and wastewater bond proceeds. Finally, expenses across the board are up, primarily due to general increases in salaries and benefits, and the rise in utilities, fuel and materials costs.

### FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

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

At June 30, 2007, the City's governmental funds reported combined fund balances of \$138,763,177, a decrease of \$10,898,940 from the prior year. Approximately 68% of the combined fund balances \$94,853,284 constitutes *unreserved fund balance*, which is available to meet the City's current and future needs. The remainder of fund balance is *reserved* to indicate that it is *not* available for new spending because it has been committed: 1) to pay debt service (\$7,390,425); 2) to reflect advances to other funds, loans receivable and property held for resale that are long-term and/or do not represent available spendable resources (\$15,347,594); 3) to liquidate contractual commitments of the period (\$15,783,614); and 4) to meet Redevelopment Agency low and moderate income housing set-aside requirements (\$5,388,260).

The General Fund is the chief operating fund of the City. At June 30, 2007, unreserved fund balance of the General Fund was \$10,713,910 while total fund balance was \$14,448,883. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 9.2 percent of total fund expenditures, while total fund balance represents 12.4 percent of that same amount. The prior year ratios were 20% and 22%, respectively. The use of the fund balance reserves was planned and budgeted during the year.

Revenues of governmental funds totaled \$171,615,967 in fiscal year 2006-2007, which represents a decrease of 11.7% from fiscal year 2005-2006.

Expenditures of governmental funds totaled \$184,277,408 in fiscal year 2006-2007, representing an increase of 14.3% over the prior year.

## Management's Discussion and Analysis (continued)

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

### Revenues Classified by Source – Governmental Funds

Revenues by Source	FY 2007		FY 2006		Increase (Decrease)	
	Amount	Percent	Amount	Percent	Amount	% Change
Taxes	\$56,748,017	33.1%	\$52,816,596	27.2%	\$3,931,421	7.4%
Licenses and permits	187,289	0.1%	146,854	0.1%	40,435	27.5%
Intergovernmental	66,129,862	38.5%	64,759,658	33.3%	1,370,204	2.1%
Charges for services	36,979,023	21.5%	37,802,149	19.4%	(823,126)	-2.2%
Special assessments	51,634	0.0%	65,909	0.0%	(14,275)	-21.7%
Interest and rent	4,837,419	2.8%	3,755,169	1.9%	1,082,250	28.8%
Net increase (decrease) in fair value	1,168,857	0.7%	103,036	0.1%	1,065,821	1034.4%
Fines and forfeits	2,699,445	1.6%	1,675,926	0.9%	1,023,519	61.1%
Contribution of property owners			30,473,773	15.7%	(30,473,773)	100.0%
Miscellaneous	2,814,421	1.5%	2,821,161	1.4%	(6,740)	-0.2%
<b>Total</b>	<b>\$171,615,967</b>	<b>100.0%</b>	<b>\$194,420,231</b>	<b>100.0%</b>	<b>(\$22,804,264)</b>	<b>-11.7%</b>

- Taxes –Utility Users taxes, Property taxes, and Redevelopment Agency Tax Increment (an allocation of property taxes) all increased over the prior year (\$.8, \$.2.1, and \$.9 million, respectively), while the other tax categories showed only slight increases due to rising tax *bases*; tax *rates* remained unchanged.
- Intergovernmental – State sales taxes and motor vehicle license fees make up over half of these revenues. Sales tax was down \$1.7 million, but vehicle license fees were up \$1.2 million. The balance of the overall increase is due to higher grant revenues from more aggressive grant billing during the year.
- Charges for services – Included in this category are the Capital Facilities and Community Facility District Fees charged to mitigate the impact of new development on City infrastructure needs. These fees decreased \$.8 million from the prior year, due to an overall slowing of new construction.
- Investment revenues increased over \$2 million due to more favorable market conditions. Fines and forfeitures increased from the red light camera enforcement program and an increase in towed vehicle release fees.
- Contributions from property owners – This source was unique to the prior year, and represented the proceeds of bonds issued by the Community Facility Districts that will be repaid by district charges to property owners. The City has no commitment for the repayment of these bonds.

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

### Expenditures by Functions Governmental Funds

Exp by Function	FY 2007		FY 2006		Increase (Decrease)	
	Amount	Percent	Amount	Percent	Amount	% Change
General government	\$15,517,544	8.4%	\$14,111,535	8.8%	\$1,406,009	10.0%
Community development	11,789,640	6.4%	12,296,072	7.6%	(506,432)	-4.1%
Highways and streets	12,553,681	6.8%	14,357,041	8.9%	(1,803,360)	-12.6%
Public works	11,307,307	6.1%	5,647,023	3.5%	5,660,284	100.2%
Parks and recreation	13,348,613	7.2%	11,662,263	7.2%	1,686,350	14.5%
Public safety	80,988,650	43.9%	74,527,875	46.2%	6,460,775	8.7%
Capital outlay	30,194,778	16.4%	21,563,774	13.4%	8,631,004	40.0%
Debt Service-principal retirement	2,008,538	1.1%	1,901,827	1.2%	106,711	5.6%
Debt Service-interest charges	4,413,300	2.4%	4,576,780	2.8%	(163,480)	-3.6%
Debt Service-Advance refunding	822,228	0.4%			822,228	100.0%
Debt Service-other	1,333,129	0.7%	618,742	0.4%	714,387	115.5%
<b>Total</b>	<b>\$184,277,408</b>	<b>100.0%</b>	<b>\$161,262,932</b>	<b>100.0%</b>	<b>\$23,014,476</b>	<b>14.3%</b>

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

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

- General government –Expenditures increased about \$1.4 million, or 10% over the prior year, generally due to modest salary and benefit increases during the year.
- Highways and streets – Expenditures show a decrease of \$1.8 million or 12.6%, mostly due to a reclassification of the \$5 million Community Forestry division from Streets to Public Works.
- Public Works – As noted above, the Community Forestry operations are now included in this category.
- Public safety –Expenditures increased about \$6.5 million, or 8.7% over the prior year. Cost of living increases and related benefits and pension costs contributed significantly toward this increase.
- Capital outlay –The increase of \$8.6 million the substantial expenditure of the prior year Community Facilities Districts bond funds on infrastructure improvements in the Districts.

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

	Other Financing sources (Uses)				
	<u>Governmental Funds</u>				
	FY 2007	FY 2006	Increase/(Decrease)		
		Amount	Percent		
Transfers in	\$23,985,863	\$17,724,718	\$6,261,145	35.3%	
Transfers out	(26,399,280)	(20,267,476)	(6,131,804)	30.3%	
Proceeds of loans payable	44,138		44,138	100.0%	
Proceeds of lease revenue bonds	62,275,000		62,275,000	100.0%	
Payments to refunded certificates of participation escrow agent	(58,911,124)		(58,911,124)	-100.0%	
Sale of assets	767,904	6,000	761,904	12698.4%	
Net financing sources (uses)	<u>\$1,762,501</u>	<u>(\$2,536,758)</u>	<u>\$4,299,259</u>	<u>-169.5%</u>	

- Transfers - The City uses interfund transfers to: (1) move revenues from the funds that collect them in accordance with statutory and/or budgetary requirements, (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.

The net transfers *from* governmental funds for 2007 were (\$2,413,417), compared to \$2,542,758, in the prior year. This net transfer is *to* the proprietary funds, and consists mainly of the operating subsidy to Community Center operations and funding to the Fleet internal services fund for vehicle and equipment replacement.

The annual totals for both transfers in and out vary, depending on the nature of the activities that are undertaken each year.

- Debt transactions – The City received \$44,138 proceeds from a loan from the Stanislaus County Economic Development Bank for business park planning costs. In addition, this schedule reflects the effects of the partial refunding of the 1998 lease revenue bonds. Additional information can be found in Note C. Long-term Debt.
- Sale of assets – In 2007 the City sold the decommissioned park at 17<sup>th</sup> and G Streets to the Redevelopment Agency for future use in an affordable housing project. The proceeds represent the appraised value of the property.

The current year excess of revenues and other financing sources over expenditures and other financing uses is presented in the following table:

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

### Statement of Revenues, Expenditures, and Changes in Fund Balances Governmental Funds

	Major Funds			Nonmajor Funds			Total
	General	Capital	Community	Special	Capital	Debt	
	Fund	Facility Fees	Facilities	Revenue	Projects	Service	
	Fund	Fund	Districts	Funds	Funds	Funds	
Revenues	\$117,932,681	\$11,340,636	\$8,915,860	\$22,344,948	\$7,513,088	\$3,568,754	\$171,615,967
Expenditures	(116,890,402)	(10,265,441)	(16,624,064)	(23,629,379)	(9,804,377)	(7,063,745)	(184,277,408)
Other financing sources/(uses), net	(9,902,911)	120,682	(920,085)	518,593	9,316,252	2,629,970	1,762,501
Net change in fund balances	(8,860,632)	1,195,877	(8,628,289)	(765,838)	7,024,963	(865,021)	(10,898,940)
Fund balance-July 1	23,309,515	42,107,113	42,135,367	27,441,931	6,412,745	8,255,446	149,662,117
Fund balance June 30	\$14,448,883	\$43,302,990	\$33,507,078	\$26,676,093	\$13,437,708	\$7,390,425	\$138,763,177

The fund balance of the City's General Fund decreased by \$8,860,632 during the fiscal year. Total revenues increased \$3.1 million, while expenditures increased \$12.6 million over the prior year. While revenues didn't increase as much as projected, these changes were consistent with plans to spend down the General Fund reserves closer to the City Council's adopted 8% level.

Capital Facility Fee revenues, derived from impact fees on new development, decreased \$1.9 million from the prior year, reflecting the decrease in housing starts. Expenditures on capital projects increased by \$931,112. Yet, revenues still exceeded expenditures by \$1.1 million. The significant fund balance is budgeted for large, multi-year projects to mitigate the effects of growth on the community.

Community Facility Districts became a major fund in 2006 with the infusion of \$30 million from bonds issued that year. Regular CFD charges were \$3.8 million more than in 2006, but expenditures increased almost \$10 million. Significant expenditures on capital projects are expected to continue over the next 3 years.

**Proprietary funds.** The City's proprietary funds 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						Total
	Water	Sewer	Bus	Parking	Storm Drain	Compost	Airport	Golf	Community Center	
Operating revenues	\$49,305,033	\$24,833,019	\$2,545,790	\$1,128,755	\$5,403,474	\$1,254,137	\$604,214	\$2,189,384	\$552,878	\$87,816,684
Operating expenses	(32,466,468)	(21,271,818)	(13,614,093)	(1,441,651)	(6,546,654)	(1,193,925)	(2,008,982)	(2,172,537)	(2,488,250)	(83,204,378)
Operating income (loss)	16,838,565	3,561,201	(11,068,303)	(312,896)	(1,143,180)	60,212	(1,404,768)	16,847	(1,935,372)	4,612,306
Non-operating revenues (expenses), net	1,329,710	(247,291)	9,886,461	37,724	(219,287)	42,464	1,004,763	(198,809)	490,142	\$12,125,877
Income (loss) before capital contributions, transfers and special items	18,168,275	3,313,910	(1,181,842)	(275,172)	(1,362,467)	102,676	(400,005)	(181,962)	(1,445,230)	16,738,183
Contributions, transfers and special items	2,248,550	2,618,988	299,457	180,000	844,912	(99,000)	1,087,352	42,061	724,826	7,947,146
Net income (loss)	\$20,416,825	\$5,932,898	(\$882,385)	(\$95,172)	(\$517,555)	\$3,676	\$687,347	(\$139,901)	(\$720,404)	\$24,685,329

The Water, Sewer, Compost, and Airport enterprises posted net incomes during the period. It is important to note that while the Water and Sewer funds show rather healthy operating results, capital improvement expenditures and debt service principal payments incurred during the year are not reflected in the expenditure totals shown above. Net losses

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

were experienced by the other enterprise funds. Golf and Community Center normally receive annual operating subsidies from the General fund, but these subsidies do not cover depreciation expenses, resulting in net losses overall. This is also the case with the Bus fund, which receives capital funding from the federal government. Also, the Golf fund did not receive a subsidy in 2007. Revenues in the Water utility fund rose during the year due to an average 5% rate increase, the last in a series of rate increases to fund capital improvements and debt service, as well as normal growth in the customer base.

### GENERAL FUND BUDGETARY HIGHLIGHTS

Budget to actual information for the major governmental funds are presented as Required Supplementary Information, beginning on page 56 of this report.

While the City Council amended the budget several times, the differences between the original budget and the final amended budget for the General Fund were relatively minor. The estimated revenues increased about \$3.7 million (3%), while total appropriations were increased \$5.6 million, or about 5%. These amendments, generally, were to adjust the actual beginning balances and carryovers after closing the prior fiscal year, and to reflect adjustments to current estimates based on the periodic monitoring of revenue and expenditures throughout the year.

Revenues came in \$3.1 million less than the final estimates. Variances in Sales tax (\$2.3 million), Property taxes (\$400,000) and construction related revenues (\$600,000) were due to the effects of the sub-prime mortgage market that hit in the fourth quarter of fiscal 2007.

Expenditures, overall, were \$3.2 million under budget, primarily due to efforts of departments to realize savings, and certain purchases being deferred to future periods.

### CAPITAL ASSETS AND DEBT ADMINISTRATION

#### Capital assets

The City's investment in capital assets for its governmental and business-type activities as of June 30, 2007, amounted to \$670,889,103 (net of accumulated depreciation). The total increase in the City's investment in capital assets for the current period was 3.6 percent. Capital assets, net of depreciation, for the governmental and business-type activities are presented below to illustrate changes from the prior year.

	Governmental		Business type		Total		Increase (decrease) Percent Change	\$ change
	2007	2006	2007	2006	2007	2006		
Land	\$24,972,386	\$22,982,481	\$26,811,152	\$26,539,639	\$51,783,538	\$49,522,120	4.6%	\$2,261,418
Buildings	20,090,053	21,142,099	45,833,974	48,322,570	65,924,027	69,464,669	-5.1%	(3,540,642)
Improvements	16,437,093	16,668,974	55,372,253	59,863,277	71,809,346	76,532,251	-6.2%	(4,722,905)
Furnishings and equipment	9,086,379	8,059,702	2,405,596	2,893,008	11,491,975	10,952,710	4.9%	539,265
Equipment pool	15,095,983	15,232,410			15,095,983	15,232,410	-0.9%	(136,427)
Streets	231,315,998	234,966,127			231,315,998	234,966,127	-1.6%	(3,650,129)
Signalization	6,202,103	6,583,733			6,202,103	6,583,733	-5.8%	(381,630)
Bridges	23,965,873	25,239,107			23,965,873	25,239,107	-5.0%	(1,273,234)
Buses & fareboxes			7,553,177	8,197,997	7,553,177	8,197,997	-7.9%	(644,820)
Pipelines			112,994,297	110,263,919	112,994,297	110,263,919	2.5%	2,730,378
Construction in progress	29,257,124	12,096,542	43,495,662	28,642,007	72,752,786	40,738,549	78.6%	32,014,237
<b>Total</b>	<b>\$376,422,992</b>	<b>\$362,971,175</b>	<b>\$294,466,111</b>	<b>\$284,722,417</b>	<b>\$670,889,103</b>	<b>\$647,693,592</b>	<b>3.6%</b>	<b>\$23,195,511</b>

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

- Construction in progress – Governmental fund increased due to bond-financed CFD road improvements, roundabouts and a pedestrian overcrossing in Village I. Business type increases were in Water (\$6 million) and Sewer (\$9.2 million) improvements.
- Land – Right-of-way was acquired for the widening of the Pelandale expressway to six lanes.

## Management's Discussion and Analysis (continued)

The City's infrastructure assets are recorded at historical cost in the government-wide financial statements. Depreciation expense is recorded using the straight-line method, based on estimated useful life of the asset. Additional information on the City's capital assets can be found in note II.B on pages 37-38 of this report.

### Long-term debt

At June 30, 2007, the City had total long-term liabilities outstanding of \$302,558,966, net of unamortized discounts and deferred amounts on refunding, as compared to \$233,552,122 in the prior year. This amount was comprised of \$66,440,000 of lease revenue bonds, \$90,826,989 of certificates of participation, \$51,558,192 of revenue bonds payable, \$67,888,512 of estimated compensated absences, \$16,626,237 of claims liability, \$2,407,414 of loans payable, \$2,083,189 of developer advances, \$362,987 of capital leases, and \$4,365,446 of notes payable. During the year, retirement of debt and other reductions amounted to \$82,513,016, and new debt and other additions totaled \$151,519,859. These totals include the effects of refunding most of the 1998 lease revenue bonds (\$58 and \$62 million, respectively), the issuance of new Water certificates of participation and Sewer revenue bonds (\$46.3 and \$16.5 million, respectively), and new estimates for compensated absences (\$6.3 million). Additional information on the City's long-term debt can be found in note II.C on pages 39-47 of this report.

Modesto maintains an Employee Benefits internal service fund (EBF) to pay a portion of retiree health benefits and other employee related expenses. While the City has yet to implement GASB Statement No. 45 related to Other Post Employment Benefits, the City has consistently included an estimate of its retiree health care obligation from sick-leave conversion in its compensated absences liability. As of June 30, 2007, this amounts to approximately \$57.5 million of the \$67.9 million listed above. This contributes significantly to the EBF's \$49 million unfunded liability. Additional information on the City's EBF can be found in Notes II-H and III-G.

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

- *Consumer Price Index* – Growth in the CPI has been relatively stable during the past six years. In June 2000, the CPI-Western Urban Index was 3.5 % higher than the year before. In the year ending June 30, 2007, the CPI-Western Urban Index increased 3.0%.
- *Taxable Sales* - Taxable sales growth has ranged from 11% to 5.7% during the last couple of years. In future years, annual taxable sales growth is projected to be lower due to the effects of the slow down in new housing starts and the sub-prime mortgage market collapse.
- *Building Permit Activity* - Building permit issuance, which had been extremely robust for several years, peaked at 5,968 for fiscal 2006. For the fiscal year ending June 30, 2007, 5,174 permits were issued, with an average construction value of \$44,000.
- *Utility Service Charges* - Water utility rates were increased an average of 5% effective July 1, 2006. This is the last in a series of increases adopted by the City Council and is intended to fund major capital improvements to the water system. A new water utility rate study will be undertaken in the second half of the 2007-2008 fiscal year. The City Council adopted new sewer utility rates that became effective August 1, 2007. New sewer connection fees were also adopted in July, raising the average fee from \$500 per home to \$4,876 per home.

All of these factors were considered in preparing the City's budget for fiscal year 2008.

During the current fiscal year, unreserved fund balance in the General Fund decreased by \$9.6 million, to \$10,713,910, which represents 8.3% of total General Fund outflows versus the City Council's target of 8%. The budget adopted for fiscal year 2007-2008 maintains this target reserve level.

### Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the City's financial condition. Questions concerning any of the information provided in this report and requests for additional financial information should be addressed to the City of Modesto, Attention: Finance Department, P.O. Box 642, Modesto, CA 95353.

# **BASIC FINANCIAL STATEMENTS**



**CITY OF MODESTO**  
**STATEMENT OF NET ASSETS**  
**June 30, 2007**

	Governmental Activities	Business-type Activities	Total
<u>ASSETS</u>			
Cash and cash equivalents	\$ 176,305,862	\$ 137,390,448	\$ 313,696,310
Accounts receivable, net	2,065,948	318,958	2,384,906
Interest receivable	523,867	537,321	1,061,188
Utility billings receivable, net	886,786	9,640,604	10,527,390
Taxes receivable	9,840,090	5,905	9,845,995
Due from governments, net	11,301,723	2,588,188	13,889,911
Notes receivable, net	15,117,307		15,117,307
Prepaid expenses	1,308	706,673	707,981
Property held for resale	780,000	630,000	1,410,000
Internal balances	1,754,404	(1,754,404)	
Inventories	763,492		763,492
Unamortized costs of debt issuance		1,785,834	1,785,834
Investments in joint ventures	16,636,600		16,636,600
Capital assets:			
Land and construction in progress	54,229,510	70,306,814	124,536,324
Other capital assets, net of accumulated depreciation	322,193,482	224,159,297	546,352,779
<b>Total assets</b>	<b>612,400,379</b>	<b>446,315,638</b>	<b>1,058,716,017</b>
<u>LIABILITIES</u>			
Accounts payable	8,541,419	4,987,924	13,529,343
Accrued salaries and benefits	1,372,293	238,264	1,610,557
Approved loans payable	2,724,225		2,724,225
Interest payable	836,032	726,834	1,562,866
Unearned revenues	3,771,698	3,118,569	6,890,267
Refundable deposits	4,342,126	1,081,373	5,423,499
Long-term liabilities:			
Due within one year	10,210,601	3,110,947	13,321,548
Due in more than one year	166,590,086	122,647,332	289,237,418
<b>Total liabilities</b>	<b>198,388,480</b>	<b>135,911,243</b>	<b>334,299,723</b>
<u>NET ASSETS</u>			
Invested in capital assets, net of related debt	333,409,532	170,791,021	504,200,553
Restricted for:			
Capital projects	58,413,311		58,413,311
Housing and community development	22,222,295		22,222,295
Redevelopment	9,818,201		9,818,201
Debt Service	151,916		151,916
Other purposes	2,562,941		2,562,941
Unrestricted	(12,566,297)	139,613,374	127,047,077
<b>Total net assets</b>	<b>\$ 414,011,899</b>	<b>\$ 310,404,395</b>	<b>\$ 724,416,294</b>

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

**CITY OF MODESTO**  
**STATEMENT OF ACTIVITIES**  
**Year ended June 30, 2007**

FUNCTIONS/PROGRAMS:	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities:				
General government	\$ 17,227,876	\$ 3,775,368		
Community development	12,025,105	10,873,541		
Highways and streets	26,246,306	10,719,009	\$ 4,525,132	\$ 2,102,247
Public works	12,557,512	1,757,648	964,612	
Parks and recreation	14,568,192	4,437,320	3,610,022	2,105,142
Public safety	83,793,361	8,414,456	3,601,411	
Interest on long-term debt	7,286,026			
Total governmental activities	173,704,378	39,977,342	12,701,177	4,207,389
Business-type activities:				
Parking	1,475,340	1,128,755		
Water	35,540,918	49,305,033	831,798	3,009,620
Sewer	24,156,577	24,833,019		2,666,690
Storm Drain	6,924,335	5,403,474		844,912
Compost	1,225,462	1,254,137		
Airport	2,039,988	604,214	554,649	1,077,802
Bus	13,758,421	2,545,790	9,672,682	363,651
Golf	2,479,447	2,189,384		
Community Center	2,543,121	552,878		
Total business-type activities	90,143,609	87,816,684	11,059,129	7,962,675
<b>Total</b>	<b>\$ 263,847,987</b>	<b>\$ 127,794,026</b>	<b>\$ 23,760,306</b>	<b>\$ 12,170,064</b>

General revenues:

Taxes:

  Utility users tax

  Property taxes, levied for general purposes

  Property taxes, generated by and allocated to the airport

  Tax increments for redevelopment agency

  Transient occupancy tax

  Franchise tax

  Business license tax, levied for general purposes

  Business license tax, levied for downtown improvement district

  Business license tax, generated by and allocated to the airport

Intergovernmental revenue not restricted to specific programs:

  Sales tax

  Motor vehicle license fee

  Other

Unrestricted investment earnings

Miscellaneous

Transfers, net

Special item - PCE legal fees

Total general revenues, transfers and special item

Change in net assets

Net assets, July 1

Net assets, June 30

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

Net (Expense) Revenue and  
Changes in Net Assets

Governmental Activities	Business-type Activities	Total
\$ (13,452,508)		\$ (13,452,508)
(1,151,564)		(1,151,564)
(8,899,918)		(8,899,918)
(9,835,252)		(9,835,252)
(4,415,708)		(4,415,708)
(71,777,494)		(71,777,494)
(7,286,026)		(7,286,026)
<u>(116,818,470)</u>		<u>(116,818,470)</u>
	\$ (346,585)	(346,585)
	17,605,533	17,605,533
	3,343,132	3,343,132
	(675,949)	(675,949)
	28,675	28,675
	196,677	196,677
	(1,176,298)	(1,176,298)
	(290,063)	(290,063)
	<u>(1,990,243)</u>	<u>(1,990,243)</u>
	<u>16,694,879</u>	<u>16,694,879</u>
<u>(116,818,470)</u>	<u>16,694,879</u>	<u>(100,123,591)</u>
18,319,573		18,319,573
16,456,379		16,456,379
	209,722	209,722
5,303,521		5,303,521
2,264,699		2,264,699
3,823,216		3,823,216
10,359,058		10,359,058
221,487		221,487
	13,054	13,054
27,884,852		27,884,852
16,233,262		16,233,262
4,169,354		4,169,354
8,330,079	5,406,639	13,736,718
3,582,325		3,582,325
(1,153,632)	1,153,632	
	<u>(505,498)</u>	<u>(505,498)</u>
<u>115,794,173</u>	<u>6,277,549</u>	<u>122,071,722</u>
(1,024,297)	22,972,428	21,948,131
<u>415,036,196</u>	<u>287,431,967</u>	<u>702,468,163</u>
<u>\$ 414,011,899</u>	<u>\$ 310,404,395</u>	<u>\$ 724,416,294</u>

**CITY OF MODESTO**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**June 30, 2007**

	General	Capital Facility Fees	Community Facilities Districts	Other Governmental	Total Governmental
<u>ASSETS</u>					
Cash and cash equivalents	\$ 1,900,218	\$ 44,890,897	\$ 11,503,718	\$ 25,137,422	\$ 83,432,255
Cash and cash equivalents with fiscal agent			24,186,705	10,963,438	35,150,143
Receivables:					
Accounts	819,211	69		388,712	1,207,992
Interest	22,556	185,058	77,521	94,494	379,629
Utilities, net	869,711			17,075	886,786
Taxes	9,194,905		52,302	592,883	9,840,090
Due from governments	895,397	132,976	134,599	10,138,751	11,301,723
Due from other funds	4,320,000				4,320,000
Notes receivable, net				15,117,307	15,117,307
Prepaid expenses/expenditures				1,308	1,308
Property held for resale				780,000	780,000
Restricted assets:					
Cash and cash equivalents	2,066,814		2,274,311		4,341,125
Advances to other funds	2,301,490			102,124	2,403,614
<b>Total assets</b>	<b>\$ 22,390,302</b>	<b>\$ 45,209,000</b>	<b>\$ 38,229,156</b>	<b>\$ 63,333,514</b>	<b>\$ 169,161,972</b>
 <u>LIABILITIES AND FUND BALANCES</u>					
Liabilities:					
Accounts payable	\$ 2,544,093	\$ 549,683	\$ 2,362,333	\$ 1,683,775	\$ 7,139,884
Accrued salaries and benefits	1,150,233		4,210	129,940	1,284,383
Approved loans payable				2,724,225	2,724,225
Due to other funds				4,320,000	4,320,000
Deferred revenues	397,817		81,223	6,801,765	7,280,805
Payable from restricted assets:					
Refundable deposits	2,066,814		2,274,312	1,000	4,342,126
Advances from other funds	1,782,462	1,356,327		168,583	3,307,372
<b>Total liabilities</b>	<b>7,941,419</b>	<b>1,906,010</b>	<b>4,722,078</b>	<b>15,829,288</b>	<b>30,398,795</b>
Fund balances:					
Reserved	3,734,973	3,888,291	2,340,868	33,945,761	43,909,893
Unreserved:					
Designated, reported in:					
General fund					
Special revenue funds				11,520,508	11,520,508
Capital projects funds		39,414,699	31,166,210	6,062,872	76,643,781
Undesignated, reported in:					
General fund	10,713,910				10,713,910
Special revenue funds				365,402	365,402
Capital projects funds				(4,390,317)	(4,390,317)
<b>Total fund balances</b>	<b>14,448,883</b>	<b>43,302,990</b>	<b>33,507,078</b>	<b>47,504,226</b>	<b>138,763,177</b>
<b>Total liabilities and fund balances</b>	<b>\$ 22,390,302</b>	<b>\$ 45,209,000</b>	<b>\$ 38,229,156</b>	<b>\$ 63,333,514</b>	<b>\$ 169,161,972</b>

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

**CITY OF MODESTO**  
**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS**  
**TO THE STATEMENT OF NET ASSETS - GOVERNMENTAL ACTIVITIES**  
**June 30, 2007**

Total fund balances - total governmental funds \$ 138,763,177

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

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

General capital assets:

Nondepreciable	\$ 53,408,477	
Depreciable	80,490,251	
Accumulated depreciation on general capital assets	(39,290,464)	

Infrastructure:

Depreciable	474,126,776	
Accumulated depreciation on infrastructure	<u>(212,642,804)</u>	356,092,236

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

Deferred in the governmental funds, or	\$ 3,509,107	
Investments in joint ventures	<u>16,636,600</u>	20,145,707

Internal service funds are used by management to charge the costs of activities to individual funds. The assets and liabilities of internal service funds are included in governmental activities in the statement of net assets. (8,224,089)

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

Bonds payable and other long-term debt	\$ (91,930,138)	
Accrued interest	<u>(834,994)</u>	<u>(92,765,132)</u>

Net assets of governmental activities \$ 414,011,899

**CITY OF MODESTO**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - GOVERNMENTAL FUNDS**  
**Year ended June 30, 2007**

	<u>General</u>	<u>Capital Facility Fees</u>	<u>Community Facilities Districts</u>	<u>Other Governmental</u>	<u>Total Governmental</u>
<b>REVENUES:</b>					
Taxes	\$ 50,376,565			\$ 6,371,452	\$ 56,748,017
Licenses and permits	100,682			86,607	187,289
Intergovernmental	48,014,025	\$ 107,941	\$ 391,586	17,616,310	66,129,862
Charges for services	15,503,085	9,474,111	6,454,501	5,547,326	36,979,023
Special assessments levied	51,634				51,634
Interest and rent	406,462	1,225,368	1,830,462	1,375,127	4,837,419
Net increase in fair value of investments	146,546	533,025	239,311	249,975	1,168,857
Fines and forfeits	1,158,163			1,541,282	2,699,445
Contribution from property owners					
Miscellaneous	2,175,519	191		638,711	2,814,421
Total revenues	<u>117,932,681</u>	<u>11,340,636</u>	<u>8,915,860</u>	<u>33,426,790</u>	<u>171,615,967</u>
<b>EXPENDITURES:</b>					
Current:					
General government	13,955,223	64,700		1,497,621	15,517,544
Community development	5,346,382		1,336,926	5,106,332	11,789,640
Highways and streets		1,904,430		10,649,251	12,553,681
Public works	6,364,052	132,540		4,810,715	11,307,307
Parks and recreation	12,071,962	1,077,571		199,080	13,348,613
Public safety	78,405,328			2,583,322	80,988,650
Capital outlay	737,392	6,632,459	15,287,138	7,537,789	30,194,778
Debt service:					
Principal retirement	9,719	435,185		1,563,634	2,008,538
Interest	344	18,556		4,394,400	4,413,300
Advance refunding escrow				822,228	822,228
Other				1,333,129	1,333,129
Total expenditures	<u>116,890,402</u>	<u>10,265,441</u>	<u>16,624,064</u>	<u>40,497,501</u>	<u>184,277,408</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>1,042,279</u>	<u>1,075,195</u>	<u>(7,708,204)</u>	<u>(7,070,711)</u>	<u>(12,661,441)</u>
<b>OTHER FINANCING SOURCES (USES):</b>					
Transfers in	2,437,022	1,112,897	196,035	20,239,909	23,985,863
Transfers out	(12,339,933)	(992,215)	(1,116,120)	(11,951,012)	(26,399,280)
Issuance of loans payable				44,138	44,138
Issuance of lease revenue bonds				62,275,000	62,275,000
Payments to refunded certificates of participation escrow agent				(58,911,124)	(58,911,124)
Sale of assets				767,904	767,904
TOTAL OTHER FINANCING SOURCES (USES)	<u>(9,902,911)</u>	<u>120,682</u>	<u>(920,085)</u>	<u>12,464,815</u>	<u>1,762,501</u>
NET CHANGE IN FUND BALANCES	(8,860,632)	1,195,877	(8,628,289)	5,394,104	(10,898,940)
FUND BALANCES, July 1	<u>23,309,515</u>	<u>42,107,113</u>	<u>42,135,367</u>	<u>42,110,122</u>	<u>149,662,117</u>
FUND BALANCES, June 30	<u>\$ 14,448,883</u>	<u>\$ 43,302,990</u>	<u>\$ 33,507,078</u>	<u>\$ 47,504,226</u>	<u>\$ 138,763,177</u>

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

**CITY OF MODESTO**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND**  
**BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES -GOVERNMENTAL ACTIVITIES**  
**Year Ended June 30, 2007**

Net change in fund balances - total governmental funds \$ (10,898,940)

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

Governmental funds report capital outlay as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay	\$ 30,194,778	
Depreciation expense	<u>(17,270,077)</u>	12,924,701

In the statement of activities, only the gain or loss on the sales of capital assets is reported, whereas in the governmental funds, the proceeds from such sales increase financial resources. Thus, the change in net assets differs from the change in fund balances by the cost of the assets sold. (1,336,923)

Developer donations of infrastructure assets are not included in the fund statements. Thus, the change in net assets differs from the change in fund balance by the value of these asset donations. 1,272,207

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

Change in deferred revenue	\$ (2,146,168)	
Change in investment in joint venture	<u>213,558</u>	(1,932,610)

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

Principal retirement	59,803,538	
Proceeds of long term debt	<u>(62,319,138)</u>	(2,515,600)

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

Change in accrued interest		409,332
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Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue (expense) of internal service funds is reported with governmental activities. 1,053,536

Change in net assets of governmental activities \$ (1,024,297)

**CITY OF MODESTO**  
**STATEMENT OF NET ASSETS - PROPRIETARY FUNDS**  
**June 30, 2007**

	Enterprise					Internal Service
	Water	Sewer	Bus	Other Enterprise	Total Enterprise	
<b>ASSETS</b>						
Current assets:						
Cash and cash equivalents	\$ 39,127,144	\$ 22,773,037	\$ 4,152,663	\$ 5,032,664	\$ 71,085,508	\$ 53,382,339
Cash and cash equivalents with fiscal agent	2,445,103	4,049,547		610,647	7,105,297	
Receivables:						
Accounts		44,534	34,844	239,580	318,958	857,956
Interest	337,254	166,699	17,008	16,360	537,321	144,238
Utilities, net	6,441,602	2,641,080		557,922	9,640,604	
Taxes	5,109			796	5,905	
Due from governments			1,803,311	784,877	2,588,188	
Prepaid expenses	706,673				706,673	
Inventories						763,492
Property held for resale				630,000	630,000	
Advances to other funds						1,782,462
Total current assets	<u>49,062,885</u>	<u>29,674,897</u>	<u>6,007,826</u>	<u>7,872,846</u>	<u>92,618,454</u>	<u>56,930,487</u>
Noncurrent assets:						
Restricted assets-cash and cash equivalents	42,767,102	16,432,541			59,199,643	
Unamortized costs of issuance	892,938	892,896			1,785,834	
Land and construction in progress	15,958,371	34,942,347	5,416,369	13,989,727	70,306,814	821,033
Other capital assets, net of accumulated depreciation	63,948,764	103,300,068	13,726,444	43,184,021	224,159,297	19,509,723
Total noncurrent assets	<u>123,567,175</u>	<u>155,567,852</u>	<u>19,142,813</u>	<u>57,173,748</u>	<u>355,451,588</u>	<u>20,330,756</u>
Total assets	<u>172,630,060</u>	<u>185,242,749</u>	<u>25,150,639</u>	<u>65,046,594</u>	<u>448,070,042</u>	<u>77,261,243</u>
<b>LIABILITIES</b>						
Current liabilities:						
Accounts payable	\$ 523,698	\$ 2,715,641	\$ 753,143	\$ 995,442	\$ 4,987,924	\$ 1,401,535
Accrued salaries and benefits	73,227	99,100	18,910	47,027	238,264	87,910
Interest payable	264,620	410,407		51,807	726,834	1,038
Current portion - compensated absences						3,259,769
Current portion - claims liability						4,583,644
Current portion - long-term debt	1,018,977	1,710,000		289,148	3,018,125	102,188
Current portion - developer advances	92,822				92,822	
Deferred revenues			2,897,511	221,058	3,118,569	
Total current liabilities	<u>1,973,344</u>	<u>4,935,148</u>	<u>3,669,564</u>	<u>1,604,482</u>	<u>12,182,538</u>	<u>9,436,084</u>
Noncurrent liabilities:						
Payable from restricted assets - refundable deposits	656,522	424,851			1,081,373	
Compensated absences						64,628,743
Claims liability						12,042,593
Long-term debt:						
Revenue bonds payable		49,848,192			49,848,192	
Loan payable	1,754,299				1,754,299	
Notes payable						116,220
Obligations under capital leases				77,485	77,485	137,392
Certificates of participation	63,541,989			5,435,000	68,976,989	
Developer advances	1,990,367				1,990,367	
Advances from other funds				878,704	878,704	
Total noncurrent liabilities	<u>67,943,177</u>	<u>50,273,043</u>	<u>49,848,192</u>	<u>6,391,189</u>	<u>124,607,409</u>	<u>76,924,948</u>
Total liabilities	<u>69,916,521</u>	<u>55,208,191</u>	<u>3,669,564</u>	<u>7,995,671</u>	<u>136,789,947</u>	<u>86,361,032</u>
<b>NET ASSETS</b>						
Invested in capital assets, net of related debt	55,702,450	102,691,913	19,142,813	51,372,115	170,791,021	20,091,176
Unrestricted	<u>47,011,089</u>	<u>27,342,645</u>	<u>2,338,262</u>	<u>5,678,808</u>	<u>140,489,074</u>	<u>(29,190,965)</u>
Total net assets	<u>\$ 102,713,539</u>	<u>\$ 130,034,558</u>	<u>\$ 21,481,075</u>	<u>\$ 57,050,923</u>	<u>311,280,095</u>	<u>\$ (9,099,789)</u>

Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.

(875,700)

Net assets of business-type activities

\$ 310,404,395

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

**CITY OF MODESTO**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES**  
**IN FUND NET ASSETS - PROPRIETARY FUNDS**  
**Year ended June 30, 2007**

	Water	Sewer	Bus	Other Enterprise	Total Enterprise	Internal Service
<b>OPERATING REVENUES:</b>						
Charges for services	\$ 49,289,417	\$ 24,776,869	2,390,892	\$ 11,086,967	\$ 87,544,145	\$ 43,641,010
Sales						4,757,411
Cost of sales						(3,939,828)
Miscellaneous	15,616	56,150	154,898	45,875	272,539	
Total operating revenues	<u>49,305,033</u>	<u>24,833,019</u>	<u>2,545,790</u>	<u>11,132,842</u>	<u>87,816,684</u>	<u>44,458,593</u>
<b>OPERATING EXPENSES:</b>						
Salaries and wages	4,105,016	5,136,040	914,950	2,633,769	12,789,775	4,379,438
Contractual services	2,041,814	2,700,492	7,667,756	4,921,651	17,331,713	983,009
Utilities	1,926,634	1,107,437	78,238	413,330	3,525,639	485,393
Maintenance and supplies	4,034,053	2,770,550	1,599,586	2,375,374	10,779,563	3,935,434
Water purchases	12,904,328				12,904,328	
Insurance	131,337	298,464	55,941	160,279	646,021	13,398,895
Claims expense						9,231,869
Employee benefits	1,561,618	2,100,382	339,276	1,032,997	5,034,273	10,851,683
Administration services	2,237,066	1,238,155	497,071	1,302,286	5,274,578	1,504,323
Allocated indirect administrative costs	1,049,489	760,932	277,794	406,422	2,494,637	264,010
Other	78,673	130,838	89,894	77,925	377,330	147,574
Depreciation	2,396,440	5,028,528	2,093,587	2,527,966	12,046,521	3,198,649
Total operating expenses	<u>32,466,468</u>	<u>21,271,818</u>	<u>13,614,093</u>	<u>15,851,999</u>	<u>83,204,378</u>	<u>48,380,277</u>
<b>OPERATING INCOME (LOSS)</b>	<u>16,838,565</u>	<u>3,561,201</u>	<u>(11,068,303)</u>	<u>(4,719,157)</u>	<u>4,612,306</u>	<u>(3,921,684)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>						
Operating grants			9,672,682	554,649	10,227,331	4,000
Gain (Loss) on disposition of capital assets	(147,600)	(112,741)	(18,470)	(189,445)	(468,256)	(659,282)
Tax revenue				222,776	222,776	
Tax expense	(85,487)	(91,495)		(14,801)	(191,783)	
Interest income	2,242,135	812,288	113,220	100,579	3,268,222	1,481,764
Net increase in fair value of investments	734,296	400,169	40,923	61,723	1,237,111	628,481
Rental income	37,770	58,354	78,106	727,076	901,306	
Settlements and recoveries	831,798	663,663			1,495,461	
Interest expense	(2,249,824)	(1,931,309)		(305,560)	(4,486,693)	(10,577)
Amortization of costs of issuance	(33,378)	(46,220)			(79,598)	
Total nonoperating revenues (expenses)	<u>1,329,710</u>	<u>(247,291)</u>	<u>9,886,461</u>	<u>1,156,997</u>	<u>12,125,877</u>	<u>1,444,386</u>
<b>INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS</b>	18,168,275	3,313,910	(1,181,842)	(3,562,160)	16,738,183	(2,477,298)
Capital contributions	2,345,957	2,666,690	363,651	1,922,714	7,299,012	558,148
Transfers in	264,000	226,389	1,500	985,437	1,477,326	1,298,335
Transfers out	(65,000)	(65,000)	(65,694)	(128,000)	(323,694)	(38,550)
Special item	<u>(296,407)</u>	<u>(209,091)</u>			<u>(505,498)</u>	
<b>CHANGE IN NET ASSETS</b>	20,416,825	5,932,898	(882,385)	(782,009)	24,685,329	(659,365)
<b>NET ASSETS, July 1</b>	<u>82,296,714</u>	<u>124,101,660</u>	<u>22,363,460</u>	<u>57,832,932</u>		<u>(8,440,424)</u>
<b>NET ASSETS, June 30</b>	<u>\$ 102,713,539</u>	<u>\$ 130,034,558</u>	<u>21,481,075</u>	<u>\$ 57,050,923</u>		<u>\$ (9,099,789)</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.					<u>(1,712,901)</u>	
Change in net assets of business-type activities					<u>\$ 22,972,428</u>	

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

**CITY OF MODESTO**  
**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS**  
**Year ended June 30, 2007**

	Enterprise					Internal Service
	Water	Sewer	Bus	Other Enterprise	Total Enterprise	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>						
Receipts from customers and users	\$ 47,758,187	\$ 24,828,928	\$ 2,595,078	\$ 11,954,968	\$ 87,137,161	\$ 4,812,775
Receipts from interfund services provided	427,858	65,035		23,521	516,414	39,660,607
Payments to suppliers	(19,473,381)	(2,969,190)	(9,054,243)	(5,884,024)	(37,380,838)	(18,835,253)
Payment of insurance claims						(8,936,742)
Payments to employees	(5,661,907)	(7,237,125)	(1,251,420)	(3,663,140)	(17,813,592)	(8,956,088)
Payments for interfund services used	(5,310,466)	(3,964,147)	(1,142,537)	(3,364,808)	(13,781,958)	(2,244,913)
Net cash provided (used) by operating activities	<u>17,740,291</u>	<u>10,723,501</u>	<u>(8,853,122)</u>	<u>(933,483)</u>	<u>18,677,187</u>	<u>5,500,386</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>						
Operating grants received			11,935,926	565,482	12,501,408	5,038
Taxes received				222,776	222,776	
Settlements and recoveries	831,798	663,663			1,495,461	
Transfers in	264,000	226,389	1,500	985,437	1,477,326	1,298,335
Transfers out	(65,000)	(65,000)	(65,694)	(128,000)	(323,694)	(38,550)
New advances from other funds				878,704		121,014
Net cash provided (used) by noncapital financing activities	<u>1,030,798</u>	<u>825,052</u>	<u>11,871,732</u>	<u>2,524,399</u>	<u>15,373,277</u>	<u>1,385,837</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>						
Acquisition and construction of capital assets	(6,058,751)	(10,512,609)	(1,222,095)	(2,120,363)	(19,913,818)	(3,732,362)
Proceeds of sale of capital assets		13,502				
Proceeds of debt issues	46,275,000	16,535,000				
Costs of issuance paid	(685,703)	(339,604)				
Bond discount paid		(323,867)				
Principal repayments	(1,072,336)	(1,650,000)		(275,955)	(2,998,291)	(26,587)
Interest paid	(2,163,506)	(2,055,524)		(309,551)	(4,528,581)	(10,577)
Capital grants received			363,651	1,546,459	1,910,110	
Connection fees for capital purposes	2,023,224	663,316			2,686,540	
Net cash used by capital and related financing activities	<u>38,317,928</u>	<u>2,330,214</u>	<u>(858,444)</u>	<u>(1,159,410)</u>	<u>(22,844,040)</u>	<u>(3,769,526)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>						
Interest received	2,029,235	1,227,069	105,360	136,465	3,498,129	1,557,085
Net increase in the fair value of investments	734,296	400,169	40,923	61,723	1,237,111	628,481
Net cash provided by investing activities	<u>2,763,531</u>	<u>1,627,238</u>	<u>146,283</u>	<u>198,188</u>	<u>4,735,240</u>	<u>2,185,566</u>
Net increase (decrease) in cash and cash equivalents	59,852,548	15,506,005	2,306,449	629,694	78,294,696	5,354,364
CASH AND CASH EQUIVALENTS, JULY 1	<u>24,486,801</u>	<u>27,749,120</u>	<u>1,846,214</u>	<u>5,013,617</u>	<u>59,095,752</u>	<u>48,027,975</u>
CASH AND CASH EQUIVALENTS, JUNE 30	<u>\$ 84,339,349</u>	<u>\$ 43,255,125</u>	<u>\$ 4,152,663</u>	<u>\$ 5,643,311</u>	<u>\$ 137,390,448</u>	<u>\$ 53,382,339</u>
<b>RECONCILIATION TO STATEMENT OF NET ASSETS:</b>						
Cash and cash equivalents	\$ 39,127,144	\$ 22,773,037	\$ 4,152,663	\$ 5,032,664	\$ 71,085,508	\$ 53,382,339
Cash and cash equivalents with fiscal agent	2,445,103	4,049,547		610,647	7,105,297	
Restricted assets-cash and cash equivalents	<u>42,767,102</u>	<u>16,432,541</u>			<u>59,199,643</u>	
TOTAL CASH AND CASH EQUIVALENTS	<u>\$ 84,339,349</u>	<u>\$ 43,255,125</u>	<u>\$ 4,152,663</u>	<u>\$ 5,643,311</u>	<u>\$ 137,390,448</u>	<u>\$ 53,382,339</u>

(continued)

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

**CITY OF MODESTO**  
**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS (Continued)**  
**Year ended June 30, 2007**

	Enterprise					Internal Service
	Water	Sewer	Bus	Other Enterprise	Total Enterprise	
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</b>						
Operating income (loss)	\$ 16,838,565	\$ 3,561,201	\$ (11,068,303)	\$ (4,719,157)	\$ 4,612,306	\$ (3,921,684)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:						
Depreciation	2,396,440	5,028,528	2,093,587	2,527,966	12,046,521	3,198,649
Rental income	37,770	58,354	78,106	727,076	901,306	
Taxes paid	(85,487)	(91,495)		(15,597)	(192,579)	
Special item	(296,407)	(209,091)			(505,498)	
Change in assets and liabilities:						
(Increase) in accounts receivable	1,440	14,175	(28,818)	120,541	107,338	(23,898)
(Increase) in utilities receivable	(1,149,441)	(200,399)		490	(1,349,350)	
(Increase) in taxes receivable	(1,169)				(1,169)	
Decrease in due from governments		127,064			127,064	38,687
(Increase) decrease in prepaid expenses	296,327				296,327	
(Increase) in inventories						(246,573)
(Decrease) in accounts payable and accrued expenses	(294,886)	2,374,117	69,500	423,236	2,571,967	(114,955)
Increase in accrued salaries and benefits	4,727	(703)	2,806	3,626	10,456	3,475
Increase in compensated absences						6,271,558
(Decrease) in claims liability						295,127
Increase in deferred revenues				(1,664)	(1,664)	
Increase (decrease) in refundable deposits	(7,588)	61,750			54,162	
Total adjustments	<u>901,726</u>	<u>7,162,300</u>	<u>2,215,181</u>	<u>3,785,674</u>	<u>14,064,881</u>	<u>9,422,070</u>
Net cash provided (used) by operating activities	<u>\$ 17,740,291</u>	<u>\$ 10,723,501</u>	<u>\$ (8,853,122)</u>	<u>\$ (933,483)</u>	<u>\$ 18,677,187</u>	<u>\$ 5,500,386</u>
<b>NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:</b>						
Capital assets transferred in	\$ 38,683	\$ 444,898		\$ 18,545	\$ 502,126	\$ 558,148
Developer infrastructure contributions	284,050	1,558,476			1,842,526	

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

**CITY OF MODESTO**  
**STATEMENT OF FIDUCIARY NET ASSETS -AGENCY FUNDS**  
**June 30, 2007**

	<u>Agency Funds</u>
<u>ASSETS</u>	
Cash and cash equivalents	\$ 5,314,399
Cash and cash equivalents held with fiscal agent	<u>3,841,746</u>
	<u>\$ 9,156,145</u>
<u>LIABILITIES</u>	
Due to special district bondholders	\$ 6,445,706
Deposits held as agent for others	<u>2,710,439</u>
	<u>\$ 9,156,145</u>

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

**CITY OF MODESTO**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2007**

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. THE FINANCIAL REPORTING ENTITY**

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

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

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

Although these component units are legally separate from the City, they are reported on a blended basis as part of the primary government because their boards consist of all seven members of the City Council. Component unit financial statements may be obtained from the City's Finance Department.

The joint ventures and jointly governed organization described in Note III - E are not considered part of the reporting entity because the City is not financially accountable for their operations.

**B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary 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 that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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

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

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

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

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

The City reports the following major governmental funds:

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

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

The Community Facilities Districts Fund accounts for the construction of public improvements deemed to benefit properties against which special taxes are levied.

The City reports the following major proprietary funds:

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

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

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

Additionally, the City reports the following fund types:

Internal service funds account for fleet management, central services, technology and information services, insurance, employee benefits management, and building services provided to other departments or agencies of the City on a cost-reimbursement basis.

Agency funds account for cash and investments held by the City as agent for various assessment districts, governmental entities and non-public organizations. Agency funds cannot be major funds.

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

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

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

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

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

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

#### D. ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY

##### 1. Cash and Cash Equivalents

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

## 2. Restricted Assets - Cash and Cash Equivalents

Refundable deposits of the General Fund and the Community Facilities Districts Capital Projects Fund are classified as restricted assets – cash and cash equivalents on the governmental funds balance sheet because their use is restricted for repayment of those refundable deposits. Refundable deposits in the Water and Sewer funds are also reported as restricted assets on the proprietary funds statement of net assets. In addition, certain proceeds of Water certificates of participation and Sewer revenue bonds are considered restricted assets because their use is limited by applicable debt covenants. These proceeds are reported as part of “restricted assets – cash and cash equivalents” on the proprietary funds statement of net assets.

## 3. Receivables and Payables

Balances representing lending/borrowing transactions between funds outstanding at the end of the fiscal year are reported as either "due from/due to other funds" (amounts due within one year), or "advances to/from other funds" (non-current portions of interfund lending/borrowing transactions). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.” Advances to other funds are offset by a fund balance reserve in applicable governmental funds to indicate they are not available for appropriation and are not expendable available financial resources.

All property taxes are collected and allocated by the County of Stanislaus to the various taxing entities. Property taxes are determined annually as of March 1 and attach as an enforceable lien on real property as of January 1. Taxes are due November 1 and February 1 and are delinquent if not paid by December 10 and April 10, respectively. The City participates in the County "Teeter Plan" method of property tax distribution. Under the Teeter Plan, the County remits property taxes to the City based on assessments, not on collections, according to the following schedule: 55 percent in December, 40 percent in April, and 5 percent at the end of the fiscal year. Property tax is recognized when it is available and measurable. The City considers property tax as available if it is received within 60 days after year-end.

Revenue from taxpayer-assessed taxes (sales and use, business license, transient occupancy, utility users, gas, and franchise fees) are accrued in the governmental funds when they are both measurable and available. The City considers these revenues available if they are received during the period when settlement of prior fiscal year accounts payable occurs. Historically, the majority of these taxes are received within 60 days of the fiscal year end; therefore, revenue from taxpayer-assessed taxes is accrued if it is received by August 31.

Grant and entitlement revenues are recorded as receivables in the funds when they are susceptible to accrual (i.e., when all eligibility requirements have been met). The corresponding governmental fund revenues are recorded when they become available, with the differences recorded as deferred revenue. The corresponding proprietary fund revenues are recorded as 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, 2007 is \$14,821,485.

Utility service accounts receivable are reported net of \$666,240 allowance for doubtful collections and include unbilled receivables using actual amounts billed in July for June services. Accounts receivable are reported net of \$1,501,106 allowance for doubtful collections, and are based on miscellaneous receivables from the City's invoice system as well as other receivables accrued at year end.

## 4. Inventories

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

## 5. Capital Assets

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

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

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. The amount of interest capitalized is determined by offsetting interest expense incurred from the date of borrowing until completion of the project, against interest earned on invested proceeds over the same period. During the fiscal year ended June 30, 2007, \$13,312 net interest expense on tax-exempt debt of the City's Sewer Fund was capitalized.

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

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

## 6. Compensated Absences

All earned vacation, holiday, and compensating time, and a portion of accumulated sick leave payable upon termination or retirement, are accrued in the Employee Benefits Management Internal Service Fund as compensated absences. Estimated sick leave termination payments have been calculated using the Governmental Accounting Standards Board Statement 16 vesting method. Under this method, a liability is accrued for a portion of the sick leave balances of all employees who are currently eligible, or are assumed to become eligible in the future, to receive a payment for sick leave upon termination, as well as amounts set aside to pay future health care premiums. As of June 30, 2007, the total estimated liability for all compensated absences, including sick leave, is \$67,888,512. The estimated current portion of \$3,259,769 is funded by charges to all operating funds. The estimated long-term portion is \$64,628,743.

## 7. Fund Equity

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

## E. OTHER SIGNIFICANT ACCOUNTING POLICIES

### 1. Employee Benefits

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

2. Interfund Transactions

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

**II. DETAILED NOTES**

**A. CASH AND INVESTMENTS**

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

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

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

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

Investments are stated at fair value. The City's investment in the Local Agency Investment Fund (LAIF) is \$114,799,066. The value of the pool shares in LAIF, which may be withdrawn on demand, is determined on an amortized cost basis, which is not materially different than the fair value of the City's portion in the pool. The total amount invested by all public agencies in LAIF is \$65,756,665,933. The Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members as designated by state statute.

Investments Authorized by Debt Agreements

The City must maintain required amounts of cash and investments with trustees or fiscal agents under the terms of certain debt issues. These funds are unexpended bond proceeds or are pledged as reserves to be used if the City

fails to meet its obligations under these debt issues. The California Government Code requires these funds to be invested in accordance with City ordinance, bond indentures or State statute. All current bond indentures authorize the same investments as the City's investment policy. In addition some bond indentures authorize investments in guaranteed investment contracts with maturity dates of September 1, 2033 and November 1, 2016 and a repurchase agreement with a maximum maturity of May 27, 2013.

### Interest Rate Risk

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

Investment Type	Total	Remaining Time to Maturity			
		Less Than 1 Year	1 – 2 Years	2 – 3 Years	Over 5 Years
U.S. Treasury Notes	\$26,139,826	\$9,302,128	\$7,659,155	\$9,178,543	
Federal agency securities					
Bonds	11,811,563	11,811,563			
Notes	76,282,702	7,878,666	42,540,184	25,863,852	
Discount notes	4,688,104	4,688,104			
Commercial Paper	38,817,660	38,817,660			
LAIF	114,799,066	114,799,066			
Cash in banks	4,216,350	4,216,350			
Held by trustee:					
Money market funds	11,858,530	11,858,530			
U.S. Treasury Bill	1,729,536	1,729,536			
U.S. Treasury Notes					
Federal agency discount notes	13,553,164	13,553,164			
Federal agency securities notes	16,635,253	13,479,256	1,595,997	1,560,000	
Repurchase agreements	1,977,051				\$1,977,051
Guaranteed investment contracts	343,650				343,650
<b>Total</b>	<b>\$322,852,455</b>	<b>\$232,134,023</b>	<b>\$51,795,336</b>	<b>\$36,602,395</b>	<b>\$2,320,701</b>

Maturity dates for callable notes are based on call dates.

### Disclosures Related to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the rating as of June 30, 2007 for each investment type:

Investment Type	Total	Exempt from Disclosure	AAA and A-1+	Not Rated
U.S. Treasury Notes	\$26,139,826	\$26,139,826		
Federal agency securities	92,782,369		\$92,782,369	
Commercial Paper	38,817,660		38,817,660	
LAIF	114,799,066			\$114,799,066
Cash in banks	4,216,350	4,216,350		
Held by trustee:				
Money market funds	11,858,530		11,858,530	
U.S. Treasury Bill	1,729,536	1,729,536		
Federal agency notes	13,553,164		13,553,164	
Federal agency securities notes	16,635,253		16,635,253	
Repurchase agreements	1,977,051			1,977,051
Guaranteed investment contracts	343,650			343,650
<b>Total</b>	<b>\$322,852,455</b>	<b>\$32,085,712</b>	<b>\$173,646,976</b>	<b>\$117,119,767</b>

### 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, 2007:

<u>Issuer</u>	<u>Investment Type</u>	<u>Reported Amount</u>	<u>Percent of Portfolio</u>
Fannie Mae (FNMA)	Federal agency securities	\$24,819,188	8.0%
Freddie Mac (FHLMC)	Federal agency securities	40,296,173	15.0%
Federal Home Loan Bank	Federal agency securities	44,883,521	14.0%

Investments in any one issuer, other than U. S. Treasury securities, mutual funds, and external investment pools, that represent 5% or more of governmental fund investments were as follows at June 30, 2007:

<u>Fund/Issuer</u>	<u>Investment Type</u>	<u>Reported Amount</u>
Community Facilities Districts:		
Fannie Mae (FNMA)	Federal agency securities	\$ 6,738,406
Freddie Mac (FHLMC)	Federal agency securities	8,396,338
Federal Home Loan Bank	Federal agency securities	2,928,975
FFCB	Federal agency securities	5,536,258
Other Governmental Funds:		
Lehman Government Securities	Repurchase agreement	1,977,051

Investments in any one issuer, other than U. S. Treasury securities, mutual funds, and external investment pools, that represent 5% or more of enterprise funds were for the Sewer Enterprise Fund as follows at June 30, 2007:

<u>Issuer</u>	<u>Investment Type</u>	<u>Reported Amount</u>
Federal Home Loan Bank	Federal agency securities	\$3,192,784

Investments in any one issuer, other than U. S. Treasury securities, mutual funds, and external investment pools, that represent 5% or more of Agency Fund investments were as follows at June 30, 2007:

<u>Issuer</u>	<u>Investment Type</u>	<u>Reported Amount</u>
Freddie Mac (FHMLC)	Federal agency securities	\$1,595,997
Federal Home Loan Bank	Federal agency securities	1,560,000

### Custodial Credit Risk

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

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

## B. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2007 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Land	\$22,982,481	\$ 1,989,905		\$24,972,386
Construction in progress	12,096,543	17,283,510	\$122,929	29,257,124
Total capital assets, not being depreciated	<u>35,079,024</u>	<u>19,273,415</u>	<u>122,929</u>	<u>54,229,510</u>
Capital assets, being depreciated:				
Buildings	31,228,945	355,547		31,584,492
Improvements other than buildings	37,889,012	1,118,888		39,007,900
Furnishings and equipment	17,961,416	2,807,677	1,105,866	19,663,227
Equipment pool	28,045,170	3,123,118	2,982,715	28,185,573
Streets	425,979,732	7,396,540		433,376,272
Signalization	14,226,300	697,905		14,924,205
Bridges	25,753,532	72,769		25,826,301
Total capital assets, being depreciated	<u>581,084,107</u>	<u>15,572,444</u>	<u>4,088,581</u>	<u>592,567,970</u>
Less accumulated depreciation for:				
Buildings	(10,086,846)	(1,407,593)		(11,494,439)
Improvements other than buildings	(21,220,038)	(1,350,769)		(22,570,807)
Furnishings and equipment	(9,901,715)	(1,617,534)	942,401	(10,576,848)
Equipment pool	(12,812,761)	(2,581,417)	2,304,588	(13,089,590)
Streets	(191,013,605)	(11,046,669)		(202,060,274)
Signalization	(7,642,567)	(1,079,535)		(8,722,102)
Bridges	(514,425)	(1,346,003)		(1,860,428)
Total accumulated depreciation	<u>(253,191,957)</u>	<u>(20,429,520)</u>	<u>3,246,989</u>	<u>(270,374,488)</u>
Total capital assets, being depreciated, net	<u>327,892,150</u>	<u>(4,857,076)</u>	<u>841,592</u>	<u>322,193,482</u>
Governmental activities capital assets, net	<u>\$362,971,174</u>	<u>\$14,416,339</u>	<u>\$964,521</u>	<u>\$376,422,992</u>
	Beginning Balance	Additions	Deletions	Ending Balance
<b>Business-type activities:</b>				
Capital assets, not being depreciated:				
Land	\$26,539,639	\$ 271,513		\$26,811,152
Construction in progress	28,642,007	14,853,655		43,495,662
Total capital assets, not being depreciated	<u>55,181,646</u>	<u>15,125,168</u>		<u>70,306,814</u>
Capital assets, being depreciated:				
Buildings	82,907,925	54,373		82,962,298
Improvements other than buildings	137,754,357	1,086,997		138,841,354
Furnishings and equipment	5,971,301	691,601	\$926,271	5,736,631
Buses and fareboxes	15,221,187	1,081,082		16,302,269
Pipelines	131,863,546	4,426,777		136,290,323
Total capital assets, being depreciated	<u>373,718,316</u>	<u>7,340,830</u>	<u>926,271</u>	<u>380,132,875</u>
Less accumulated depreciation for:				
Buildings	(34,585,355)	(2,542,969)		(37,128,324)
Improvements other than buildings	(77,891,080)	(5,578,021)		(83,469,101)
Furnishings and equipment	(3,078,293)	(503,230)	250,488	(3,331,035)
Buses and fareboxes	(7,023,190)	(1,725,902)		(8,749,092)
Pipelines	(21,599,627)	(1,696,399)		(23,296,026)
Total accumulated depreciation	<u>(144,177,545)</u>	<u>(12,046,521)</u>	<u>250,488</u>	<u>(155,973,578)</u>
Total capital assets, being depreciated, net	<u>229,540,771</u>	<u>(4,705,691)</u>	<u>675,783</u>	<u>224,159,297</u>
Business-type activities capital assets, net	<u>\$284,722,417</u>	<u>\$10,419,477</u>	<u>\$675,783</u>	<u>\$294,466,111</u>

Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
General government	\$ 103,518
Community development	85,094
Highways and streets, including depreciation of general infrastructure assets	13,541,559
Public works	874,412
Parks and recreation	933,268
Public safety	1,732,226
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	<u>3,159,443</u>
Total depreciation expense – governmental activities	<u>\$20,429,520</u>
Business-type activities:	
Parking	\$ 387,929
Water	2,396,440
Sewer	5,028,528
Storm Drain	591,157
Compost	69,354
Airport	390,774
Bus	2,093,587
Golf	310,649
Community center	<u>778,103</u>
Total depreciation expense – business-type activities	<u>\$12,046,521</u>

C. LONG-TERM DEBT

Loans Payable

Governmental activities:

No-interest loan payable to the Stanislaus County Economic Development Bank loan program, to pay master plan costs incurred by the City's Redevelopment Agency for the Kansas Avenue Business Park Project; no obligation to begin repayments until project is complete and revenue stream begins; final payment due in 2015 if not repaid sooner. \$405,000

No-interest loan payable to the Stanislaus County Economic Development Bank loan program, to pay costs incurred by the City for the Kiernan Business Park East Project; loan intended to be repaid within five years of project completion, provided funds are available from revenue stream; project completion estimated to be March 1, 2009; authorized loan amount up to \$500,000, with a current balance of \$44,138; outstanding amount will increase as more eligible costs are incurred and more loan proceeds are borrowed. 44,138

Total principal balances – governmental activities \$449,138

Business-type activities:

Water Enterprise Fund:

Loan payable to the State of California Department of Water Resources, assumed from Del Este Water Company at acquisition, for purposes of upgrading the water delivery system; interest at 3.2%; semi-annual installments on April 1 and October 1 of \$132,360, including interest, through October 1, 2015. \$1,958,276

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

<u>Year Ending June 30,</u>	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2008			\$ 203,977	\$ 60,743
2009			210,745	53,974
2010			217,380	47,339
2011			224,343	40,376
2012			231,463	33,256
2012-2016	<u>\$449,138</u>		<u>870,368</u>	<u>56,148</u>
Total	<u>\$449,138</u>	<u>\$0</u>	<u>\$1,958,276</u>	<u>\$291,836</u>

Certificates of Participation

Governmental activities:

1993 Refunding Certificates of Participation issued to refund earlier certificates for the Modesto Centre Plaza Community Center capital project; serial certificates with annual maturities on November 1, in amounts from \$885,000 to \$1,040,000; interest rates from 5.4% - 5.6%; term certificates at 5.6% in the amount of \$4,740,000 maturing November 1, 2014, and in the amount of \$12,235,000 at 5.0% maturing November 1, 2023, with annual payments of \$1,090,000 to \$1,610,000 beginning in 2011.

\$ 20,820,000

Business-type activities:

Golf Enterprise Fund:

1993 Refunding Certificates of Participation issued to refund earlier certificates for the Creekside Golf Course capital project; serial certificates with annual maturities on November 1, in amounts from \$215,000 to \$235,000; interest rates from 5.4% to 5.5%; term certificates at 5.6% in the amount of \$1,390,000 due November 1, 2014, and in the amount of \$3,585,000 at 5.0% due November 1, 2023, with annual payments ranging from \$250,000 to \$480,000 beginning in 2010.

\$ 5,650,000

Water Enterprise Fund:

1997 Refunding Certificates of Participation issued to refund earlier certificates for various Water Enterprise Fund capital projects; serial certificates with annual maturities on October 1, in amounts from \$815,000 to \$1,050,000; interest rates from 4.70% to 5.0%; term certificates at 5.4% in the amount of \$6,145,000 maturing on October 1, 2017, and in the amount of \$7,965,000 at 5.43% maturing on October 1, 2022, with annual payments from \$1,015,000 to \$1,765,000 beginning in 2013.

19,670,000

2006 Water Revenue Certificates of Participation issued 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 auction rate securities maturing October 1, 2036, with interest calculated weekly, fluctuating according to market conditions; principal payments beginning October 1, 2008 in annual amounts of \$250,000 to \$3,725,000.

The City entered into a 30 year interest rate swap agreement as discussed below. The combination of the variable rate 2006 COPs and the floating rate swap creates a synthetic fixed-rate debt for the City. The synthetic fixed rate was 3.49% at June 30, 2007.

46,275,000

Total principal balances – business-type activities

71,595,000

Less:

Unamortized bond discount – 1997 Water Certificates of Participation

(363,376)

Deferred amount on refunding – 1997 Water Certificates of Participation

(1,224,635)

Total business-type activities certificates of participation

\$70,006,989

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

Year Ending June 30,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2008	\$ 885,000	\$1,064,925	\$ 1,030,000	\$2,997,427
2009	935,000	1,015,318	1,330,000	2,938,747
2010	985,000	962,517	1,410,000	2,873,070
2011	1,040,000	906,310	1,470,000	2,804,026
2012	1,090,000	846,670	1,535,000	2,730,817
2013-2017	6,125,000	3,244,035	8,975,000	12,408,488
2018-2022	6,615,000	1,645,375	11,415,000	9,927,024
2023-2027	3,145,000	159,125	12,805,000	7,030,696
2028-2032			14,350,000	4,489,403
2033-2037			17,275,000	1,515,432
Total	<u>\$20,820,000</u>	<u>\$9,844,275</u>	<u>\$71,595,000</u>	<u>\$49,715,130</u>

Lease Revenue Bonds – Governmental activities:

1998 Lease Revenue Bonds (Capital Improvements and Refinancing Project) in the original principal amount of \$61,430,000, issued to provide funding for the City's portion of a City/County government building, parking garage, new police station, and other governmental capital improvements; serial certificates with annual maturities on September 1, in amounts from \$30,000 to \$450,000; interest payments at 4.2% to 5.125%; final maturity in 2034. \$4,165,000

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

The City entered into a 25-year interest rate swap agreement, which will become effective September 3, 2008, in the same amount as the outstanding principal balance of the Bonds on that date. The combination of the variable rate bonds and a floating swap rate will create synthetic fixed-rate debt for the City. Because neither the auction rate nor the swap rate are effective as of June 30, 2007, the initial bond interest rate of 3.7% is used for disclosure purposes. The terms of the swap agreement will be disclosed when it becomes effective. 62,275,000

Total lease revenue bonds \$ 66,440,000

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2008	\$1,230,000	\$2,180,827
2009	700,000	2,964,779
2010	955,000	2,351,753
2011	1,085,000	2,313,481
2012	1,190,000	2,271,104
2013-2017	7,925,000	10,554,929
2018-2022	10,225,000	8,876,595
2023-2027	14,895,000	6,543,242
2028-2032	19,380,000	3,318,063
2033-2034	8,855,000	256,293
Total	<u>\$66,440,000</u>	<u>\$41,631,066</u>

Revenue Bonds – Business-type activities:

Sewer Enterprise Fund:

Wastewater Treatment Facility Revenue Bonds, Series 2005 Series A and B; Series A (non-taxable) interest payable on November 1 and May 1; serial certificates with annual maturities on November 1, in amounts from \$575,000 to \$3,230,000, with interest rates from 3.0% to 5.25%; Series B (taxable) interest payable on November 1 and May 1; serial certificates with annual maturities on November 1, in amounts from \$1,075,000 to \$1,115,000, with interest rates from 4.14% to 4.40%.	<u>\$ 36,595,000</u>
Wastewater Revenue Bonds, Series 2006A; interest payable on November 1 and May 1; serial certificates with annual maturities on November 1, in amounts from \$880,000 to \$1,005,000, with interest rates from 4.2% to 4.5%; term certificates in the amount of \$5,710,000 maturing in 2031 and \$7,060,000 maturing in 2036, bearing interest at 4.25%, with annual payments beginning in 2024.	<u>16,535,000</u>
Total principal balances – business-type activities	53,130,000
Plus: Unamortized bond premium - 2005 Bonds	2,044,805
Less:	
Unamortized bond discount – 2006 Bonds	(313,420)
Deferred amount on refunding – 2005 Bonds	<u>(3,303,193)</u>
Total business-type activities revenue bonds	<u>\$ 51,558,192</u>

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

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 1,710,000	\$ 2,428,988
2009	1,660,000	2,370,633
2010	1,710,000	2,320,083
2011	1,765,000	2,250,308
2012	1,855,000	2,159,808
2013-2017	10,820,000	9,280,588
2018-2022	13,845,000	6,257,135
2023-2027	6,995,000	3,294,639
2028-2032	5,710,000	2,127,550
2033-2037	7,060,000	775,625
Total	<u>\$53,130,000</u>	<u>\$33,265,357</u>

Notes Payable – Governmental activities:

Note payable to the Federal Housing and Development Department for the purpose of constructing the Neighborhood Center at Marshall Park and the expansion of the Maddux Youth Center; to be repaid using future Community Development Block Grant revenue; interest rates from 3.09% to 6.01%; semi-annual installments on August 1 and February 1 through August 2024.

\$4,221,000

Fleet Management Internal Service Fund:

Note payable for the acquisition of property related to the Police Fleet Shop; variable interest rate with a minimum of 6% and a maximum of 9%; monthly payments of \$3,010, including interest, through February 2012.

144,446

Total notes payable

\$4,365,446

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 178,226	\$ 232,373
2009	187,968	224,759
2010	196,816	216,184
2011	207,778	206,685
2012	202,658	196,417
2013-2017	1,057,000	828,316
2018-2022	1,350,000	497,328
2023-2025	985,000	90,444
Total	<u>\$4,365,446</u>	<u>\$2,492,506</u>

Interest Rate Swap Agreements

During fiscal year 2007, the City entered into an interest swap agreement in connection with the 2006 Water Revenue Certificates of Participation. This transaction allows the City to create a synthetic fixed rate on the COPs, protecting it against increases in short-term interest rates. The terms, fair value and credit risk of the swap agreement is disclosed below. For the swap agreement pertaining to the 2007 Lease Revenue Refunding and Capital Improvement Bonds, these disclosures will be made when the agreement becomes effective in fiscal year 2009.

Terms - The terms, including the counterparty credit rating of the outstanding swap, as of June 30, 2007 are shown in the table below. The swap agreement contains scheduled reductions to the outstanding notional amount that are expected to follow scheduled principal reductions in the associated debt issue.

Related Debt Issue	Notional Amount	Effective Date	Counterparty	Credit Rating (S&P)	Fixed Rate Paid	Variable Rate Received	Termination Date
2006 Water Revenue COPs	\$46,275,000	11/2/2006	Bank of America	AA+	3.48%	63.7% of 30-day LIBOR, plus .154%	10/1/2036

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

Fair value – Fair value takes into consideration the prevailing interest rate environment, the specific terms and conditions of each transaction and any upfront payments that may have been received. Fair value was estimated using the zero-coupon discounting method, which calculates the future payments required by the swap, assuming that the current forward rates implied by the LIBOR swap yield curve are the market’s best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement on the swaps. As of June 30, 2007, the fair value of the 2006 Water Revenue Certificates of Participation swap was in favor of the City as shown in the following table:

Bond Issue	Fair Value
2006 Water Revenue Certificates of Participation	\$1,546,494

Credit risk - As of June 30, 2007, the City was exposed to credit risk on the swap because the swap had positive fair value. This amount may increase if interest rates increase in the future. However, if interest rates decline and the fair value becomes negative, the City would no longer 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 contract if the other party fails to perform under the terms of the contract. 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, 2007, debt service requirements of the 2006 Water Revenue Certificates of Participation and net swap payments, including broker fees, are as shown in the following table. These payments are also included in the table of debt service requirements accompanying the Certificates of Participation disclosure above. The bond interest payments and net swap payments will vary as interest rates vary.

Year Ending June 30	Variable-Rate Bonds		Interest Rate Swap, Net, and Broker Fees	Total
	Principal	Interest		
2008	---	\$ 1,642,762	\$ 89,540	\$ 1,732,302
2009	\$250,000	1,636,106	89,181	1,975,287
2010	275,000	1,626,566	88,263	1,989,829
2011	275,000	1,616,803	88,120	1,979,923
2012	275,000	1,607,041	87,593	1,969,634
2013-2017	1,600,000	7,871,238	431,182	9,902,420
2018-2022	1,875,000	7,559,503	414,129	9,848,632
2023-2027	10,100,000	6,578,150	359,818	17,037,968
2028-2032	14,350,000	4,252,456	236,947	18,839,403
2033-2037	17,275,000	1,425,991	89,441	18,790,432
<b>Total</b>	<b>\$46,275,000</b>	<b>\$35,816,616</b>	<b>\$1,974,214</b>	<b>\$84,065,830</b>

#### Advance Refunding of 1997 and 1998 Lease Revenue Bonds

In April 2007, the City refunded the balance of outstanding 1997 Lease Revenue Bonds (John Thurman Field Project), and a portion of 1998 Lease Revenue Bonds (Capital Improvements and Refinancing Project), by placing a portion of the 2007 Lease Revenue Bond proceeds in irrevocable trust accounts. The trust was sufficient to pay on May 23, 2007 the prepayment price of 102% of the principal amount and accrued interest on the 1997 Lease Revenue Bonds. The remaining trust account will generate sufficient resources to pay the prepayment price of 101% of the principal balance plus interest of a portion of the 1998 Lease Revenue Bonds on September 1, 2008. As of June 30, 2007, the 1997 Lease Revenue Bonds have been paid in full, and 1998 Lease Revenue Bonds in the amount of \$55,460,000 are considered defeased. These auction rate refunding bonds were issued to reduce the total debt service payments over the next 30 years by an estimated \$7,928,935, resulting in an estimated economic gain of \$5,075,172.

#### Changes in Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2007, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental activities:</b>					
Loans payable	\$ 445,634	\$ 44,138	\$ 40,634	\$ 449,138	
Certificates of participation	21,655,000		835,000	20,820,000	\$ 885,000
Lease revenue bonds	62,505,000	62,275,000	58,340,000	66,440,000	1,230,000
Notes payable	4,535,034		169,588	4,365,446	178,226
Obligations under capital leases	444,904	211,354	444,904	211,354	73,962
Compensated absences	61,616,954	17,271,365	10,999,807	67,888,512	3,259,769
Claims liability	16,331,110	9,231,869	8,936,742	16,626,237	4,583,644
Governmental activities long-term liabilities	<u>\$167,533,636</u>	<u>\$89,033,726</u>	<u>\$79,766,675</u>	<u>\$176,800,687</u>	<u>\$10,210,601</u>
<b>Business-type activities:</b>					
Loan payable	\$ 2,156,040		\$197,764	\$ 1,958,276	\$ 203,977
Certificates of participation	26,305,000	46,275,000	985,000	71,595,000	1,030,000
Unamortized discounts	(385,551)		(22,175)	(363,376)	
Deferred amount on refunding	(1,299,371)		(74,736)	(1,224,635)	
Revenue bonds	38,245,000	16,535,000	1,650,000	53,130,000	1,710,000
Unamortized premium	2,172,605		127,800	2,044,805	
Unamortized discount		(323,867)	(10,447)	(313,420)	
Deferred amount on refunding	(3,575,585)		(272,392)	(3,303,193)	
Capital lease	222,588		70,955	151,633	74,148
Developer advances	2,177,761		94,572	2,083,189	92,822
Business-type activities long-term liabilities	<u>\$66,018,487</u>	<u>\$62,486,133</u>	<u>\$2,746,341</u>	<u>\$125,758,279</u>	<u>\$3,110,947</u>

Principal balances are reported on the government-wide and enterprise funds statements of net assets net of unamortized issuance discounts and deferred amounts on refunding.

Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for them are included as part of the above totals for governmental activities. At year end \$144,446 of internal service funds obligations under notes payable, and \$211,354 in capital leases are included in the above amounts. Also, the compensated absences and claims liability balances relate to the internal service funds, and as such they are liquidated by the internal service funds.

Prior year defeasance of debt

In 2005, the City issued refunding Wastewater Revenue Bonds to refund 1993, 1996 and 1997 Wastewater Revenue Bonds. The proceeds were used to purchase U.S. government securities, which were deposited in an irrevocable trust to provide for all future debt service requirements of the three refunded issues. Both the 1993 and 1996 Bonds have been fully redeemed. As of June 30, 2007 \$32,340,000 of 1997 revenue bonds are considered defeased and are not included in the Sewer Fund.

D. OBLIGATIONS UNDER CAPITAL LEASES

Enterprise Funds

Two wheel loaders, valued at \$371,458, less \$82,400 accumulated depreciation, are being leased under a capital lease arrangement. The following is a schedule of the future minimum lease payments on this capital lease as of June 30, 2007:

<u>Year Ending June 30,</u>	
2008	\$80,972
2009	80,971
Total minimum lease payments	<u>161,943</u>
Less: amount representing interest	<u>(10,310)</u>
Present value of minimum lease payments	<u><u>\$151,633</u></u>

Internal Service Funds

A software license valued at \$211,354 is being leased under a capital lease arrangement. The following is a schedule of the future minimum lease payments on this capital lease as of June 30, 2007:

<u>Year Ending June 30,</u>	
2008	\$73,962
2009	75,000
2010	75,000
Total minimum lease payments	<u>223,962</u>
Less: amount representing interest	<u>(12,608)</u>
Present value of minimum lease payments	<u><u>\$211,354</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, 2007, the total outstanding balance due under the agreements is \$2,083,189. The total annual payments fluctuate depending on the ending date of each agreement. At June 30, 2007, the amount of \$92,822 due during fiscal year 2008 has been reported as "current portion-developer advances" on the Proprietary Funds statement of net assets. The remaining \$1,990,367 of outstanding principal has been reported under noncurrent liabilities, as "developer advances."

F. INTERFUND BALANCES

Interfund balances as of June 30, 2007 consist of the following:

<u>Due to General Fund from:</u>	
Other governmental funds – total due to/due from	<u>\$4,320,000</u>
 <u>Advances from General Fund to:</u>	
Capital Facility Fees Fund	\$1,254,203
Other governmental funds	168,583
Other enterprise funds	<u>878,704</u>
Total advances from General Fund	2,301,490
Advances from other governmental funds to Capital Facility Fees Fund	102,124
Advances from internal service funds to General Fund	<u>1,782,462</u>
Total advances from/advances to	<u><u>\$4,186,076</u></u>

All balances reported as "due to/due from" are short-term loans to cover temporary fund cash shortages as of June 30, 2007, and were repaid early in fiscal year 2008. 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. \$3,800,776 of advances are not currently scheduled for repayment during 2008.

G. RESERVES AND DESIGNATIONS OF FUND BALANCES

The City's reserves and designations at June 30, 2007 are comprised of the following:

	<u>General</u>	<u>Capital Facility Fees</u>	<u>Community Facility Districts</u>	<u>Other Governmental</u>
<u>Reserved for:</u>				
Encumbrances	\$1,433,483	\$3,888,291	\$2,340,868	\$8,120,972
Loan programs				12,163,980
Interfund advances	2,301,490			102,124
Set-aside requirement				5,388,260
Property held for resale				780,000
Debt service				7,390,425
 Total reserved	 <u>\$3,734,973</u>	 <u>\$3,888,291</u>	 <u>\$2,340,868</u>	 <u>\$33,945,761</u>
<u>Designated for:</u>				
Pending projects		<u>\$39,414,699</u>	<u>\$31,166,210</u>	<u>\$17,583,380</u>
 Total designated		 <u>\$39,414,699</u>	 <u>\$31,166,210</u>	 <u>\$17,583,380</u>

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

H. DEFICIT FUND EQUITY

The Capital Grants Capital Projects Fund has a deficit fund balance of \$1,903,084. Recognition of deferred revenue is expected to resolve this deficit.

The Golf Enterprise Fund has a net assets deficit of \$1,614,556, due to a change in accounting policy several years ago, as well as revenues not keeping up with expenses. The City originally classified the 1993 Refunding Certificates of Participation as debt of the governmental funds, with construction proceeds transferred to the Golf Enterprise Fund when the certificates were issued. However, since the Golf Fund is paying, and is expected to continue paying, the entire debt service cost, it was decided that the balance of the debt should be recorded in the Golf fund. The Golf fund also has struggled due to competition and lagging revenues. Depreciation expense further contributes to the deficit.

The Employee Benefits Management Internal Service Fund has a net assets deficit of \$49,269,248. It exists partially because the total compensated absences balance previously classified as debt of the governmental funds was included in this fund at its inception several years ago, and has never been fully funded. In addition, the City normally contracts for an actuarial valuation of the sick leave liability on an annual basis. Because the City will be required to implement GASB 45, which will change the way post-retirement benefits are presented, it was decided that for this fiscal year the sick leave would again be estimated. 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.

I. INTERFUND TRANSFERS

The following is a schedule of interfund transfers.

Transfers to:	Transfers from:									Total
	General Fund	Capital Facility Fees	Community Facilities Districts	Other Governmental	Water	Sewer	Bus	Other Enterprise	Internal Service	
General Fund		\$353,000	\$190,000	\$1,746,022	\$65,000	\$65,000	\$18,000			\$2,437,022
Capital Facility Fees			926,120	186,777						1,112,897
Community Facilities Districts		196,035								196,035
Other Governmental	\$10,083,447	341,833		9,814,629						20,239,909
Water	264,000									264,000
Sewer	226,389									226,389
Bus	1,500									1,500
Other Enterprise	766,887			180,000					\$38,550	985,437
Internal Service	997,710	101,347		23,584			47,694	\$128,000		1,298,335
<b>Grand Total</b>	<b>\$12,339,933</b>	<b>\$992,215</b>	<b>\$1,116,120</b>	<b>\$11,951,012</b>	<b>\$65,000</b>	<b>\$65,000</b>	<b>\$65,694</b>	<b>\$128,000</b>	<b>\$38,550</b>	<b>\$26,761,524</b>

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

J. NOTES RECEIVABLE

The notes receivable in the Other Governmental Funds of \$15,117,307, net of \$73,182, allowance for doubtful accounts, consist of loans made for low-income housing rehabilitation, property improvement and small business origination. The loans are collateralized by deeds of trust on the improved properties, are generally interest free with the exception of a small number of direct loans bearing annual interest at 3 or 5 percent and, with a few exceptions, require no repayment of principal until the loans reach maturity.

**K. APPROVED LOANS PAYABLE**

The approved loans payable in the Housing and Community Development Special Revenue Fund of \$2,724,225 consist of amounts being held for rehabilitation of properties using funds provided by federal grants. The liability is expected to be liquidated within one year.

**L. SPECIAL ITEMS**

These expenses in the Water and Sewer Enterprise funds represent legal costs incurred in pursuit of mitigating damages from the manufacturers of perchlorethylene, or PCE, a common chemical used in the dry cleaning industry. This chemical has seeped into the groundwater through sewer lines when improperly disposed, and threatens the City's groundwater supplies. Modesto has been proactive in attempting to recover damages and future cleanup costs from the dry cleaners and their insurers, and has also initiated litigation with the manufacturers. In the current year the City received \$1,495,461 in insurance recoveries and settlements from some of the smaller defendants. In October 2007 the City settled with one of the defendants and received \$12.8 million, net of attorney fees, that is to be used for the cleanup costs.

**III. OTHER INFORMATION**

**A. RISK MANAGEMENT**

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to and illnesses of employees; and natural disasters. The City maintains the Insurance Internal Service Fund to account for and finance its risks of loss. Under this program, the City is self-insured for the following risks up to the maximum amount per claim as follows: workers' compensation \$750,000; liability \$1,000,000; and dental care \$1,200. In July 1995, the City dropped its self-insured health plan, and now offers a variety of commercial plans to its employees. The City purchases commercial insurance for employee disability, property loss, airport liability, and for claims in excess of the preceding self-insured coverage amounts.

For liability claims, the City is one of twelve members of the Authority for California Cities Excess Liability (ACCEL) risk pool. This pool covers City claims between \$1,000,000 and \$4,000,000. The purpose of the pool is to spread the adverse effect of losses among the member agencies. The City contributes its pro rata share of anticipated losses to the pool. Should actual losses among participants be greater than anticipated, the City will be assessed its pro rata share of that deficiency. Conversely, if the actual losses are less than anticipated, the City will be refunded its pro rata share of the excess. Commercial insurance covers claims over \$5,000,000 in three excess layers of \$10,000,000 each, for an additional \$30,000,000 per claim. Settled claims have not exceeded this commercial coverage in any of the past five fiscal years.

All operating funds participate in the program and make payments to the Insurance Fund based on historical cost and/or actuarial estimates of the amounts needed to pay prior and current year claims, and to allow accrual of estimated incurred but not reported claims and allocated loss adjustment expenses. Insurance premiums to commercial insurers are also processed through the Insurance Fund. The total claims liability at June 30, 2007 is \$16,626,237 consisting of \$13,536,000 workers' compensation, \$2,637,000 general liability, \$363,163 dental, \$30,449 disability, and \$59,625 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 3.56%. The undiscounted worker's compensation and liability claims totaled \$16,649,000 and \$2,820,000, respectively.

The current portion of the total claims liability is estimated to be \$4,583,644 and the balance of \$12,042,593 is reported as a long-term liability on the statement of net assets. These claim estimates are based on the requirements of Governmental Accounting Standards Board Statement 10, and include estimated claims incurred but not yet reported and allocated loss adjustment expenses as of June 30, 2007. Changes in the Insurance Fund claims liability during the fiscal years ended June 30, 2006 and June 30, 2007 were:

	Claims Liability July 1	Current-Year Claims and Changes in Estimates	Current-Year Claim Payments	Claims Liability June 30
2005-06	\$13,961,801	\$7,458,436	\$(5,089,127)	\$16,331,110
2006-07	16,331,110	9,231,869	(8,936,742)	16,626,237

**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, 2007, the balance of these districts' outstanding debt was as follows:

<u>Issue</u>	<u>Outstanding Amount</u>
Village One #2 Community Facilities District	\$31,085,000
Fairview Village Community Facilities District	4,960,000

**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, 2007 there were seven series of conduit revenue bonds outstanding. The aggregate principal amount payable for these multiple-family housing and health care facility bond issues, issued between 1993 and 2002, was \$43,365,000.

**D. COMMITMENTS AND CONTINGENCIES**

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

In the 1950's and 1960's, the City operated a landfill facility outside the city limits. This facility was closed in 1968, to the standards in effect at that time. State and federal laws and regulations require that the City perform certain maintenance and monitoring functions. Testing performed during fiscal year 2007 indicated that methane emissions in the area had exceeded State standards, however additional testing performed indicated that the emissions were within the allowable levels. If additional postclosure care requirements are determined (due to changes in technology or applicable laws or regulations, for example), these costs may result in increased charges to future landfill users. As of June 30, 2007 the future postclosure care cost of monitoring the landfill was calculated to be immaterial for presentation purposes.

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

The City has commitments of \$33,333,675 as of June 30, 2007 for contracts awarded but not completed and other outstanding purchase orders. This amount consists of \$1,433,483 in the General Fund, \$3,888,291 in the Capital Facility Fees Fund, \$2,340,868 in the Community Facilities Districts Funds, \$8,120,972 in other governmental funds, \$15,035,353 in the enterprise funds, and \$2,514,708 in the internal service funds. Commitments of the governmental funds are recorded as fund balance reserves for encumbrances on the balance

sheet. As of June 30, 2007, there are major contracts and other purchase orders outstanding for the 9<sup>th</sup> Street bridge replacement, various new parks, Kiernan Business Park development consultant, storm drain improvements, water and sewer system improvements, comprehensive update to the City's general plan, airport terminal parking lot expansion, major street improvements, and the purchase of replacement vehicles and equipment for the City fleet.

#### 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 \$129,264 for the fiscal year ended June 30, 2007. As of June 30, 2007 the City's investment in this joint venture was \$1,807,047, and is included in governmental activities on the statement of net assets. Financial statements for TRRP are prepared by the City of Modesto Finance Department.

##### Stanislaus Drug Enforcement Agency

Stanislaus County (County) and the cities of Modesto, Oakdale, Ceres, Patterson, Turlock, Riverbank and Newman are the participants in the Stanislaus Drug Enforcement Agency (SDEA). The purpose of the SDEA is to maintain a specially trained police unit to assist each of the participating agencies in the enforcement of drug control laws, and to study, plan, and set priorities for effective enforcement of such laws throughout Stanislaus County. The governing board consists of the sheriff of Stanislaus County and the chief of police of each participating city. All participants contribute to the funding of the SDEA budgeted expenditures, based on population and assessed property value. The City's contribution to the SDEA for the fiscal year ended June 30, 2007 was \$693,390, consisting of a \$373,855 cash contribution and in-kind services valued at \$319,535. The City's investment in this joint venture was estimated to be \$442,657 as of June 30, 2007, based on the most recent available information. This amount is reported in governmental activities in the statement of net assets. Financial statements of the SDEA are prepared by the City of Modesto Finance Department.

##### City-County Capital Improvements and Financing Agency

The City and Stanislaus County formed the City-County Capital Improvements and Financing Agency (Agency) to provide for the design, construction, ownership, operation, management and financing of a City-County administration center located in Modesto's downtown redevelopment area. The governing body is a commission consisting of 2 members of the City Council, 2 members of the County Board of Supervisors, the County Chief Executive Officer, and the City Manager. The commission is responsible for developing an annual budget and determining the annual contribution rates, subject to approval by both the City and the County. The Stanislaus County Auditor Controller was the fiscal administrator during the construction phase, which was finalized at the end of June 2003. Since then, the City of Modesto has been the fiscal administrator. For the fiscal year ended June 30, 2007, the City's payments to the Agency were \$676,371. The City's equity interest in the Agency is \$14,386,896, equal to its fixed asset contributions to date net of depreciation, and is reported in governmental activities as investments in joint ventures in the Statement of Net Assets. Financial statements of the Agency will be available from the Agency after the initial audit of the Agency's books has been completed.

##### Stanislaus Waste-to-Energy Financing Agency

The City participates with Stanislaus County in the Stanislaus Waste-to-Energy Financing Agency (Agency). The Agency was created to provide financing for a facility that generates power from solid waste. The costs of operating the Agency, if any, are shared equally by the participants. The governing body consists of 2 members each from the County Board of Supervisors and the Modesto City Council. As of June 30, 2007, the City has no equity interest. Stanislaus County Treasurer's office prepares the Agency's financial statements.

## Regional Fire Training Center

The City has entered into an agreement with the Yosemite Community College District (YCCD) and Stanislaus County for the use and management of the regional fire training center at Modesto Junior College. The executive board consists of the YCCD Chancellor, the President of Modesto Junior College, the City Manager of the City of Modesto, and the Chief Executive Officer of Stanislaus County. The YCCD is responsible for accounting and for monitoring the center's budget. All three entities share in the operating costs. Initial construction costs were paid by the YCCD from borrowed funds, with the City and County reimbursing a portion of these costs in exchange for future use of the center. The City has paid its share of the construction costs in full. Title to the constructed asset is held by the YCCD; therefore, the City has no equity interest.

### F. TREATMENT AND DELIVERY AGREEMENT

In 1992, the City entered into a treatment and delivery agreement with the Modesto Irrigation District (MID) and the Del Este Water Company (Del Este). The City assumed Del Este's interest and obligations under the agreement when it acquired Del Este in July 1995. Under the agreement, MID built and operates a surface water treatment plant on the Tuolumne River for the purpose of providing a long-term source of domestic treated water for the City. MID is the sole owner of the project, and has all management and operations responsibility. In exchange for the treated water, the City has agreed to pay: all debt service on bonds issued by MID for the construction of the project; a raw water charge as set forth in the agreement; project operation, administration, and maintenance costs; and insurance on the project. Gross revenues of the City's Water Fund are irrevocably pledged for the punctual payment of the MID debt service and all obligations of the City under any parity debt. Current parity debt of the City consists of the 2006 Water Revenue Certificates of Participation, 1997 Water System Improvement Project Refunding Certificates of Participation, and the California Safe Drinking Water Act loan (Note II-C). The minimum annual amount payable to MID, consisting of the debt service component only, is \$6,687,444. The treatment plant completed all tests and began commercial operations on May 15, 1995, at which time the City began paying for raw water and operations. The total cash paid to MID during the fiscal year ended June 30, 2007 was \$12,608,001, which is reported as "water purchases" expense on the proprietary funds statement of revenues, expenses and changes in net assets in the amount of \$12,904,328, and as prepaid expense of \$706,673. Prior year prepaid expense of \$1,003,000 reduced the amount of cash paid during the current fiscal year.

The City and MID have agreed upon an expansion of the initial Domestic Water Project facilities beyond the existing design capacity of 36 million gallons per day ("mgd") to a design capacity of 72 mgd. In June 2007, the MID issued \$93,190,000 Domestic Water Project revenue bonds pursuant to the terms of the existing treatment and delivery agreement. Therefore, as of June 30, 2007, the total outstanding on the MID bonds is: \$73,780,000 for the 1998 bonds, and \$93,190,000 for the 2007 bonds for a total of \$166,970,000.

### G. POST-RETIREMENT HEALTH CARE BENEFITS

In addition to the pension benefits described below in Note III-H, the City provides health care benefits to employees who retire from the City, under contractual agreements with all employee groups. All full-time employees, except firefighters who receive a cash payout, are eligible to set aside a percentage of accumulated sick leave upon retirement, to be used for payment of future health care premiums to a choice of four insurance plans. The City has no obligation to pay premiums for retirees with no accumulated sick leave. The estimated liability for current retirees' future premiums is \$16,341,924 as of June 30, 2007. The estimated current portion of \$1,969,375 is fully funded. The long-term portion \$14,372,549 is partially funded, with the balance being funded over time by charges to the City's operating funds. The current and long-term portions are reported in the Employee Benefits Management Fund as part of the compensated absences liability balances.

H. DEFINED BENEFIT PENSION PLAN

Plan Description

The City contributes to the California Public Employees Retirement System (CalPERS), an agent multiple-employer public employee defined benefit pension plan, which acts as a common investment and administrative agent for participating public entities in California. CalPERS provides retirement and disability benefits, and death benefits to plan members and beneficiaries. Benefit provisions and all other requirements are established by state statute and city ordinance. Copies of CalPERS' annual financial report may be obtained from their executive office: 400 P Street, Sacramento, CA 95814. An annual financial report for the City's portion of the plan is not available.

Funding Policy

Participants are required to contribute 7% (9% for safety employees) of their annual covered salary, of which the City pays the majority on behalf of the employees. The City is required to contribute at an actuarially determined rate; the current rate is 9.124% of annual covered payroll for non-safety employees and 24.421% for safety employees. The contribution requirements of plan members and the City are established and may be amended by CalPERS.

Annual Pension Cost

For 2007, the City's annual pension cost of \$12,214,853 for CalPERS was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 2004 actuarial valuation using the entry age normal actuarial cost method. This is a projected benefit cost method, which takes into account those benefits that are expected to be earned in the future as well as those already accrued. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses), (b) projected annual merit or seniority salary increases that vary by length of service, and (c) no post-retirement benefit increases. Both (a) and (b) included an inflation component of 3.0%. The actuarial value of the City's CalPERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a three-year period (smoothed market value). The City's CalPERS unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2006 was 32 years for both the miscellaneous and safety plans.

**THREE-YEAR TREND INFORMATION FOR PERS – ALL PLANS**

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/05	\$8,276,570	100%	-
6/30/06	11,748,699	100%	-
6/30/07	12,214,853	100%	-

**SCHEDULE OF FUNDING PROGRESS FOR PERS**

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (A)</u>	<u>Entry Age Actuarial Accrued Liability (B)</u>	<u>Overfunded (Underfunded) Actuarial Accrued Liability (A – B)</u>	<u>Funded Ratio (A/B)</u>	<u>Covered Payroll (C)</u>	<u>Unfunded Actuarial Liability as Percentage of Covered Payroll [(A – B)/C]</u>
<b>6/30/04:</b>						
Misc.	\$204,261,809	\$212,669,957	\$(8,408,148)	96.0%	\$41,083,600	20.5%
Safety	221,621,121	257,554,567	(35,933,446)	86.0%	29,085,514	123.5%
<b>6/30/05:</b>						
Misc.	\$218,307,677	\$231,079,054	\$(12,771,377)	94.5%	\$42,221,273	30.2%
Safety	239,178,942	273,741,974	(34,563,032)	87.4%	30,117,501	114.8%
<b>6/30/06:</b>						
Misc.	\$234,337,099	\$248,371,895	\$(14,034,796)	94.3%	\$43,582,742	32.2%
Safety	258,762,829	293,433,828	(34,670,999)	88.2%	32,412,111	107.0%

## **REQUIRED SUPPLEMENTARY INFORMATION**

**CITY OF MODESTO**  
**SCHEDULE OF REVENUES - BUDGET (GAAP BASIS)**  
**AND ACTUAL - GENERAL FUND**  
**Year ended June 30, 2007**

	Budget		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>TAXES:</b>				
Utility users tax	\$ 17,862,717	\$ 18,914,944	\$ 18,319,657	\$ (595,287)
Property tax	16,641,611	16,875,109	16,456,379	(418,730)
Transient occupancy tax	2,217,721	2,267,721	2,264,699	(3,022)
Franchise tax	3,056,008	3,122,128	2,976,772	(145,356)
Business license tax	10,830,466	10,830,466	10,359,058	(471,408)
<b>Total taxes</b>	<b>50,608,523</b>	<b>52,010,368</b>	<b>50,376,565</b>	<b>(1,633,803)</b>
<b>LICENSES AND PERMITS</b>	<b>101,174</b>	<b>101,174</b>	<b>100,682</b>	<b>(492)</b>
<b>INTERGOVERNMENTAL:</b>				
Sales tax	23,181,345	22,789,203	20,483,152	(2,306,051)
In-lieu sales tax	7,339,967	7,401,700	7,401,700	
Motor vehicle license fees	14,845,688	16,109,311	16,233,262	123,951
State	2,402,550	2,402,550	2,643,897	241,347
County	97,000	97,000	227,098	130,098
Federal	52,000	132,000	46,183	(85,817)
Other intergovernmental	573,389	573,389	978,733	405,344
<b>Total intergovernmental</b>	<b>48,491,939</b>	<b>49,505,153</b>	<b>48,014,025</b>	<b>(1,491,128)</b>
<b>CHARGES FOR SERVICES:</b>				
General government	3,243,809	3,277,809	3,204,871	(72,938)
Community development	4,460,028	3,767,335	3,186,285	(581,050)
Public works	1,586,240	1,649,515	1,341,012	(308,503)
Parks and recreation	1,911,520	1,848,128	2,158,617	310,489
Public safety	1,823,064	2,423,315	2,523,428	100,113
Other current charges for services	268,260	268,260	191,417	(76,843)
Indirect cost recovery	2,948,304	2,948,304	2,897,455	(50,849)
<b>Total charges for services</b>	<b>16,241,225</b>	<b>16,182,666</b>	<b>15,503,085</b>	<b>(679,581)</b>
<b>SPECIAL ASSESSMENT</b>	<b>158,500</b>	<b>158,500</b>	<b>51,634</b>	<b>(106,866)</b>
<b>INTEREST AND RENT</b>	<b>490,680</b>	<b>490,680</b>	<b>406,462</b>	<b>(84,218)</b>
<b>NET INCREASE (DECREASE) IN FAIR VALUE OF INVESTMENTS</b>			<b>146,546</b>	<b>146,546</b>
<b>FINES AND FORFEITURES</b>	<b>546,835</b>	<b>705,000</b>	<b>1,158,163</b>	<b>453,163</b>
<b>MISCELLANEOUS:</b>				
Mandated cost recovery		963,508	938,730	(24,778)
Other	786,091	980,918	1,236,789	255,871
<b>Total miscellaneous</b>	<b>786,091</b>	<b>1,944,426</b>	<b>2,175,519</b>	<b>231,093</b>
<b>Total revenues</b>	<b>\$ 117,424,967</b>	<b>\$ 121,097,967</b>	<b>\$ 117,932,681</b>	<b>\$ (3,165,286)</b>

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

**CITY OF MODESTO**  
**SCHEDULE OF EXPENDITURES BY FUNCTION - BUDGET**  
**(GAAP BASIS) AND ACTUAL - GENERAL FUND**  
**Year ended June 30, 2007**

	Budget		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
General government:				
City council	\$ 220,240	\$ 251,838	\$ 181,553	\$ 70,285
Personnel/training	1,533,775	1,767,323	1,587,678	179,645
City manager	1,282,485	1,467,492	1,261,908	205,584
City attorney	1,804,258	1,939,273	1,845,852	93,421
City clerk/auditor	703,606	737,264	613,562	123,702
Finance	6,261,297	6,575,432	6,161,665	413,767
Other		1,236,440	2,353,010	(1,116,570)
Total general government	<u>11,805,661</u>	<u>13,975,062</u>	<u>14,005,228</u>	<u>(30,166)</u>
Community development	<u>6,313,766</u>	<u>6,619,484</u>	<u>5,362,329</u>	<u>1,257,155</u>
Public works:				
Engineering and Transportation Dept:				
Construction administration/permits	865,894	952,575	763,901	188,674
Engineering administration	1,456,411	1,489,475	1,379,882	109,593
Operations and Maintenance Dept:				
Service and maintenance	4,050,894	4,091,589	3,912,980	178,609
Graffiti abatement	340,400	340,400	326,765	13,635
Total public works	<u>6,713,599</u>	<u>6,874,039</u>	<u>6,383,528</u>	<u>490,511</u>
Parks and recreation:				
Operations and Maintenance Dept:				
Service and maintenance	5,431,788	5,535,387	5,506,403	28,984
Community Services & Neighborhood Connection:				
Administration	833,807	893,021	799,605	93,416
Planning and development	493,641	497,241	491,553	5,688
Culture	1,367,657	1,505,037	1,443,538	61,499
Recreation division	3,190,169	3,323,635	3,266,829	56,806
Facilities	718,321	697,762	626,017	71,745
Total parks and recreation	<u>12,035,383</u>	<u>12,452,083</u>	<u>12,133,945</u>	<u>318,138</u>
Public safety:				
Fire protection	25,735,655	27,315,004	26,623,758	691,246
Police protection	51,886,032	52,898,987	52,371,551	527,436
Total public safety	<u>77,621,687</u>	<u>80,213,991</u>	<u>78,995,309</u>	<u>1,218,682</u>
Total expenditures by department	<u>114,490,096</u>	<u>120,134,659</u>	<u>116,880,339</u>	<u>3,254,320</u>
Debt service:				
Principal retirement	9,719	9,719	9,719	
Interest	344	344	344	
Total debt service	<u>10,063</u>	<u>10,063</u>	<u>10,063</u>	
Total expenditures	<u>\$ 114,500,159</u>	<u>\$ 120,144,722</u>	<u>\$ 116,890,402</u>	<u>\$ 3,254,320</u>

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

**CITY OF MODESTO**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**YEAR ENDED JUNE 30, 2007**

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

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

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

**COMBINING AND INDIVIDUAL FUND  
STATEMENTS AND SCHEDULES**

## **Nonmajor Governmental Funds**

### **Nonmajor Special Revenue Funds**

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

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

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

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

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

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

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

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

### **Nonmajor Capital Projects Funds**

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

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

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

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

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

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

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

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

## **Nonmajor Debt Service Funds**

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

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

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

**CITY OF MODESTO**  
**COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS**  
**June 30, 2007**

	Special Revenue				
	Operating Grants	Local Transportation	Traffic Safety	Special Gas Tax Street Improvement	Downtown Improvement District
<b>ASSETS</b>					
Cash and cash equivalents	\$ 776,508	\$ 559	\$ 374,251	\$ 7,350,153	\$ 60,985
Cash and cash equivalents with fiscal agent					
Receivables:					
Accounts	303,022			531	
Interest	4,040	4,661		27,716	254
Utilities, net	17,075				
Taxes				220,077	
Due from governments	1,396,081	3,808,348		265,974	
Notes receivable, net	229,102				
Prepaid expenses/expenditures	1,308				
Property held for resale					
Advances to other funds					
<b>Total assets</b>	<b>\$ 2,727,136</b>	<b>\$ 3,813,568</b>	<b>\$ 374,251</b>	<b>\$ 7,864,451</b>	<b>\$ 61,239</b>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Accounts payable	\$ 235,182		\$ 30,607	\$ 263,374	\$ 38
Accrued salaries and benefits	58,801			56,839	
Due to other funds		\$ 710,000			
Approved loans payable					
Deferred revenues	1,498,273	3,005,445		925	
Refundable deposits					
Advances from other funds					
<b>Total liabilities</b>	<b>1,792,256</b>	<b>3,715,445</b>	<b>30,607</b>	<b>321,138</b>	<b>38</b>
Fund balances:					
Reserved for:					
Encumbrances	649,497	1,527		832,434	
Loan programs and prepaids					
Interfund advances					
Property held for resale					
Set-aside requirement					
Debt service					
Unreserved/designated for:					
Pending projects			343,644	6,710,879	61,201
Unreserved/undesignated	285,383	96,596			
<b>Total fund balances</b>	<b>934,880</b>	<b>98,123</b>	<b>343,644</b>	<b>7,543,313</b>	<b>61,201</b>
<b>Total liabilities and fund balances</b>	<b>\$ 2,727,136</b>	<b>\$ 3,813,568</b>	<b>\$ 374,251</b>	<b>\$ 7,864,451</b>	<b>\$ 61,239</b>

		Capital Projects					
Housing and Community Development	Strategic Planning and Development	Special Fund for Capital Outlays	Parks	McHenry Mansion Restoration	Capital Grants	Redevelop- ment Agency	Public Financing Authority
\$ 2,612,711	\$ 1,802,294	\$ 1,673,921	\$ 1,451,013	\$ 6,632	8,416	\$ 8,088,802	\$
1,731,589			2,412,632				148,306
13,270	71,889						
8,339	5,075		5,691	28		25,022	
492,519			202,953		3,972,876		
13,959,189						929,016	
						780,000	
		102,124					
<u>\$ 18,817,617</u>	<u>\$ 1,879,258</u>	<u>\$ 1,776,045</u>	<u>\$ 4,072,289</u>	<u>\$ 6,660</u>	<u>3,981,292</u>	<u>\$ 9,822,840</u>	<u>\$ 148,306</u>
\$ 167,201	\$ 22,572	\$ 104,030	\$ 5,143		\$ 253,852	\$ 3,639	\$
14,300					3,610,000		
2,724,225							
1,756	71,889		202,953		2,020,524		
			168,583			1,000	
<u>2,907,482</u>	<u>94,461</u>	<u>104,030</u>	<u>376,679</u>		<u>5,884,376</u>	<u>4,639</u>	
270,387	1,801,374	2,196,009	291,273		1,861,115	217,356	
11,234,964		102,124				929,016	
						780,000	
						5,388,260	
4,404,784			3,404,337	\$ 6,660		2,503,569	148,306
	(16,577)	(626,118)			(3,764,199)		
<u>15,910,135</u>	<u>1,784,797</u>	<u>1,672,015</u>	<u>3,695,610</u>	<u>6,660</u>	<u>(1,903,084)</u>	<u>9,818,201</u>	<u>148,306</u>
<u>\$ 18,817,617</u>	<u>\$ 1,879,258</u>	<u>\$ 1,776,045</u>	<u>\$ 4,072,289</u>	<u>\$ 6,660</u>	<u>\$ 3,981,292</u>	<u>\$ 9,822,840</u>	<u>\$ 148,306</u>

(continued)

**CITY OF MODESTO**  
**COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS (Continued)**  
**June 30, 2007**

	Debt Service		
	Redevelopment Agency	Public Financing Authority	Total
<u>ASSETS</u>			
Cash and cash equivalents	\$ 931,177		\$ 25,137,422
Cash and cash equivalents with fiscal agent	1,981,634	\$ 4,689,277	10,963,438
Receivables:			
Accounts			388,712
Interest	13,668		94,494
Utilities, net			17,075
Taxes	372,806		592,883
Due from governments			10,138,751
Notes receivable, net			15,117,307
Prepaid expenses/expenditures			1,308
Property held for resale			780,000
Advances to other funds			102,124
Total assets	<u>\$ 3,299,285</u>	<u>\$ 4,689,277</u>	<u>\$ 63,333,514</u>
<u>LIABILITIES AND FUND BALANCES</u>			
Liabilities:			
Accounts payable	\$ 598,137	\$	\$ 1,683,775
Accrued salaries and benefits			129,940
Due to other funds			4,320,000
Approved loans payable			2,724,225
Deferred revenues			6,801,765
Refundable deposits			1,000
Advances from other funds			168,583
Total liabilities	<u>598,137</u>		<u>15,829,288</u>
Fund balances:			
Reserved for:			
Encumbrances			8,120,972
Loan programs			12,163,980
Interfund advances			102,124
Property held for resale			780,000
Set-aside requirement			5,388,260
Debt service	2,701,148	4,689,277	7,390,425
Unreserved/designated for:			
Pending projects			17,583,380
Unreserved/undesignated			(4,024,915)
Total fund balances	<u>2,701,148</u>	<u>4,689,277</u>	<u>47,504,226</u>
Total liabilities and fund balances	<u>\$ 3,299,285</u>	<u>\$ 4,689,277</u>	<u>\$ 63,333,514</u>

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**CITY OF MODESTO**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS**  
**Year ended June 30, 2007**

	Special Revenue				
	Operating Grants	Local Transportation	Traffic Safety	Special Gas Tax Street Improvement	Downtown Improvement District
<b>REVENUES:</b>					
Taxes				\$ 846,444	\$ 221,487
Licenses and permits	\$ 75,173			11,434	
Intergovernmental	1,356,813	\$ 2,737,811		5,502,051	
Charges for services	3,173,601			1,201,740	
Special assessments levied					
Interest and rent	19,585	49,721		148,181	(471)
Net increase (decrease) in fair value of investments	4,360	28,229		54,691	703
Fines and forfeits	12,737		\$ 1,528,545		
Miscellaneous	399,966			95,939	
<b>Total revenues</b>	<b>5,042,235</b>	<b>2,815,761</b>	<b>1,528,545</b>	<b>7,860,480</b>	<b>221,719</b>
<b>EXPENDITURES:</b>					
<b>Current:</b>					
General government	1,497,621				
Community development					220,115
Highways and streets		22,724		10,059,896	
Public works	3,723,236				
Parks and recreation	90,454				
Public safety	2,277,433		305,841		
<b>Capital outlay:</b>					
General government					
Community development					
Highways and streets		19,057		130,526	
Public works	64,890				
Parks and recreation	172,619				
Public safety	114,088				
<b>Debt service:</b>					
Principal retirement				40,634	
Interest				917	
Advance refunding escrow					
Other					
<b>Total expenditures</b>	<b>7,940,341</b>	<b>41,781</b>	<b>305,841</b>	<b>10,231,973</b>	<b>220,115</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(2,898,106)</b>	<b>2,773,980</b>	<b>1,222,704</b>	<b>(2,371,493)</b>	<b>1,604</b>
<b>OTHER FINANCING SOURCES (USES):</b>					
Transfers in	2,648,523			4,984,943	
Transfers out		(2,685,131)	(1,052,000)	(1,265,085)	
Issuance of loans payable					
Issuance of lease revenue bonds					
Payments to refunded certificates of participation escrow agent					
Sale of assets					
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>2,648,523</b>	<b>(2,685,131)</b>	<b>(1,052,000)</b>	<b>3,719,858</b>	
<b>NET CHANGE IN FUND BALANCES</b>	<b>(249,583)</b>	<b>88,849</b>	<b>170,704</b>	<b>1,348,365</b>	<b>1,604</b>
FUND BALANCES, July 1	1,184,463	9,274	172,940	6,194,948	59,597
<b>FUND BALANCES, June 30</b>	<b>\$ 934,880</b>	<b>\$ 98,123</b>	<b>\$ 343,644</b>	<b>\$ 7,543,313</b>	<b>\$ 61,201</b>

		Capital Projects					
Housing and Community Development	Strategic Planning and Development	Special Fund for Capital Outlays	Parks	McHenry Mansion Restoration	Capital Grants	Redevelop- ment Agency	Public Financing Authority
						2,348,704	
\$ 3,294,634					\$ 4,725,001		
113,194	\$ 1,047,611		\$ 11,180				
331,687	39,724	\$ (17,182)	56,362	\$ 35		\$ 175,574	\$ 2,138
18,208	17,810	(895)	17,153	82		65,470	
3,340	10,000	31,500	97,966				
<u>3,761,063</u>	<u>1,115,145</u>	<u>13,423</u>	<u>182,661</u>	<u>117</u>	<u>4,725,001</u>	<u>2,589,748</u>	<u>2,138</u>
2,706,272	1,631,512					548,433	
		1,087,479			566,631		
			81,708		26,918		
		48					
		1,376					
179,144						58,480	
					1,892,691		
		2,795,998	984,427		595,752		
		528,741					
143,000							
229,400							
<u>3,257,816</u>	<u>1,631,512</u>	<u>4,413,642</u>	<u>1,066,135</u>	<u>117</u>	<u>3,081,992</u>	<u>606,913</u>	<u>635,695</u>
<u>503,247</u>	<u>(516,367)</u>	<u>(4,400,219)</u>	<u>(883,474)</u>	<u>117</u>	<u>1,643,009</u>	<u>1,982,835</u>	<u>(633,557)</u>
(2,781,795)	625,000	4,694,513	2,848,632		890,107	(25,807)	(2,582,013)
	44,138	(543,738)	(97,222)				
							3,363,876
			767,904				
(2,781,795)	669,138	4,150,775	3,519,314		890,107	(25,807)	781,863
(2,278,548)	152,771	(249,444)	2,635,840	117	2,533,116	1,957,028	148,306
18,188,683	1,632,026	1,921,459	1,059,770	6,543	(4,436,200)	7,861,173	
<u>\$ 15,910,135</u>	<u>\$ 1,784,797</u>	<u>\$ 1,672,015</u>	<u>\$ 3,695,610</u>	<u>\$ 6,660</u>	<u>\$ (1,903,084)</u>	<u>\$ 9,818,201</u>	<u>\$ 148,306</u>

(continued)

**CITY OF MODESTO**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS**  
**Year ended June 30, 2007**

	Debt Service		Total
	Redevelopment Agency	Public Financing Authority	
REVENUES:			
Taxes	\$ 2,954,817		\$ 6,371,452
Licenses and permits			86,607
Intergovernmental			17,616,310
Charges for services			5,547,326
Special assessments levied			
Interest and rent	275,611	\$ 294,162	1,375,127
Net increase (decrease) in fair value of investments	44,164		249,975
Fines and forfeits			1,541,282
Miscellaneous			638,711
Total revenues	3,274,592	294,162	33,426,790
EXPENDITURES:			
Current:			
General government			1,497,621
Community development			5,106,332
Highways and streets			10,649,251
Public works			4,810,715
Parks and recreation			199,080
Public safety			2,583,322
Capital outlay:			
General government			1,376
Community development			237,624
Highways and streets			2,042,274
Public works			64,890
Parks and recreation			4,548,796
Public safety			642,829
Debt service:			
Principal retirement	835,000	545,000	1,563,634
Interest	1,111,365	3,052,718	4,394,400
Advance refunding escrow		822,228	822,228
Other	691,225	6,209	1,333,129
Total expenditures	2,637,590	4,426,155	40,497,501
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	637,002	(4,131,993)	(7,070,711)
OTHER FINANCING SOURCES (USES):			
Transfers in	25,807	3,522,384	20,239,909
Transfers out	(918,221)		(11,951,012)
Issuance of loans payable			44,138
Issuance of lease revenue bonds		58,911,124	62,275,000
Payments to refunded certificates of participation escrow agent		(58,911,124)	(58,911,124)
Sale of assets			767,904
TOTAL OTHER FINANCING SOURCES (USES)	(892,414)	3,522,384	12,464,815
NET CHANGE IN FUND BALANCES	(255,412)	(609,609)	5,394,104
FUND BALANCES, July 1	2,956,560	5,298,886	42,110,122
FUND BALANCES, June 30	\$ 2,701,148	\$ 4,689,277	\$ 47,504,226

**CITY OF MODESTO**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -**  
**BUDGET (GAAP BASIS) AND ACTUAL - OPERATING GRANTS SPECIAL REVENUE FUND**  
**Year ended June 30, 2007**

	Budget		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Licenses and permits	\$ 50,000	\$ 50,000	\$ 75,173	\$ 25,173
Intergovernmental	676,169	1,275,923	1,356,813	80,890
Charges for services	3,003,022	3,392,948	3,173,601	(219,347)
Special assessments				
Interest and rent - interest		1,133	19,585	18,452
Net increase in fair value of investments			4,360	4,360
Fines and forfeits	500	14,000	12,737	(1,263)
Miscellaneous	360,170	362,683	399,966	37,283
Total revenues	<u>4,089,861</u>	<u>5,096,687</u>	<u>5,042,235</u>	<u>(54,452)</u>
<b>EXPENDITURES:</b>				
General government	2,181,085	2,129,835	1,497,621	632,214
Public works	4,161,293	4,720,521	3,788,126	932,395
Parks and recreation	807,913	808,207	263,073	545,134
Public safety	4,682,276	5,296,663	2,391,521	2,905,142
Total expenditures	<u>11,832,567</u>	<u>12,955,226</u>	<u>7,940,341</u>	<u>5,014,885</u>
DEFICIENCY OF REVENUES (UNDER) EXPENDITURES	<u>(7,742,706)</u>	<u>(7,858,539)</u>	<u>(2,898,106)</u>	<u>4,960,433</u>
<b>OTHER FINANCING SOURCES:</b>				
Transfers in	<u>2,398,916</u>	<u>2,398,916</u>	<u>2,648,523</u>	<u>249,607</u>
NET CHANGE IN FUND BALANCE	(5,343,790)	(5,459,623)	(249,583)	5,210,040
FUND BALANCES, JULY 1	<u>1,184,463</u>	<u>1,184,463</u>	<u>1,184,463</u>	
FUND BALANCES, JUNE 30	<u>\$ (4,159,327)</u>	<u>\$ (4,275,160)</u>	<u>\$ 934,880</u>	<u>\$ 5,210,040</u>

**CITY OF MODESTO**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -**  
**BUDGET (GAAP BASIS) AND ACTUAL - LOCAL TRANSPORTATION SPECIAL REVENUE FUND**  
**Year ended June 30, 2007**

	Budget		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Intergovernmental	\$ 2,620,000	\$ 2,620,000	\$ 2,737,811	\$ 117,811
Interest and rent - interest			49,721	49,721
Net increase in fair value of investments			28,229	28,229
Total revenues	<u>2,620,000</u>	<u>2,620,000</u>	<u>2,815,761</u>	<u>195,761</u>
<b>EXPENDITURES:</b>				
Highways and streets	1,039,534	1,039,534	41,781	997,753
Total expenditures	<u>1,039,534</u>	<u>1,039,534</u>	<u>41,781</u>	<u>997,753</u>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	<u>1,580,466</u>	<u>1,580,466</u>	<u>2,773,980</u>	<u>1,193,514</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers out	(2,968,889)	(2,968,889)	(2,685,131)	283,758
TOTAL OTHER FINANCING SOURCES (USES)	<u>(2,968,889)</u>	<u>(2,968,889)</u>	<u>(2,685,131)</u>	<u>283,758</u>
<b>NET CHANGE IN FUND BALANCE</b>	(1,388,423)	(1,388,423)	88,849	1,477,272
<b>FUND BALANCES, JULY 1</b>	<u>9,274</u>	<u>9,274</u>	<u>9,274</u>	
<b>FUND BALANCE (DEFICITS), JUNE 30</b>	<u>\$ (1,379,149)</u>	<u>\$ (1,379,149)</u>	<u>\$ 98,123</u>	<u>\$ 1,477,272</u>

**CITY OF MODESTO**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -**  
**BUDGET (GAAP BASIS) AND ACTUAL - TRAFFIC SAFETY SPECIAL REVENUE FUND**  
**Year ended June 30, 2007**

	Budget		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Motor vehicle fines	\$ 1,040,000	\$ 1,355,000	\$ 1,528,545	\$ 173,545
EXPENDITURES:				
Public safety	450,000	450,000	305,841	144,159
EXCESS OF REVENUES OVER EXPENDITURES	590,000	905,000	1,222,704	317,704
OTHER FINANCING USES:				
Transfers out	(1,052,000)	(1,052,000)	(1,052,000)	
NET CHANGE IN FUND BALANCE	(462,000)	(147,000)	170,704	317,704
FUND BALANCES, JULY 1	172,940	172,940	172,940	
FUND BALANCES, JUNE 30	\$ (289,060)	\$ 25,940	\$ 343,644	\$ 317,704

**CITY OF MODESTO**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN**  
**FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL - SPECIAL**  
**GAS TAX STREET IMPROVEMENT SPECIAL REVENUE FUND**  
Year ended June 30, 2007

	Budget		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Intergovernmental:				
State grants	\$ 3,510,000	\$ 5,026,292	\$ 5,283,279	\$ 256,987
Federal grants			(1,475)	(1,475)
Other grants			220,247	220,247
Total intergovernmental revenues	<u>3,510,000</u>	<u>5,026,292</u>	<u>5,502,051</u>	<u>475,759</u>
Taxes	826,459	826,459	846,444	19,985
Licenses and permits	10,200	10,200	11,434	1,234
Charges for services	1,320,692	1,415,501	1,201,740	(213,761)
Interest and rent			148,181	148,181
Net increase in fair value of investments			54,691	54,691
Miscellaneous	23,159	23,156	95,939	72,783
Total revenues	<u>5,690,510</u>	<u>7,301,608</u>	<u>7,860,480</u>	<u>558,872</u>
<b>EXPENDITURES:</b>				
Current:				
Highway and streets	10,199,107	13,811,662	10,190,422	3,621,240
Debt service:				
Principal retirement	41,553	41,553	40,634	919
Interest			917	(917)
Total expenditures	<u>10,240,660</u>	<u>13,853,215</u>	<u>10,231,973</u>	<u>3,621,242</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>(4,550,150)</u>	<u>(6,551,607)</u>	<u>(2,371,493)</u>	<u>4,180,114</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	5,368,018	5,368,018	4,984,943	(383,075)
Transfers out	<u>(4,129,552)</u>	<u>(4,129,552)</u>	<u>(1,265,085)</u>	<u>2,864,467</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>1,238,466</u>	<u>1,238,466</u>	<u>3,719,858</u>	<u>2,481,392</u>
NET CHANGE IN FUNDS BALANCE	(3,311,684)	(5,313,141)	1,348,365	6,661,506
FUND BALANCES, JULY 1	<u>6,194,948</u>	<u>6,194,948</u>	<u>6,194,948</u>	
FUND BALANCES, JUNE 30	<u>\$ 2,883,264</u>	<u>\$ 881,807</u>	<u>\$ 7,543,313</u>	<u>\$ 6,661,506</u>

**CITY OF MODESTO**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND**  
**BALANCE - BUDGET (GAAP BASIS) AND ACTUAL - DOWNTOWN**  
**IMPROVEMENT DISTRICT SPECIAL REVENUE FUND**  
**Year ended June 30, 2007**

	Budget		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Taxes - business license tax	\$ 221,830	\$ 221,830	\$ 221,487	\$ (343)
Interest and rent - interest	600	600	(471)	(1,071)
Net increase in fair value of investments			703	703
Total revenues	<u>222,430</u>	<u>222,430</u>	<u>221,719</u>	<u>(711)</u>
<b>EXPENDITURES - community development</b>				
Downtown improvement district administration:				
Professional and contractual services	184,590	184,590	186,791	(2,201)
Materials and supplies	5,740	5,740	6,757	(1,017)
Other	32,100	32,100	26,567	5,533
Total expenditures	<u>222,430</u>	<u>222,430</u>	<u>220,115</u>	<u>2,315</u>
NET CHANGE IN FUND BALANCE			1,604	1,604
FUND BALANCES, JULY 1	<u>59,597</u>	<u>59,597</u>	<u>59,597</u>	<u></u>
FUND BALANCES, JUNE 30	<u>\$ 59,597</u>	<u>\$ 59,597</u>	<u>\$ 61,201</u>	<u>\$ 1,604</u>

**CITY OF MODESTO**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN**  
**FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL - HOUSING**  
**AND COMMUNITY DEVELOPMENT SPECIAL REVENUE FUND**  
**Year ended June 30, 2007**

	Budget		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Intergovernmental - federal grants	\$ 3,783,398	\$ 5,679,585	\$ 3,294,634	\$ (2,384,951)
Charges for services	136,911	136,911	113,194	(23,717)
Interest and rent - interest	293,250	293,250	331,687	38,437
Net increase in fair value of investments			18,208	18,208
Miscellaneous			3,340	3,340
Total revenues	<u>4,213,559</u>	<u>6,109,746</u>	<u>3,761,063</u>	<u>(2,348,683)</u>
<b>EXPENDITURES - community development</b>				
Housing program	2,593,094	2,993,322	2,463,201	530,121
Removal of architectural barriers	2,657,512	3,070,122	422,215	2,647,907
<b>Debt service:</b>				
Principal retirement	143,000	143,000	143,000	
Interest	229,400	229,400	229,400	
Total expenditures	<u>5,623,006</u>	<u>6,435,844</u>	<u>3,257,816</u>	<u>3,178,028</u>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	<u>(1,409,447)</u>	<u>(326,098)</u>	<u>503,247</u>	<u>829,345</u>
<b>OTHER FINANCING USES:</b>				
Transfers in				
Transfers out	<u>(5,502,829)</u>	<u>(5,502,829)</u>	<u>(2,781,795)</u>	<u>2,721,034</u>
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>(5,502,829)</u>	<u>(5,502,829)</u>	<u>(2,781,795)</u>	<u>2,721,034</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>(6,912,276)</u>	<u>(5,828,927)</u>	<u>(2,278,548)</u>	<u>3,550,379</u>
<b>FUND BALANCES, JULY 1</b>	<u>18,188,683</u>	<u>18,188,683</u>	<u>18,188,683</u>	
<b>FUND BALANCES, JUNE 30</b>	<u>\$ 11,276,407</u>	<u>\$ 12,359,756</u>	<u>\$ 15,910,135</u>	<u>\$ 3,550,379</u>

**CITY OF MODESTO**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN**  
**FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL - STRATEGIC**  
**PLANNING AND DEVELOPMENT SPECIAL REVENUE FUND**  
**Year ended June 30, 2007**

	Budget		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Charges for services	\$ 1,494,039	\$ 1,494,039	\$ 1,047,611	\$ (446,428)
Special assessments levied				
Interest and rent - interest			39,724	39,724
Net increase in fair value of investments			17,810	17,810
Miscellaneous	10,000	10,000	10,000	
Total revenues	<u>1,504,039</u>	<u>1,504,039</u>	<u>1,115,145</u>	<u>(388,894)</u>
<b>EXPENDITURES:</b>				
Community development	2,887,973	2,641,167	1,631,512	1,009,655
Public works				
Total expenditures	<u>2,887,973</u>	<u>2,641,167</u>	<u>1,631,512</u>	<u>1,009,655</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	(1,383,934)	(1,137,128)	(516,367)	620,761
<b>OTHER FINANCING USES:</b>				
Transfers in	625,000	625,000	625,000	
Issuance of loan payable			44,138	44,138
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>625,000</u>	<u>625,000</u>	<u>669,138</u>	<u>44,138</u>
<b>NET CHANGE IN FUND BALANCE</b>	(758,934)	(512,128)	152,771	664,899
<b>FUND BALANCES, JULY 1</b>	<u>1,632,026</u>	<u>1,632,026</u>	<u>1,632,026</u>	
<b>FUND BALANCES, JUNE 30</b>	<u>\$ 873,092</u>	<u>\$ 1,119,898</u>	<u>\$ 1,784,797</u>	<u>\$ 664,899</u>

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## Nonmajor Enterprise Funds

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

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

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

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

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

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

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

**CITY OF MODESTO**  
**COMBINING STATEMENT OF NET ASSETS - NON MAJOR ENTERPRISE FUNDS**  
**June 30, 2007**

	Parking	Storm Drain	Compost
<u>ASSETS</u>			
Current assets:			
Cash and cash equivalents	\$ 1,372,855	\$ 950,800	\$ 483,510
Cash and cash equivalents with fiscal agent			
Receivables:			
Accounts	1,320	654	140,151
Interest	4,956	3,059	2,403
Utilities, net		557,922	
Taxes			
Due from governments		4,538	
Property held for resale	630,000		
Total current assets	2,009,131	1,516,973	626,064
Capital assets:			
Land and construction in progress	3,142,479	1,942,719	
Other capital assets, net of accumulated depreciation	7,615,660	15,890,160	614,605
Total assets	12,767,270	19,349,852	1,240,669
<u>LIABILITIES</u>			
Current liabilities:			
Accounts payable	38,208	112,283	22,740
Accrued salaries and benefits	3,716	20,405	5,844
Interest payable			2,807
Current portion - long-term debt			74,148
Deferred revenues			
Total current liabilities	41,924	132,688	105,539
Noncurrent liabilities:			
Obligations under capital leases			77,485
Certificates of participation			
Advances from other funds		878,704	
Total liabilities	41,924	1,011,392	183,024
<u>NET ASSETS</u>			
Invested in capital assets, net of related debt	10,758,139	17,832,879	540,457
Unrestricted	1,967,207	505,581	517,188
Total net assets	\$ 12,725,346	\$ 18,338,460	\$ 1,057,645

<u>Airport</u>	<u>Golf</u>	<u>Community Center</u>	<u>Total</u>
\$ 1,508,354	\$ 230,740	\$ 486,405	\$ 5,032,664
	610,647		610,647
8,743	35,723	52,989	239,580
5,765	177		16,360
			557,922
796			796
780,339			784,877
			630,000
<u>2,303,997</u>	<u>877,287</u>	<u>539,394</u>	<u>7,872,846</u>
4,644,747	494,938	3,764,844	13,989,727
5,221,878	2,976,956	10,864,762	43,184,021
<u>12,170,622</u>	<u>4,349,181</u>	<u>15,169,000</u>	<u>65,046,594</u>
756,609	43,679	21,923	995,442
5,014		12,048	47,027
	49,000		51,807
	215,000		289,148
	221,058		221,058
<u>761,623</u>	<u>528,737</u>	<u>33,971</u>	<u>1,604,482</u>
	5,435,000		77,485
			5,435,000
			878,704
<u>761,623</u>	<u>5,963,737</u>	<u>33,971</u>	<u>7,995,671</u>
9,866,625	(2,178,106)	14,629,606	51,449,600
1,542,374	563,550	505,423	5,601,323
<u>\$ 11,408,999</u>	<u>\$ (1,614,556)</u>	<u>\$ 15,135,029</u>	<u>\$ 57,050,923</u>

**CITY OF MODESTO**  
**COMBINING STATEMENT OF REVENUES, EXPENSES, AND**  
**CHANGES IN FUND NET ASSETS - NON MAJOR ENTERPRISE FUNDS**  
**Year ended June 30, 2007**

	<u>Parking</u>	<u>Storm Drain</u>	<u>Compost</u>
<b>OPERATING REVENUES:</b>			
Charges for services	\$ 1,128,584	\$ 5,375,186	\$ 1,254,137
Miscellaneous	171	28,288	
Total operating revenues	<u>1,128,755</u>	<u>5,403,474</u>	<u>1,254,137</u>
<b>OPERATING EXPENSES:</b>			
Salaries and wages	301,104	1,003,827	236,474
Contractual services	245,890	2,059,596	120,835
Utilities	110,050	20,786	5,862
Maintenance and supplies	149,236	1,186,068	512,404
Insurance	22,598	45,639	6,709
Employee benefits	67,261	425,371	179,890
Administration services	126,567	958,759	61,080
Allocated indirect administrative costs	26,679	249,352	
Other	4,337	6,099	1,317
Depreciation	387,929	591,157	69,354
Total operating expenses	<u>1,441,651</u>	<u>6,546,654</u>	<u>1,193,925</u>
<b>OPERATING INCOME (LOSS)</b>	<u>(312,896)</u>	<u>(1,143,180)</u>	<u>60,212</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Operating grants			
Gain (Loss) on disposition of capital assets		(210,348)	24,245
Tax revenue			
Tax expense	(14,047)		
Interest income	37,112	(16,301)	7,049
Net increase in fair value of investments	14,659	7,362	19,040
Rental income			
Interest expense			(7,870)
Total nonoperating revenues (expenses)	<u>37,724</u>	<u>(219,287)</u>	<u>42,464</u>
<b>INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS</b>	<u>(275,172)</u>	<u>(1,362,467)</u>	<u>102,676</u>
Capital contributions		844,912	
Transfers in	180,000		29,000
Transfers out			(128,000)
<b>CHANGE IN NET ASSETS</b>	<u>(95,172)</u>	<u>(517,555)</u>	<u>3,676</u>
<b>NET ASSETS (DEFICIT), July 1</b>	<u>12,820,518</u>	<u>18,856,015</u>	<u>1,053,969</u>
<b>NET ASSETS (DEFICIT), June 30</b>	<u>\$ 12,725,346</u>	<u>\$ 18,338,460</u>	<u>\$ 1,057,645</u>

<u>Airport</u>	<u>Golf</u>	<u>Community Center</u>	<u>Total</u>
\$ 601,017	\$ 2,189,384	\$ 538,659	\$ 11,086,967
3,197		14,219	45,875
<u>604,214</u>	<u>2,189,384</u>	<u>552,878</u>	<u>11,132,842</u>
317,500		774,864	2,633,769
767,833	1,677,254	50,243	4,921,651
106,631	(2,539)	172,540	413,330
99,532	8,546	419,588	2,375,374
29,119	13,911	42,303	160,279
130,661		229,814	1,032,997
93,646	53,630	8,604	1,302,286
38,256	92,135		406,422
35,030	18,951	12,191	77,925
390,774	310,649	778,103	2,527,966
<u>2,008,982</u>	<u>2,172,537</u>	<u>2,488,250</u>	<u>15,851,999</u>
<u>(1,404,768)</u>	<u>16,847</u>	<u>(1,935,372)</u>	<u>(4,719,157)</u>
554,649			554,649
		(3,342)	(189,445)
222,776			222,776
(754)			(14,801)
44,103	28,303	313	100,579
17,802	1,400	1,460	61,723
166,187	69,178	491,711	727,076
	(297,690)		(305,560)
<u>1,004,763</u>	<u>(198,809)</u>	<u>490,142</u>	<u>1,156,997</u>
<u>(400,005)</u>	<u>(181,962)</u>	<u>(1,445,230)</u>	<u>(3,562,160)</u>
1,077,802			1,922,714
9,550	42,061	724,826	985,437
<u>        </u>	<u>        </u>	<u>        </u>	<u>(128,000)</u>
687,347	(139,901)	(720,404)	(782,009)
<u>10,721,652</u>	<u>(1,474,655)</u>	<u>15,855,433</u>	<u>57,832,932</u>
<u>\$ 11,408,999</u>	<u>\$ (1,614,556)</u>	<u>\$ 15,135,029</u>	<u>\$ 57,050,923</u>

**CITY OF MODESTO**  
**COMBINING STATEMENT OF CASH FLOWS - NONMAJOR ENTERPRISE FUNDS**  
**Year ended June 30, 2007**

	<u>Parking</u>	<u>Storm Drain</u>	<u>Compost</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Receipts from customers and users	\$ 1,136,260	\$ 5,385,719	\$ 1,377,158
Receipts from interfund services provided		23,521	
Payments to suppliers	(413,113)	(2,165,418)	(446,153)
Payments to employees	(369,049)	(1,427,342)	(414,161)
Payments for interfund services used	(278,655)	(2,351,387)	(243,018)
Net cash provided (used) by operating activities	<u>75,443</u>	<u>(534,907)</u>	<u>273,826</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>			
Operating grants received		9,684	
Taxes received			
Transfers in	180,000		29,000
Transfers out			(128,000)
New advances from other funds		878,704	
Net cash provided (used) by noncapital financing activities	<u>180,000</u>	<u>888,388</u>	<u>(99,000)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>			
Acquisition and construction of capital assets		(1,138,537)	(1,397)
Principal repayments			(70,955)
Interest paid			(10,016)
Capital grants received		826,367	
Net cash used by capital and related financing activities		<u>(312,170)</u>	<u>(82,368)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Interest received	35,597	18,591	5,468
Net increase in the fair value of investments	14,659	7,362	19,040
Net cash provided by investing activities	<u>50,256</u>	<u>25,953</u>	<u>24,508</u>
Net increase (decrease) in cash and cash equivalents	305,699	67,264	116,966
CASH AND CASH EQUIVALENTS, JULY 1	<u>1,067,156</u>	<u>883,536</u>	<u>366,544</u>
CASH AND CASH EQUIVALENTS, JUNE 30	<u>\$ 1,372,855</u>	<u>\$ 950,800</u>	<u>\$ 483,510</u>
<b>RECONCILIATION TO STATEMENT OF NET ASSETS:</b>			
Cash and cash equivalents	\$ 1,372,855	\$ 950,800	\$ 483,510
Cash and cash equivalents with fiscal agent			
<b>TOTAL CASH AND CASH EQUIVALENTS</b>	<u>\$ 1,372,855</u>	<u>\$ 950,800</u>	<u>\$ 483,510</u>

<u>Airport</u>	<u>Golf</u>	<u>Community Center</u>	<u>Total</u>
\$ 759,058	\$ 2,251,207	\$ 1,045,566	\$ 11,954,968
(600,105)	(1,660,902)	(598,333)	23,521
(449,346)		(1,003,242)	(5,884,024)
<u>(212,375)</u>	<u>(160,847)</u>	<u>(118,526)</u>	<u>(3,663,140)</u>
<u>(502,768)</u>	<u>429,458</u>	<u>(674,535)</u>	<u>(933,483)</u>
554,649	1,149		565,482
222,776			222,776
9,550	42,061	724,826	985,437
			(128,000)
			<u>878,704</u>
<u>786,975</u>	<u>43,210</u>	<u>724,826</u>	<u>2,524,399</u>
(947,012)	(27,774)	(5,643)	(2,120,363)
	(205,000)		(275,955)
	(299,535)		(309,551)
<u>720,092</u>			<u>1,546,459</u>
<u>(226,920)</u>	<u>(532,309)</u>	<u>(5,643)</u>	<u>(1,159,410)</u>
42,750	33,520	539	136,465
17,802	1,400	1,460	61,723
<u>60,552</u>	<u>34,920</u>	<u>1,999</u>	<u>198,188</u>
117,839	(24,721)	46,647	629,694
<u>1,390,515</u>	<u>866,108</u>	<u>439,758</u>	<u>5,013,617</u>
<u>\$ 1,508,354</u>	<u>\$ 841,387</u>	<u>\$ 486,405</u>	<u>\$ 5,643,311</u>
\$ 1,508,354	\$ 230,740	\$ 486,405	\$ 5,032,664
	<u>610,647</u>		<u>610,647</u>
<u>\$ 1,508,354</u>	<u>\$ 841,387</u>	<u>\$ 486,405</u>	<u>\$ 5,643,311</u>

(continued)

**CITY OF MODESTO**  
**COMBINING STATEMENT OF CASH FLOWS - NON MAJOR ENTERPRISE FUNDS (Continued)**  
**Year ended June 30, 2007**

	Parking	Storm Drain	Compost
<b>RECONCILIATION OF OPERATING INCOME (LOSS)</b>			
<b>TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</b>			
Operating income (loss)	\$ (312,896)	\$ (1,143,180)	\$ 60,212
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	387,929	591,157	69,354
Rental income			
Taxes paid	(14,047)		
Change in assets and liabilities:			
(Increase) decrease in accounts receivable	7,505	5,276	123,021
(Increase) in utilities receivable		490	
Increase (decrease) in accounts payable and accrued expenses	7,636	9,494	19,036
Increase in accrued salaries and benefits	(684)	1,856	2,203
Increase in deferred revenues			
Total adjustments	388,339	608,273	213,614
Net cash provided (used) by operating activities	\$ 75,443	\$ (534,907)	\$ 273,826

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

Capital assets transferred from other funds	\$	18,545	\$
Developer infrastructure contributions			

<u>Airport</u>	<u>Golf</u>	<u>Community Center</u>	<u>Total</u>
\$ <u>(1,404,768)</u>	\$ <u>16,847</u>	\$ <u>(1,935,372)</u>	\$ <u>(4,719,157)</u>
390,774	310,649	778,103	2,527,966
166,187	69,178	491,711	727,076
(1,550)			(15,597)
2,878	(19,116)	977	120,541
			490
358,321	40,139	(11,390)	423,236
(1,185)		1,436	3,626
<u>(13,425)</u>	<u>11,761</u>		<u>(1,664)</u>
<u>902,000</u>	<u>412,611</u>	<u>1,260,837</u>	<u>3,785,674</u>
\$ <u><u>(502,768)</u></u>	\$ <u><u>429,458</u></u>	\$ <u><u>(674,535)</u></u>	\$ <u><u>(933,483)</u></u>

\$ 18,545

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## Internal Service Funds

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

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

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

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

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

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

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

**CITY OF MODESTO**  
**COMBINING STATEMENT OF NET ASSETS - INTERNAL SERVICE FUNDS**  
**June 30, 2007**

	<u>Fleet Management</u>	<u>Central Services</u>	<u>Information &amp; Technology Services</u>
<b><u>ASSETS</u></b>			
Current assets:			
Cash and cash equivalents	\$ 14,186,997	\$ 444,965	\$ 3,433,307
Receivables:			
Accounts receivable	21,905	2,423	
Interest	38,251	1,135	10,283
Inventories		763,492	
Due from governments			
Advances to other funds	1,782,462		
Total current assets	<u>16,029,615</u>	<u>1,212,015</u>	<u>3,443,590</u>
Noncurrent assets:			
Land and construction in progress	821,033		
Other capital assets, net of accumulated depreciation	<u>16,856,577</u>	<u>66,670</u>	<u>2,409,428</u>
Total assets	<u>33,707,225</u>	<u>1,278,685</u>	<u>5,853,018</u>
<b><u>LIABILITIES</u></b>			
Current liabilities:			
Accounts payable	264,775	157,499	73,017
Accrued salaries and benefits	19,584	5,278	38,453
Interest Payable			1,038
Current portion - compensated absences			
Current portion - claims liability			
Current portion - long-term debt	28,226		73,962
Total current liabilities	<u>312,585</u>	<u>162,777</u>	<u>186,470</u>
Noncurrent liabilities:			
Compensated absences			
Claims liability			
Long-term debt:			
Notes payable	116,220		
Obligations under capital leases			137,392
Total liabilities	<u>428,805</u>	<u>162,777</u>	<u>323,862</u>
<b><u>NET ASSETS</u></b>			
Invested in capital assets, net of related debt	17,649,384	66,670	2,198,074
Unrestricted	<u>15,629,036</u>	<u>1,049,238</u>	<u>3,331,082</u>
Total net assets	<u>\$ 33,278,420</u>	<u>\$ 1,115,908</u>	<u>\$ 5,529,156</u>

<u>Insurance</u>	<u>Employee Benefits Management</u>	<u>Building Services</u>	<u>Total</u>
\$ 15,944,621	\$ 19,306,031	\$ 66,418	\$ 53,382,339
821,403	12,225		857,956
18,396	76,173		144,238
			763,492
			<u>1,782,462</u>
<u>16,784,420</u>	<u>19,394,429</u>	<u>66,418</u>	<u>56,930,487</u>
			821,033
<u>19,942</u>	<u>3,931</u>	<u>153,175</u>	<u>19,509,723</u>
<u>16,804,362</u>	<u>19,398,360</u>	<u>219,593</u>	<u>77,261,243</u>
79,256	776,868	50,120	1,401,535
6,069	2,228	16,298	87,910
			1,038
	3,259,769		3,259,769
4,583,644			4,583,644
			102,188
<u>4,668,969</u>	<u>4,038,865</u>	<u>66,418</u>	<u>9,436,084</u>
	64,628,743		64,628,743
12,042,593			12,042,593
			116,220
			<u>137,392</u>
<u>16,711,562</u>	<u>68,667,608</u>	<u>66,418</u>	<u>86,361,032</u>
19,942	3,931	153,175	20,091,176
<u>72,858</u>	<u>(49,273,179)</u>		<u>(29,190,965)</u>
\$ <u><u>92,800</u></u>	\$ <u><u>(49,269,248)</u></u>	\$ <u><u>153,175</u></u>	\$ <u><u>(9,099,789)</u></u>

**CITY OF MODESTO**  
**COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES**  
**IN FUND NET ASSETS - INTERNAL SERVICE FUNDS**  
**Year ended June 30, 2007**

	<u>Fleet Management</u>	<u>Central Services</u>	<u>Information &amp; Technology Services</u>
<b>OPERATING REVENUES:</b>			
Charges for services	\$ 9,264,500	\$ 95,407	\$ 4,460,538
Sales		4,757,411	
Cost of sales		(3,939,828)	
Total operating revenues	<u>9,264,500</u>	<u>912,990</u>	<u>4,460,538</u>
<b>OPERATING EXPENSES:</b>			
Salaries and wages	1,055,941	236,285	1,747,003
Contractual services	357,229	48,867	240,335
Utilities	8,180	894	273,047
Maintenance and supplies	2,528,952	50,152	1,063,215
Insurance	59,548	4,855	29,853
Claims expense			
Employee benefits	474,739	108,940	670,478
Administration services	49,850	7,122	539
Allocated indirect administrative costs	264,010		
Other	14,678	782	47,820
Depreciation	2,731,662	9,982	417,968
Total operating expenses	<u>7,544,789</u>	<u>467,879</u>	<u>4,490,258</u>
<b>OPERATING INCOME (LOSS)</b>	<u>1,719,711</u>	<u>445,111</u>	<u>(29,720)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Operating grant	4,000		
Loss on disposition of capital assets	(565,386)	(10,876)	(73,868)
Interest income	427,854	6,690	73,004
Net increase (decrease) in fair value of investments	169,501	3,112	28,365
Interest expense	(9,539)		(1,038)
Total nonoperating revenues (expenses)	<u>26,430</u>	<u>(1,074)</u>	<u>26,463</u>
<b>INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS</b>	1,746,141	444,037	(3,257)
Capital contributions	502,800		55,348
Transfers in	251,536		999,105
Transfers out	(29,000)		
<b>CHANGE IN NET ASSETS</b>	2,471,477	444,037	1,051,196
<b>NET ASSETS (DEFICITS), July 1</b>	<u>30,806,943</u>	<u>671,871</u>	<u>4,477,960</u>
<b>NET ASSETS (DEFICITS), June 30</b>	<u>\$ 33,278,420</u>	<u>\$ 1,115,908</u>	<u>\$ 5,529,156</u>

<u>Insurance</u>	<u>Employee Benefits Management</u>	<u>Building Services</u>	<u>Total</u>
\$ 23,127,940	\$ 4,602,821	\$ 2,089,804	\$ 43,641,010
			4,757,411
			(3,939,828)
<u>23,127,940</u>	<u>4,602,821</u>	<u>2,089,804</u>	<u>44,458,593</u>
340,780	60,318	939,111	4,379,438
49,528	82,587	204,463	983,009
640		202,632	485,393
11,368	26,225	255,522	3,935,434
13,284,442	825	19,372	13,398,895
9,231,869			9,231,869
204,121	8,960,009	433,396	10,851,683
1,329,877	44,550	72,385	1,504,323
			264,010
18,313	63,979	2,002	147,574
8,808	1,474	28,755	3,198,649
<u>24,479,746</u>	<u>9,239,967</u>	<u>2,157,638</u>	<u>48,380,277</u>
<u>(1,351,806)</u>	<u>(4,637,146)</u>	<u>(67,834)</u>	<u>(3,921,684)</u>
			4,000
		(9,152)	(659,282)
428,852	551,208	(5,844)	1,481,764
211,000	219,275	(2,772)	628,481
			(10,577)
<u>639,852</u>	<u>770,483</u>	<u>(17,768)</u>	<u>1,444,386</u>
(711,954)	(3,866,663)	(85,602)	(2,477,298)
			558,148
		47,694	1,298,335
<u>(9,550)</u>			<u>(38,550)</u>
(721,504)	(3,866,663)	(37,908)	(659,365)
<u>814,304</u>	<u>(45,402,585)</u>	<u>191,083</u>	<u>(8,440,424)</u>
<u>\$ 92,800</u>	<u>\$ (49,269,248)</u>	<u>\$ 153,175</u>	<u>\$ (9,099,789)</u>

**CITY OF MODESTO**  
**COMBINING STATEMENT OF CASH FLOWS - INTERNAL SERVICE FUNDS**  
**Year ended June 30, 2007**

	<u>Fleet Management</u>	<u>Central Services</u>	<u>Information &amp; Technology Services</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Receipts from customers and users	\$ 4,757,427	\$ 22,345	
Receipts from interfund services provided	4,531,980	888,222	\$ 4,460,538
Payments to suppliers	(2,631,017)	(339,053)	(1,582,141)
Payment of insurance claims			
Payments to employees	(1,532,636)	(344,135)	(2,411,250)
Payments for interfund services used	<u>(516,635)</u>	<u>(47,621)</u>	<u>(65,806)</u>
Net cash provided (used) by operating activities	<u>4,609,119</u>	<u>179,758</u>	<u>401,341</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>			
Transfers in	251,536		999,105
Transfers out	(29,000)		
Repayment of advances to other funds	121,014		
Operating grants received	<u>4,000</u>		<u>1,038</u>
Net cash provided (used) by noncapital financing activities	<u>347,550</u>		<u>1,000,143</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>			
Acquisition and construction of capital assets	(3,416,388)	(20,048)	(295,928)
Proceeds from sale of capital assets	38,224		13,877
Principal repayments	(26,587)		
Interest paid	<u>(9,539)</u>		<u>(1,038)</u>
Net cash used by capital and related financing activities	<u>(3,414,290)</u>	<u>(20,048)</u>	<u>(283,089)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Interest received	401,196	6,804	69,402
Net increase in the fair value of investments	<u>169,501</u>	<u>3,112</u>	<u>28,365</u>
Net cash provided by investing activities	<u>570,697</u>	<u>9,916</u>	<u>97,767</u>
Net increase (decrease) in cash and cash equivalents	2,113,076	169,626	1,216,162
CASH AND CASH EQUIVALENTS, JULY 1	<u>12,073,921</u>	<u>275,339</u>	<u>2,217,145</u>
CASH AND CASH EQUIVALENTS, JUNE 30	<u>\$ 14,186,997</u>	<u>\$ 444,965</u>	<u>\$ 3,433,307</u>

<u>Insurance</u>	<u>Employee Benefits Management</u>	<u>Building Services</u>	<u>Total</u>
\$ 17,290	\$ 15,713		\$ 4,812,775
23,110,650	4,579,413	\$ 2,089,804	39,660,607
(13,589,166)	(140,989)	(552,887)	(18,835,253)
(8,936,742)			(8,936,742)
(545,797)	(2,747,431)	(1,374,839)	(8,956,088)
<u>(1,381,053)</u>	<u>(57,394)</u>	<u>(176,404)</u>	<u>(2,244,913)</u>
<u>(1,324,818)</u>	<u>1,649,312</u>	<u>(14,326)</u>	<u>5,500,386</u>
		47,694	1,298,335
(9,550)			(38,550)
			121,014
			5,038
<u>(9,550)</u>		<u>47,694</u>	<u>1,385,837</u>
1		1	(3,732,362)
			52,101
			(26,587)
			<u>(10,577)</u>
<u>1</u>		<u>1</u>	<u>(3,717,425)</u>
553,941	531,586	(5,844)	1,557,085
<u>211,000</u>	<u>219,275</u>	<u>(2,772)</u>	<u>628,481</u>
<u>764,941</u>	<u>750,861</u>	<u>(8,616)</u>	<u>2,185,566</u>
(569,426)	2,400,173	24,753	5,354,364
<u>16,514,047</u>	<u>16,905,858</u>	<u>41,665</u>	<u>48,027,975</u>
\$ <u>15,944,621</u>	\$ <u>19,306,031</u>	\$ <u>66,418</u>	\$ <u>53,382,339</u>
			(continued)

**CITY OF MODESTO**  
**COMBINING STATEMENT OF CASH FLOWS - INTERNAL SERVICE FUNDS (Continued)**  
**Year ended June 30, 2007**

	<u>Fleet Management</u>	<u>Central Services</u>	<u>Information &amp; Technology Services</u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</b>			
Operating income (loss)	\$ 1,719,711	\$ 445,111	\$ (29,720)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	2,731,662	9,982	417,968
Change in assets and liabilities:			
(Increase) decrease in accounts receivable	(13,780)	(2,423)	
(Increase) decrease in due from governments	38,687		
Decrease in inventories		(246,573)	
Increase (decrease) in accounts payable and accrued expenses	134,795	(27,429)	6,862
Increase in accrued salaries and benefits payable	(1,956)	1,090	6,231
Increase in compensated absences			
Decrease in claims liability			
Total adjustments	<u>2,889,408</u>	<u>(265,353)</u>	<u>431,061</u>
Net cash provided (used) by operating activities	<u>\$ 4,609,119</u>	<u>\$ 179,758</u>	<u>\$ 401,341</u>
 <b>NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:</b>			
Capital assets transferred in	\$ 502,800		\$ 55,348
New capital lease transaction			211,354

<u>Insurance</u>	<u>Employee Benefits Management</u>	<u>Building Services</u>	<u>Total</u>
\$ <u>(1,351,806)</u>	\$ <u>(4,637,146)</u>	\$ <u>(67,834)</u>	\$ <u>(3,921,684)</u>
8,808	1,474	28,755	3,198,649
	(7,695)		(23,898)
			38,687
			(246,573)
(276,051)	19,783	27,085	(114,955)
(896)	1,338	(2,332)	3,475
	6,271,558		6,271,558
<u>295,127</u>			<u>295,127</u>
<u>26,988</u>	<u>6,286,458</u>	<u>53,508</u>	<u>9,422,070</u>
\$ <u><u>(1,324,818)</u></u>	\$ <u><u>1,649,312</u></u>	\$ <u><u>(14,326)</u></u>	\$ <u><u>5,500,386</u></u>
			\$ 558,148

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## AGENCY FUNDS

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

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

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

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

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

**CITY OF MODESTO**  
**STATEMENT OF CHANGES IN ASSETS AND LIABILITIES AGENCY FUNDS**  
Year ended June 30, 2007

	Balance June 30, 2006	Additions	Deletions	Balance June 30, 2007
<hr/> <u>Special Districts</u> <hr/>				
<u>ASSETS</u>				
Cash and cash equivalents	\$ 1,250,422	\$ 2,205,342	\$ 851,804	\$ 2,603,960
Cash and cash equivalents with fiscal agent	4,512,890	1,064,402	1,735,546	3,841,746
	<u>\$ 5,763,312</u>	<u>\$ 3,269,744</u>	<u>\$ 2,587,350</u>	<u>\$ 6,445,706</u>
<u>LIABILITIES</u>				
Due to special district bondholders	\$ 5,763,312	\$ 3,269,744	\$ 2,587,350	\$ 6,445,706
<hr/> <u>Tuolumne River Regional Park</u> <hr/>				
<u>ASSETS</u>				
Cash and cash equivalents	\$ 33,926	\$ 2,242,121	\$ 1,429,353	\$ 846,694
<u>LIABILITIES</u>				
Deposits held as agent for others	\$ 33,926	\$ 2,242,121	\$ 1,429,353	\$ 846,694
<hr/> <u>City/County Joint Powers Financing Authority</u> <hr/>				
<u>ASSETS</u>				
Cash and cash equivalents	\$ 94,720	\$ 1,505,783	\$ 1,348,992	\$ 251,511
<u>LIABILITIES</u>				
Deposits held as agent for others	\$ 94,720	\$ 1,505,783	\$ 1,348,992	\$ 251,511
<hr/> <u>Stanislaus Drug Enforcement Agency</u> <hr/>				
<u>ASSETS</u>				
Cash and cash equivalents	\$ 1,167,635	\$ 2,808,748	\$ 2,364,149	\$ 1,612,234
<u>LIABILITIES</u>				
Deposits held as agent for others	\$ 1,167,635	\$ 2,808,748	\$ 2,364,149	\$ 1,612,234
<hr/> <u>Totals - All Agency Funds</u> <hr/>				
<u>ASSETS</u>				
Cash and cash equivalents	\$ 2,546,703	\$ 8,761,994	\$ 5,994,298	\$ 5,314,399
Cash and cash equivalents with fiscal agent	4,512,890	1,064,402	1,735,546	3,841,746
	<u>\$ 7,059,593</u>	<u>\$ 9,826,396</u>	<u>\$ 7,729,844</u>	<u>\$ 9,156,145</u>
<u>LIABILITIES</u>				
Due to special district bondholders	\$ 5,763,312	\$ 3,269,744	\$ 2,587,350	\$ 6,445,706
Deposits held as agent for others	1,296,281	6,556,652	5,142,494	2,710,439
	<u>\$ 7,059,593</u>	<u>\$ 9,826,396</u>	<u>\$ 7,729,844</u>	<u>\$ 9,156,145</u>

# **STATISTICAL SECTION**



## Statistical Section

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

### Financial Trends

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

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

### Revenue Capacity

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

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

### Debt Capacity

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

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

### Demographic and Economic Information

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

1. Demographic and Economic Statistics
2. Principal Employers

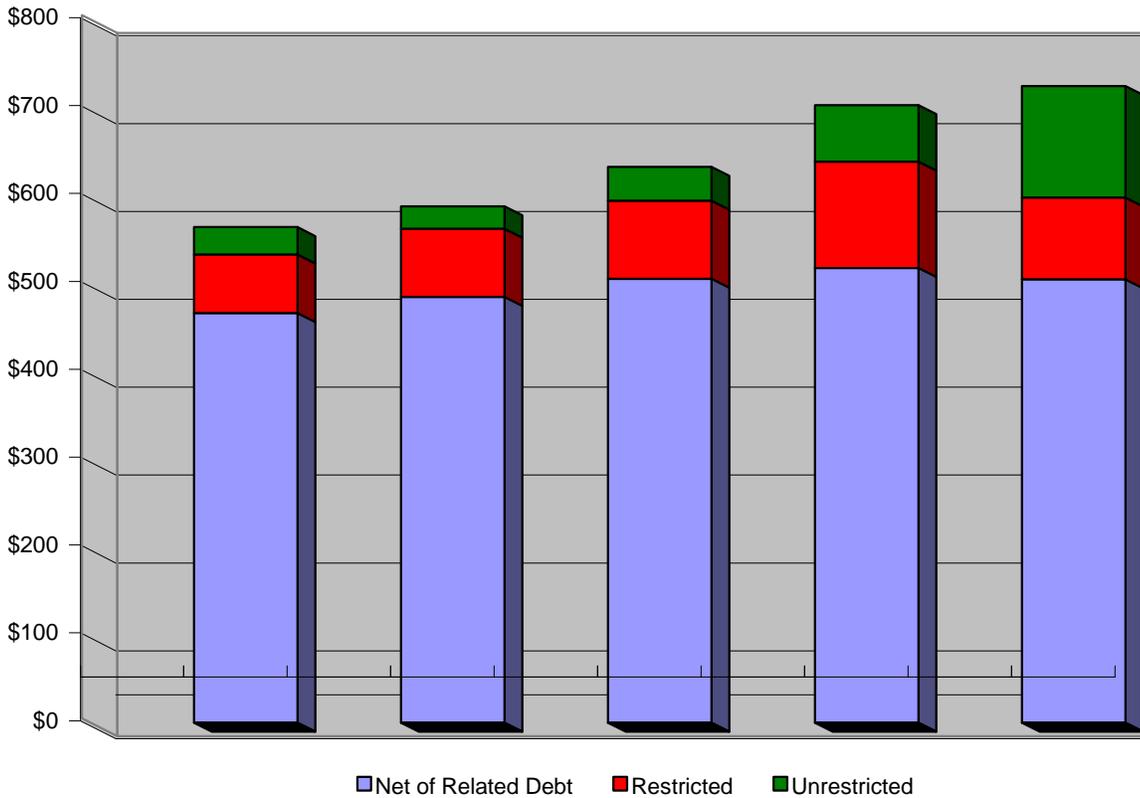
### Operating Information

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

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

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

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



	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
<b>Governmental activities</b>					
Invested in capital assets, net of related debt	\$259,156,770	\$275,171,096	\$288,391,776	\$296,401,824	\$333,409,532
Restricted	65,766,576	76,577,126	88,725,341	120,937,678	93,168,664
Unrestricted	2,530,581	(11,382,001)	(6,715,483)	(2,303,306)	(12,566,297)
<b>Total governmental activities net assets</b>	<u><u>\$327,453,927</u></u>	<u><u>\$340,366,221</u></u>	<u><u>\$370,401,634</u></u>	<u><u>\$415,036,196</u></u>	<u><u>414,011,899</u></u>
<b>Business-type activities</b>					
Invested in capital assets, net of related debt	\$206,792,699	\$209,230,461	\$216,558,150	\$220,881,691	\$170,791,021
Restricted	756,245	763,190			
Unrestricted	28,786,201	37,266,369	45,548,813	66,550,276	139,613,374
<b>Total business-type activities net assets</b>	<u><u>\$236,335,145</u></u>	<u><u>\$247,260,020</u></u>	<u><u>\$262,106,963</u></u>	<u><u>\$287,431,967</u></u>	<u><u>\$310,404,395</u></u>
<b>Primary government</b>					
Invested in capital assets, net of related debt	\$465,949,469	\$484,401,557	\$504,949,926	\$517,283,515	\$504,200,553
Restricted	66,522,821	77,340,316	88,725,341	120,937,678	93,168,664
Unrestricted	31,316,782	25,884,368	38,833,330	64,246,970	127,047,077
<b>Total primary government net assets</b>	<u><u>\$563,789,072</u></u>	<u><u>\$587,626,241</u></u>	<u><u>\$632,508,597</u></u>	<u><u>\$702,468,163</u></u>	<u><u>724,416,294</u></u>

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

	2003	2004	2005	2006	2007
<b>Expenses</b>					
<b>Governmental Activities:</b>					
General Government	\$12,557,259	\$13,954,909	\$15,273,174	\$15,529,735	\$17,227,876
Community Development	13,823,955	\$10,517,243	\$14,105,411	\$12,241,213	12,025,105
Highways and streets	19,656,219	23,136,950	23,721,458	26,025,311	26,246,306
Public works	6,843,742	6,458,522	5,263,984	6,491,062	12,557,512
Parks and Recreation	16,723,475	12,682,746	13,334,330	11,733,698	14,568,192
Public safety	64,410,214	68,258,235	71,239,341	74,500,043	83,793,361
Interest on Long Term Debt	4,612,885	4,515,439	4,987,911	5,178,130	7,286,026
<b>Total Governmental Activities Expenses</b>	<b>138,627,749</b>	<b>139,524,044</b>	<b>147,925,609</b>	<b>151,699,192</b>	<b>173,704,378</b>
<b>Business-Type Activities:</b>					
Parking	1,153,145	651,330	1,162,479	1,287,450	1,475,340
Water	30,874,820	27,051,982	30,691,348	29,989,775	35,540,918
Sewer	23,266,170	21,386,084	22,422,268	22,716,100	24,156,577
Storm Drain	5,940,261	5,327,334	6,111,317	5,795,746	6,924,335
Compost				941,919	1,225,462
Airport	971,865	1,120,922	1,131,889	1,342,645	2,039,988
Bus	9,745,477	10,122,176	11,074,907	12,119,311	13,758,421
Golf	2,475,913	2,432,202	2,354,759	2,461,470	2,479,447
Community Center	2,390,517	2,078,752	2,323,169	2,465,644	2,543,121
<b>Total Business-Type Activities Expenses</b>	<b>76,818,168</b>	<b>70,170,782</b>	<b>77,272,136</b>	<b>79,120,060</b>	<b>90,143,609</b>
<b>Total Primary Government Expenses</b>	<b>\$215,445,917</b>	<b>\$209,694,826</b>	<b>\$225,197,745</b>	<b>\$230,819,252</b>	<b>\$263,847,987</b>
<b>Program Revenues</b>					
<b>Governmental Activities:</b>					
<b>Charges for Services:</b>					
General Government	\$3,453,403	\$3,321,760	\$3,252,732	\$4,179,505	3,775,368
Community Development	11,566,306	9,592,055	11,294,130	9,466,082	10,873,541
Highway and streets	1,303,305	2,005,336	14,081,840	12,104,089	10,719,009
Public Safety	9,173,932	9,267,650	2,024,509	1,986,957	1,757,648
Parks and Recreation	3,835,652	3,992,598	4,821,884	4,928,366	4,437,320
Public Safety	5,925,096	6,794,911	8,011,509	7,124,387	8,414,456
Operating Grants and Contributions	9,413,521	15,975,814	13,736,453	11,892,511	12,701,177
Capital Grants and Contributions	23,297,198	18,368,908	22,799,320	38,484,548	4,207,389
<b>Total Government Activities Program Revenues</b>	<b>67,968,413</b>	<b>69,319,032</b>	<b>80,022,377</b>	<b>90,166,445</b>	<b>56,885,908</b>
<b>Business-Type Activities:</b>					
<b>Charges for Services:</b>					
Parking	824,917	890,263	908,920	1,176,061	1,128,755
Water	28,200,885	31,353,046	31,315,920	42,639,348	49,305,033
Sewer	23,556,044	25,292,995	24,419,607	23,083,280	24,833,019
Storm Drain	5,169,831	5,227,844	5,162,217	5,277,304	5,403,474
Compost				1,317,105	1,254,137
Airport	590,960	559,479	559,215	577,688	604,214
Bus	2,137,065	2,077,503	2,264,506	2,645,622	2,545,790
Golf	2,120,689	2,160,223	2,115,712	2,222,738	2,189,384
Community Center	467,229	496,680	504,338	543,085	552,878
Operating Grants and Contributions	5,119,474	6,217,613	7,525,367	8,317,889	11,059,129
Capital Grants and Contributions	13,603,460	10,145,892	8,498,408	10,467,873	7,962,675
<b>Total Business-Type Activities Program Revenue</b>	<b>81,790,554</b>	<b>84,421,538</b>	<b>83,274,210</b>	<b>98,267,993</b>	<b>106,838,488</b>
<b>Total Primary Government Program Revenues</b>	<b>\$149,758,967</b>	<b>\$153,740,570</b>	<b>\$163,296,587</b>	<b>\$188,434,438</b>	<b>\$163,724,396</b>
<b>Net (Expense)/Revenue</b>					
Governmental Activities	(\$70,659,336)	(\$70,205,012)	(\$67,903,232)	(\$61,532,747)	(116,818,470)
Business-Type Activities	4,972,386	14,250,756	6,002,074	19,147,933	16,694,879
<b>Total Primary Government Net Expense</b>	<b>(\$65,686,950)</b>	<b>(\$55,954,256)</b>	<b>(\$61,901,158)</b>	<b>(\$42,384,814)</b>	<b>(\$100,123,591)</b>

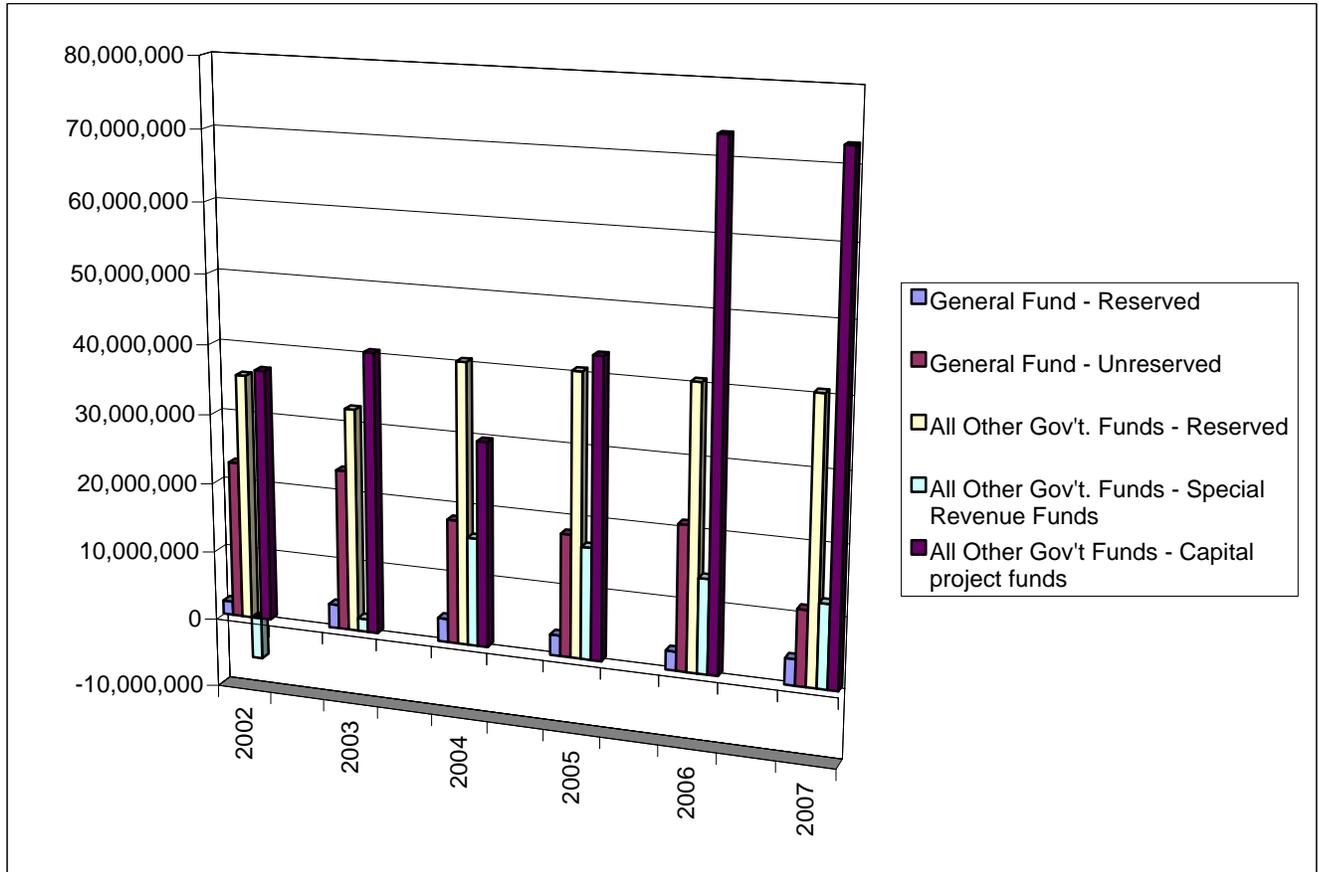
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**CITY OF MODESTO**  
**CHANGES IN NET ASSETS**  
(continued)  
**Last Five Fiscal Years**  
**(Accrual Basis of Accounting)**

	2003	2004	2005	2006	2007
General Revenues and Other Changes in Net Assets					
Governmental Activities:					
Taxes:					
Utility Users Tax	\$13,732,571	\$14,659,986	\$15,621,566	\$17,583,690	\$18,319,573
Property taxes, levied for general purposes	10,169,004	11,294,599	11,316,694	14,318,747	16,456,379
Tax increments for redevelopment agency	2,631,695	3,183,871	3,909,452	4,450,836	5,303,521
Transient occupancy tax	2,097,901	2,110,909	2,098,303	2,181,467	2,264,699
Franchise tax	3,360,976	3,455,535	3,420,453	3,693,307	3,823,216
Business license tax - for general purposes	9,238,797	9,231,136	9,726,816	10,374,157	10,359,058
Business license tax - for downtown improvement district	172,847	190,644	201,308	214,022	221,487
Grants and contributions not restricted to specific programs:					
Sales tax	25,887,064	27,151,779	26,589,449	29,627,835	27,884,852
Motor vehicle license fee	11,746,283	9,052,449	16,403,864	14,986,883	16,233,262
Other	922,237	1,204,485	1,702,234	4,070,593	4,169,354
Unrestricted investment earnings	3,645,205	1,004,974	4,463,080	3,255,401	8,330,079
Miscellaneous	2,220,976	2,479,871	3,792,340	2,827,161	3,582,325
Transfers	(1,824,890)	(1,902,932)	(1,306,914)	(1,416,790)	(1,153,632)
Total Government Activities	<u>84,000,666</u>	<u>83,117,306</u>	<u>97,938,645</u>	<u>106,167,309</u>	<u>115,794,173</u>
Business-Type Activities:					
Taxes:					
Property taxes, generated by and allocated to the airport	166,043	204,091	239,518	166,641	209,722
Business license tax, generated by and allocated to the airport	21,816	7,870	20,546	41,108	13,054
Unrestricted investment earnings	2,003,214	857,751	1,819,870	2,504,291	5,406,639
Miscellaneous			1,306,914		
Transfers	1,824,890	1,902,932	7,396,627	1,416,790	1,153,632
Settlements and Recoveries				3,784,295	
Special item	(4,753,884)	(6,298,525)	(1,938,606)	(1,736,054)	(505,498)
Total Business-Type Activities	<u>(737,921)</u>	<u>(3,325,881)</u>	<u>8,844,869</u>	<u>6,177,071</u>	<u>6,277,549</u>
Total Primary Government	<u>\$83,262,745</u>	<u>\$79,791,425</u>	<u>\$106,783,514</u>	<u>\$112,344,380</u>	<u>\$122,071,722</u>
Change in Net Assets					
Governmental Activities	\$13,341,330	\$12,912,294	\$30,035,413	\$44,634,562	(1,024,297)
Business-Type Activities	4,234,465	10,924,875	14,846,943	25,325,004	22,972,428
Total Primary Government	<u>\$17,575,795</u>	<u>\$23,837,169</u>	<u>\$44,882,356</u>	<u>\$69,959,566</u>	<u>\$21,948,131</u>

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

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



	2002	2003	2004	2005	2006	2007
<b>General Fund</b>						
Reserved	\$1,961,061	\$3,393,560	\$3,327,569	\$2,955,054	\$2,702,381	\$3,734,973
Unreserved	22,512,913	23,008,629	17,651,800	17,460,005	20,607,134	10,713,910
<b>Total General Fund</b>	<u>\$24,473,974</u>	<u>\$26,402,189</u>	<u>\$20,979,369</u>	<u>\$20,415,059</u>	<u>\$23,309,515</u>	<u>\$14,448,883</u>
<b>All Other Governmental Funds</b>						
Reserved	\$35,241,185	\$31,889,387	\$40,013,124	\$40,160,539	\$40,168,886	\$40,174,920
Unreserved, reported in:						
Special revenue funds	(6,013,102)	1,844,576	15,398,402	15,931,290	13,431,304	11,885,910
Capital project funds	36,152,800	40,102,394	29,172,787	42,534,688	72,752,412	72,253,464
<b>Total all other governmental funds</b>	<u>\$65,380,883</u>	<u>\$73,836,357</u>	<u>\$84,584,313</u>	<u>\$98,626,517</u>	<u>\$126,352,602</u>	<u>\$124,314,294</u>

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

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

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

	Fiscal Year Ended June 30,					
	2002	2003	2004	2005	2006	2007
Revenues						
Taxes	\$37,855,427	\$41,405,014	\$44,185,552	\$46,295,678	\$52,816,596	\$56,748,017
Licenses, permits and fees	173,348	169,108	250,129	128,754	146,854	187,289
Intergovernmental	62,726,570	66,228,880	70,583,373	73,889,063	64,759,658	66,129,862
Charges for services	33,633,119	31,789,634	33,203,507	41,660,016	37,802,149	36,979,023
Special assessments levied	823,091	2,015,090	386,368	107,696	65,909	51,634
Interest and rent	3,418,440	3,712,219	2,911,392	3,146,452	3,755,169	4,837,419
Net increase in fair value of investments	647,793	(339,331)	(1,458,065)	186,515	103,036	1,168,857
Fines and forfeits	1,055,966	1,030,389	1,294,193	1,646,472	1,675,926	2,699,445
Contribution from property owners					30,473,773	
Miscellaneous	1,111,982	2,220,976	2,479,871	2,991,745	2,821,161	2,814,421
<b>Total Revenues</b>	<b>141,445,736</b>	<b>148,231,979</b>	<b>153,836,320</b>	<b>170,052,391</b>	<b>194,420,231</b>	<b>171,615,967</b>
Expenditures						
Current:						
General government	10,168,110	11,352,860	11,878,443	11,819,603	14,111,535	15,517,544
Community development	7,950,839	13,123,011	10,113,628	12,832,640	12,296,072	11,789,640
Highways and streets	7,994,279	8,559,729	11,568,810	12,152,087	14,357,041	12,553,681
Public works	4,622,232	5,420,867	4,876,115	5,053,030	5,647,023	11,307,307
Parks and recreation	13,969,712	14,848,478	11,374,052	12,021,937	11,662,263	13,348,613
Public safety	52,812,553	56,576,055	62,747,623	70,882,176	74,527,875	80,988,650
Capital outlay	23,082,610	19,031,609	33,092,718	24,412,735	21,563,774	30,194,778
Debt service:						
Principal retirement	1,422,501	3,111,203	1,563,472	1,666,764	1,901,827	2,008,538
Interest	4,621,270	4,580,409	4,502,666	4,425,980	4,576,780	4,413,300
Advance refunding escrow						822,228
Other	29,611	57,038	18,355	553,645	618,742	1,333,129
<b>Total Expenditures</b>	<b>126,673,717</b>	<b>136,661,259</b>	<b>151,735,882</b>	<b>155,820,597</b>	<b>161,262,932</b>	<b>184,277,408</b>
Excess of revenues over (under) expenditures	14,772,019	11,570,720	2,100,438	14,231,794	33,157,299	(12,661,441)
Other Financing Sources (Uses)						
Transfers in	18,838,748	14,601,556	19,332,436	17,962,442	17,724,718	23,985,863
Transfers out	(21,098,333)	(15,441,935)	(20,819,979)	(19,644,937)	(20,267,476)	(26,399,280)
Proceeds of capital lease	2,020,418					
Proceeds of loan payable	191,835	192,759	212,241			44,138
Proceeds of notes payable			4,500,000			
Proceeds of lease revenue bonds						62,275,000
Sale of Assets				928,595	6,000	767,904
Payments to refunded debt escrow agent						(58,911,124)
<b>Total other financing sources (uses)</b>	<b>(47,332)</b>	<b>(647,620)</b>	<b>3,224,698</b>	<b>(753,900)</b>	<b>(2,536,758)</b>	<b>1,762,501</b>
Net Change in fund balances	14,724,687	10,923,100	5,325,136	13,477,894	30,620,541	(10,898,940)
FUND BALANCES, July 1	75,130,170	89,315,446	100,238,546	105,563,682	119,041,576	149,662,117
<b>FUND BALANCES, June 30</b>	<b>\$89,854,857</b>	<b>\$100,238,546</b>	<b>\$105,563,682</b>	<b>\$119,041,576</b>	<b>\$149,662,117</b>	<b>\$138,763,177</b>
Debt service as a percentage of noncapital expenditures	0.06198	0.07000	0.05389	0.04884	0.04886	0.04979

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

**CITY OF MODESTO**  
**REVENUE CAPACITY - MOST SIGNIFICANT LOCAL REVENUE SOURCE**  
**WATER UTILITY CHARGES**  
**(Fiscal Year ended June 30, 2007)**

Ten Largest Customers of Water Utility System, Year Ended 6/30/07

<u>Customer</u>	<u>Business Type</u>	<u>Usage (ccf) (1)</u>	<u>% of Total Usage</u>	<u>Water Sales Revenue (\$)</u>	<u>% of Total Water Sales Revenue</u>
1) Signature Fruit	Cannery	541,261	1.45%	\$648,435	1.36%
2) Modesto City Schools	Education	458,038	1.19	635,965	1.33
3) Grover Landscaping (Parks)	Landscape Maintenance	392,111	1.20	580,507	1.22
4) Stanislaus Foods	Cannery	377,600	0.82	460,575	0.97
5) Foster Farms	Dairy Processor	338,786	0.56	398,235	0.83
6) Stanislaus County	Government	200,874	0.46	284,742	0.60
7) Modesto Irrigation District	Power Company	206,179	0.43	263,276	0.55
8) Stanislaus Housing Authority	Housing Authority	176,057	0.41	261,904	0.55
9) City of Modesto	Government	159,911	0.37	239,405	0.50
10) Sylvan Union School District	Education	141,445	0.32	191,940	0.40
Total Top Ten		2,992,262	7.30%	\$3,964,984	8.31%

Total Flat/Metered Revenues (Water Sales)

\$47,723,020

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

Water Sales Revenue, Year Ended 6/30/07

Residential - flat rates	\$30,716,386
Commercial, industrial and municipal - metered rates	<u>17,006,634</u>
Total Water Sales	<u>\$47,723,020</u>

Current Water Rates and Charges as of 6/30/07

The average monthly flat rate service charge for residential customers is: \$38.38

Commercial Accounts:

<u>Meter Size</u>	
3/4"	\$12.44
1"	17.64
1 1/2"	30.53
2"	46.06
3"	87.53
4"	134.13
6"	263.51
8"	418.82
10"	600.07
12"	1,117.74

In addition to these minimum charges, commercial accounts are charged \$1.16 per 100 cubic feet of water used.

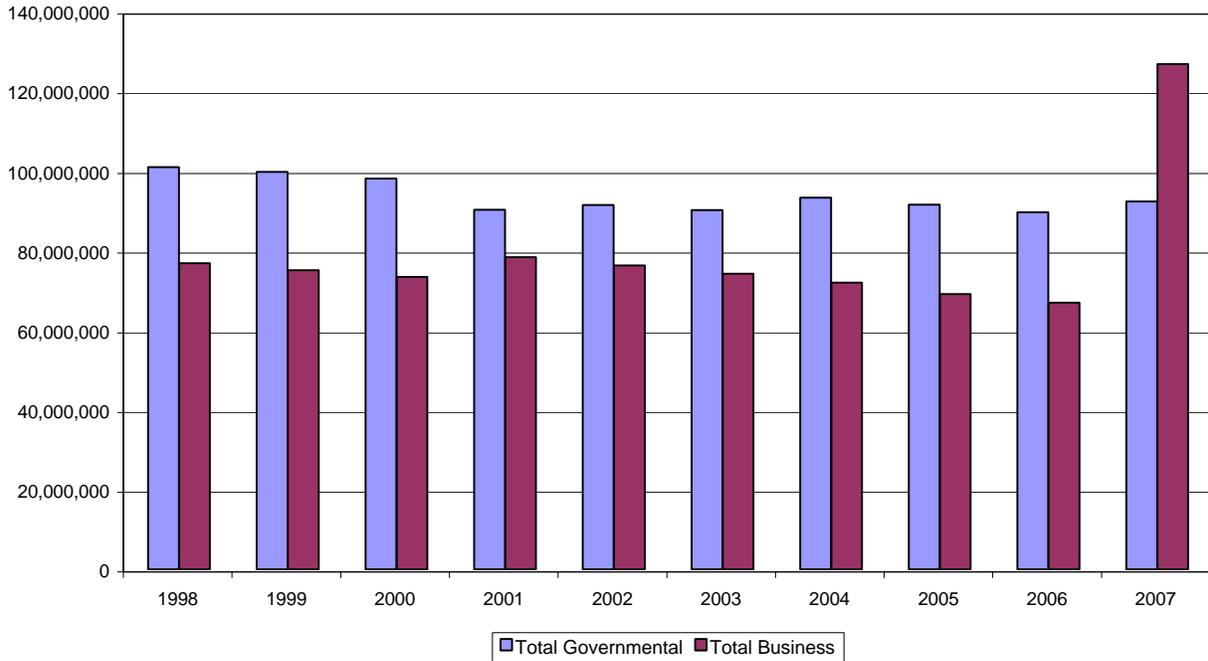
Water rates for both metered and flat rate services were increased on July 1, 2006.

Source:

City of Modesto-Customer Services

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

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



**Governmental Activities**

Fiscal Year	Loans Payable	Certificates of Participation	Lease Revenue Bonds	Notes Payable	Obligations Under Capital Leases	Total
1998	\$639,725	\$34,100,000	\$64,935,000		\$1,264,963	\$100,939,688
1999		33,490,000	64,835,000		1,462,933	99,787,933
2000		32,800,000	64,730,000		514,333	98,044,333
2001		25,280,000	64,615,000		329,594	90,224,594
2002	191,835	24,625,000	64,250,000	\$262,807	2,153,350	91,482,992
2003	348,273	23,935,000	63,865,000	241,880	1,753,685	90,143,838
2004	523,363	23,215,000	63,455,000	4,719,663	1,335,182	93,248,208
2005	485,077	22,455,000	63,000,000	4,696,076	896,833	91,532,986
2006	446,634	21,655,000	62,505,000	4,535,034	444,904	89,586,572
2007	449,138	20,820,000	66,440,000	4,365,446	211,354	92,285,938

**Business-Type Activities**

Fiscal Year	Loans Payable	Certificates of Participation	Revenue Bonds	Capital Leases	Total	Total Primary Government	Percentage of Personal Income (a)	Per Capita (a)
1998	\$3,532,306	\$25,585,000	\$47,740,000	\$4,201	\$76,861,507	\$177,801,195	4.48%	973.40
1999	3,378,635	24,900,000	46,780,000		75,058,635	174,846,568	4.26%	947.16
2000	3,220,042	24,355,000	45,780,000		73,355,042	171,399,375	3.87%	910.31
2001	3,056,210	30,525,000	44,735,000		78,316,210	168,540,804	3.82%	895.13
2002	2,887,342	29,765,000	43,640,000		76,292,342	167,775,334	3.55%	844.79
2003	2,713,066	28,965,000	42,490,000		74,168,066	164,311,904	3.33%	808.22
2004	2,533,380	28,125,000	41,285,000		71,943,380	165,191,588	3.09%	801.12
2005	2,347,602	27,240,000	39,235,000	290,487	69,113,089	160,646,075	2.87%	773.70
2006	2,156,040	26,305,000	38,245,000	222,588	66,928,628	156,515,200	2.81%	752.09
2007	1,958,276	71,595,000	53,130,000	151,633	126,834,909	219,120,847	3.76%	1,047.55

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

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

**CITY OF MODESTO**  
**COMPUTATION OF DIRECT AND OVERLAPPING DEBT**  
**June 30, 2007**

<u>Jurisdiction</u>	<u>Net Debt Outstanding (1)</u>	<u>Percentage Applicable to City of Modesto (2)</u>	<u>Amount Applicable to City of Modesto</u>
Direct debt:			
City of Modesto	\$ <u>0</u>	100%	\$ <u>0</u>
Overlapping General Obligation debt - school districts:			
Ceres Unified District	23,994,806	10.0	2,399,481
Modesto Elementary School District	21,963,337	72.5	15,923,420
Modesto High School District	71,853,195	68.5	49,219,438
Sylvan School District	8,305,000	85.0	7,059,250
Salida Union Elementary District	1,490,000	27.0	402,300
Stanislaus Union School District	3,320,000	33.0	1,095,600
Yosemite Community College District	<u>88,490,000</u>	28.2	<u>24,954,180</u>
Total overlapping debt	<u>219,416,338</u>		<u>101,053,669</u>
Total direct and overlapping debt	<u>\$ 219,416,338</u>		<u>\$ 101,053,669</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, 2007**

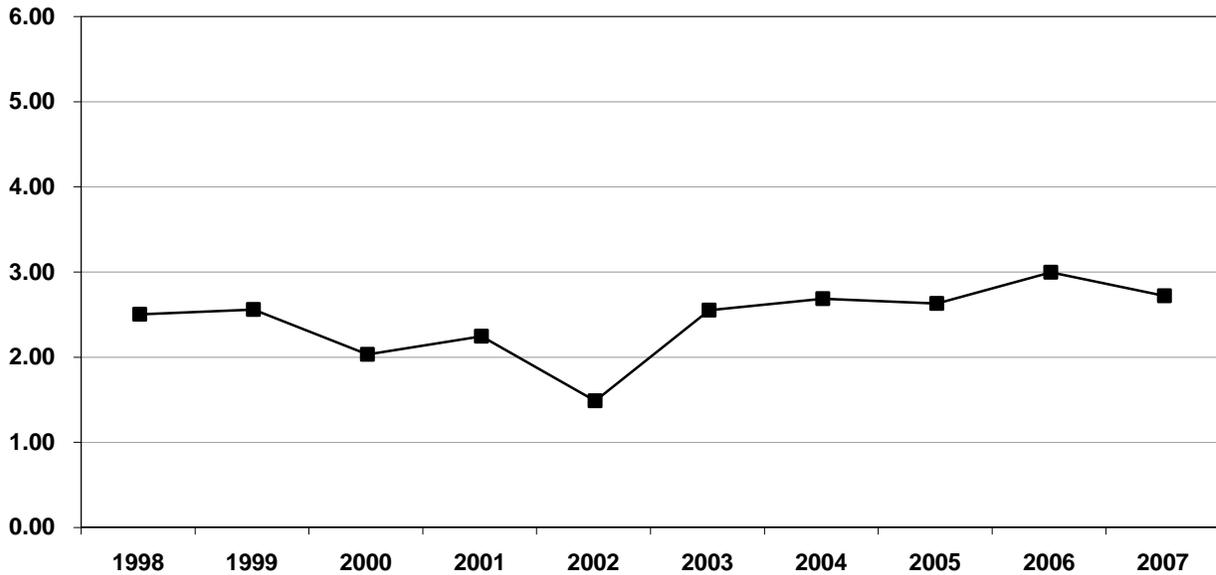
Net assessed value (1)		\$ 14,169,192,745
Plus homeowners' exemption (1)		<u>235,367,095</u>
Gross assessed value (1)		\$ 14,404,559,840
Debt limit - 15% of gross assessed value (2)		\$ 2,160,683,976
Amount of debt applicable to debt limit:		
Total general bonded debt, including special assessment debt	\$	<u>0</u>
Less: Assets in debt service funds available for payment of principal	\$	<u>0</u>
Other deductions: Special assessment debt	<u>0</u>	
Total deductions		<u>0</u>
Total amount of debt applicable to debt limit		<u>0</u>
Legal debt margin		<u><u>\$ 2,160,683,976</u></u>

Fiscal Year	Debt Limit	Total Net Debt Applicable to Limit	Legal Debt Margin	Total Net Debt Applicable to the Limit as a Percentage of Debt Limit
2006	\$ 1,911,402,504	\$ 0	\$ 1,911,402,504	0%
2007	\$ 2,160,683,976	\$ 0	\$ 2,160,683,976	0%

Notes: (1) Source of Data: Stanislaus County Auditor; Last Equalized Roll (AC2703, including aircraft)  
(2) Section 43605 California Government Code.

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

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



<u>Fiscal Year</u>	<u>Gross Revenue (1)</u>	<u>Operating Expenses (2)</u>	<u>Net Revenue Available for Debt Service</u>	<u>Debt Service Requirements(3)</u>	<u>Coverage</u>
1998	\$20,191,250	\$11,192,431	\$8,998,819	\$3,637,239	2.47
1999	20,192,478	11,204,247	8,988,231	3,551,320	2.53
2000	19,490,824	12,380,840	7,109,984	3,549,445	2.00
2001	21,102,892	13,244,750	7,858,142	3,549,180	2.21
2002	22,288,061	17,117,917	5,170,144	3,550,017	1.46
2003	24,623,786	15,664,660	8,959,126	3,551,958	2.52
2004	26,123,771	16,687,958	9,435,813	3,550,120	2.66
2005	25,701,300	16,476,917	9,224,383	3,549,633	2.60
2006	24,695,878	16,044,781	8,651,097	2,916,462	2.97
2007	26,367,977	16,399,785	9,968,192	3,705,523	2.69

- Notes: (1) Consists of all receipts of the Sewer fund, including charges for services, interest and rental income, connection fees, not dedicated to capital spending purposes.
- (2) Total Sewer Fund operating expenses exclusive of depreciation. Beginning with 2005, the portion of transfers out to other funds, if any, that would have otherwise been an operating expense of the the Sewer Fund have been included.
- (3) Includes total principal and interest of Wastewater Treatment Facility Revenue Bonds, Series 1993 and 1997, and Refunding Revenue Bonds, Series 1987 and 1996, through 2005. During the 2005 fiscal year, these issues were refunded by Wastewater Refunding Revenue Bonds, Series 2005 A and 2005 B. In November 2006, Wastewater Revenue Bonds, Series 2006A were issued.

**CITY OF MODESTO**  
**CONTINUING DISCLOSURE REQUIREMENTS INFORMATION**  
**Year Ended June 30, 2007**

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

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

Capacity charge: \$4,876 per Equivalent Dwelling Unit for residential units. Commercial and industrial property charged based on type of business.  
 Sub-trunk sewer charge: \$645 per acre  
 Connection (lateral) charge: \$33 per linear foot of lot frontage adjacent to the sewer line.

<u>Category</u>	<u>Customer Base by Type of Account</u>		
	<u>Number of Accounts</u>	<u>% of Total Accounts</u>	<u>% of Sewer Fee Operating Revenue</u>
Residential	56,411	95.44%	50.0%
Commercial	2,647	4.48%	15.5%
Industrial	46	0.08%	34.5%
Total	59,104	100.00%	100.00%

Ten Largest Users of Sewer Facilities, Year Ended 6/30/07

<u>User</u>	<u>Sewer Fee Revenue</u>	<u>% of Sewer Fee Operating Revenue</u>
1) Stanislaus Foods	\$ 2,006,723	8.60%
2) Del Monte Foods	1,634,188	7.01%
3) Signature Fruit	1,184,651	5.08%
4) E & J Gallo Winery	810,468	3.47%
5) Foster Farms	573,266	2.46%
6) Frito-Lay, Inc.	573,126	2.46%
7) City of Ceres	430,843	1.85%
8) Nestle Food Company	156,613	0.67%
9) Stanislaus County	86,375	0.37%
10) Doctor's Hospital	79,695	0.34%
Total (Top Ten Customers)	\$ 7,535,948	32.31%
Total (All Customers)	\$ 23,323,409	

The average single-family residence monthly sewer charge is \$14.26.

<u>Commercial Group</u>	<u>Minimum Charge First 1,680 Cubic Feet</u>	<u>Charge Per 1,000 Gallons Additional</u>
Group 1 (no food, just toilets or working facilities)	\$21.95	\$1.73
Group 2 (commercial laundromats, service stations, hotels without food)	\$25.29	\$2.04
Group 3 (industrial laundromats, hotels with food)	\$31.00	\$2.47
Group 4 (restaurants, bakeries, auto steam, markets)	\$37.19	\$2.98

Industrial users pay a minimum charge of \$10.00, with additional charges of: \$892.23 per million gallons of flow, \$105.52 per 1,000 pounds of excess biochemical oxygen demand (BOD), and \$97.14 per 1,000 pounds of excess suspended solids (SS).

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

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

Statement of Revenues, Expenses and Changes in Fund Net Assets	Page 25	
Principal Amount of Bonds and Other Parity Debt	Page 42-43	(Note III-C)
Historical Debt Service Coverage	Page 111	
	(continued)	

**CITY OF MODESTO**  
**CONTINUING DISCLOSURE REQUIREMENTS INFORMATION (continued)**  
**Year Ended June 30, 2007**

1997 Water Utility System Refinancing Project, Refunding Revenue Certificates of Participation  
Water Revenue Certificates of Participation, Series 2006 A  
Modesto Irrigation District Financing Authority Domestic Water Project Refunding Revenue Bonds, Series 1998D<sup>(1)</sup>  
Modesto Irrigation District Financing Authority Domestic Water Project Revenue Bonds, Series 2007F<sup>(1)</sup>

Reserve Account Requirement as of 6/30/07	\$3,768,210, covered by \$1,935,855 surety bond issued by Federal Guarantee Insurance Company, and balance in Parity Reserve Account
Balance in Parity Reserve Account as of 6/30/07	\$1,886,131
Balance in Rate Stabilization Account as of 6/30/07	\$3,000,000

Ten Largest Customers of Water Utility System, Year Ended 6/30/07

<u>Customer</u>	<u>Business Type</u>	<u>Usage (ccf) (2)</u>	<u>% of Total Usage</u>	<u>Water Sales Revenue (\$)</u>	<u>% of Total Water Sales Revenue</u>
1) Signature Fruit	Cannery	541,261	1.58%	\$648,435	1.36%
2) Modesto City Schools	Education	458,038	1.34%	635,965	1.33%
3) Grover Landscaping (1)	Landscape Maintenance	392,111	1.14%	580,507	1.22%
4) Stanislaus Foods	Cannery	377,600	1.10%	460,575	0.97%
5) Foster Farms	Dairy Processor	338,786	0.99%	398,235	0.83%
6) Stanislaus County	Government	200,874	0.59%	284,742	0.60%
7) Modesto Irrigation District	Power Company	206,179	0.60%	263,276	0.55%
8) Stanislaus Housing Authority	Housing Authority	176,057	0.51%	261,904	0.55%
9) City of Modesto	Government	159,911	0.47%	239,405	0.50%
10) Sylvan Union School District	Education	141,445	0.41%	191,940	0.40%
Total Top Ten		2,992,262	8.73%	\$3,964,984	8.31%

Total Flat/Metered Revenues (Water Sales)	<u>\$47,723,020</u>
(1) Grover Landscaping maintains City parks	
(2) "ccf" means "hundred cubic feet"	

Water Sales Revenue, Year Ended 6/30/07

Residential - flat rates	\$30,716,386
Commercial, industrial and municipal - metered rates	<u>17,006,634</u>
Total Water Sales	<u>\$47,723,020</u>

The average monthly flat rate service charge for residential customers is \$38.38

Current Water Rates and Charges as of 6/30/07- Commercial Accounts

<u>Meter Size</u>	
3/4"	\$12.44
1"	17.64
1 1/2"	30.53
2"	46.06
3"	87.53
4"	134.13
6"	263.51
8"	418.82
10"	600.07
12"	1,117.74

In addition to these minimum charges, commercial accounts are charge \$1.16 per 100 cubic feet of water used.

Water rates for both metered and flat rate services were increased on July 1, 2006.

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

(1) Water Fund parity debt obligations, issued by the Modesto Irrigation District Financing Authority, on behalf of the City, and pursuant to the 1992 Treatment and Delivery Agreement between the District and the City. As of 6/30/07, the balance of the 1998 Bonds was \$73,780,000, and the balance of the 2007 Bonds was \$93,190,000. (continued)

**CITY OF MODESTO**  
**CONTINUING DISCLOSURE REQUIREMENTS INFORMATION**

1997 Water Utility System Refinancing Project, Refunding Revenue Certificates of Participation, Water Revenue Certificates of Participation, Series 2006 A

Modesto Irrigation District Financing Authority Domestic Water Project Refunding Revenue Bonds, Series 1998D  
Modesto Irrigation District Financing Authority Domestic Water Project Revenue Bonds, Series 2007F

Water Utility System - Debt Service Coverage  
Fiscal Year 2007

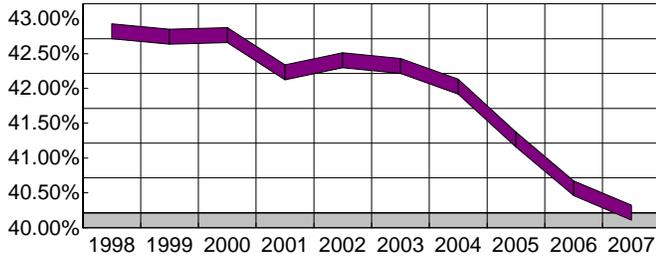
Gross Operating Revenues:	
Charges for services	\$49,289,417
Connection charges	2,023,224
Interest and rental income	2,279,905
Miscellaneous operating revenue	<u>15,616</u>
Total Gross Operating Revenues	<u>53,608,162</u>
Operating Expenses:	
Total operating expenses	32,466,468
Less: Depreciation	(2,396,440)
T&DA debt service component paid to MID	(6,687,444)
Plus: Property taxes	85,487
Operating transfers	<u>65,000</u>
Total Operating Expenses	<u>23,533,071</u>
Net Operating Revenues	<u><u>\$30,075,091</u></u>
Total Debt Service:	
1997 Refunding Revenue Certificates of Participation	\$1,794,120
2006 Revenue Certificates of Participation	1,082,432
Treatment & Delivery Agreement	6,687,444
CDWR Loan	<u>264,719</u>
Total Debt Service 2007	<u><u>\$9,828,715</u></u>
Debt Service Coverage (Net Operating Revenues/Total Debt Service)	3.06

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

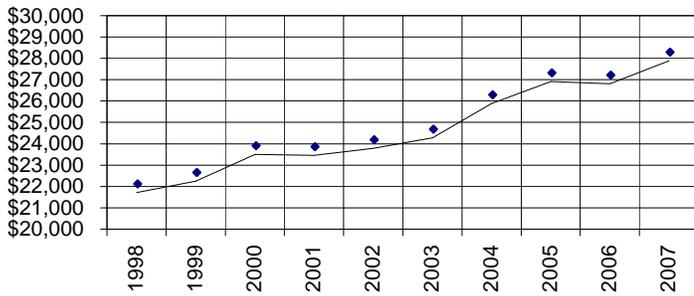
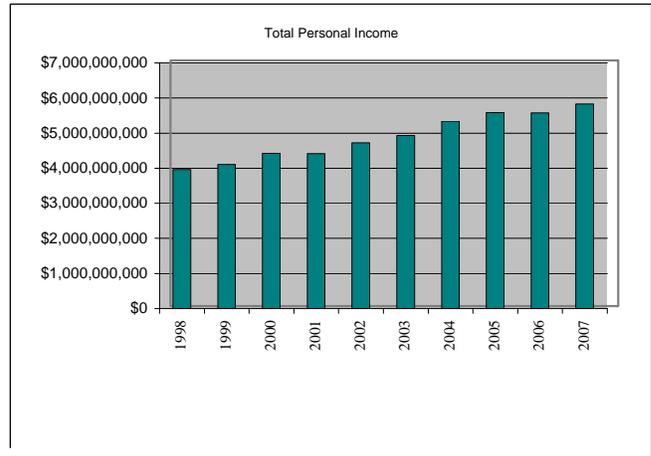
Water Utility System Statement of Net Assets	Page 24	
Water Utility System Revenues and Expenses	Page 25	
Principal Amount of Certificates Outstanding	Page 40	(Note III-C)

The most recent information regarding additional disclosures required by the 2007 Modesto Irrigation District bond issue continuing disclosure agreement is contained in the final official statement of that issue. Updated information will be available next fiscal year.

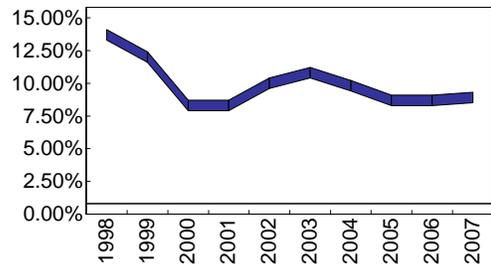
**CITY OF MODESTO  
DEMOGRAPHIC AND ECONOMIC STATISTICS  
Last ten fiscal years**



■ City Population as a % of County Population



◆ Per Capita Personal Income



■ Unemployment Rate (%)

Fiscal Year	City Population	Total Personal Income	Per Capita Personal Income	Unemployment Rate (%)	Stanislaus County Population	City Population % of County
1998	182,660	\$3,966,644,560	21,716	13.3%	427,642	42.71%
1999	184,600	\$4,106,242,400	22,244	11.6%	432,990	42.63%
2000	188,286	\$4,425,097,572	23,502	7.9%	441,364	42.66%
2001	188,286	\$4,417,566,132	23,462	7.9%	446,997	42.12%
2002	198,600	\$4,722,310,800	23,778	9.6%	469,512	42.30%
2003	203,300	\$4,935,310,800	24,276	10.4%	481,604	42.21%
2004	206,200	\$5,337,487,000	25,885	9.4%	491,900	41.92%
2005	207,634	\$5,588,469,110	26,915	8.3%	504,482	41.16%
2006	208,107	\$5,579,348,670	26,810	8.3%	514,370	40.46%
2007	209,174	\$5,833,026,164	27,886	8.5%	521,497	40.11%

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

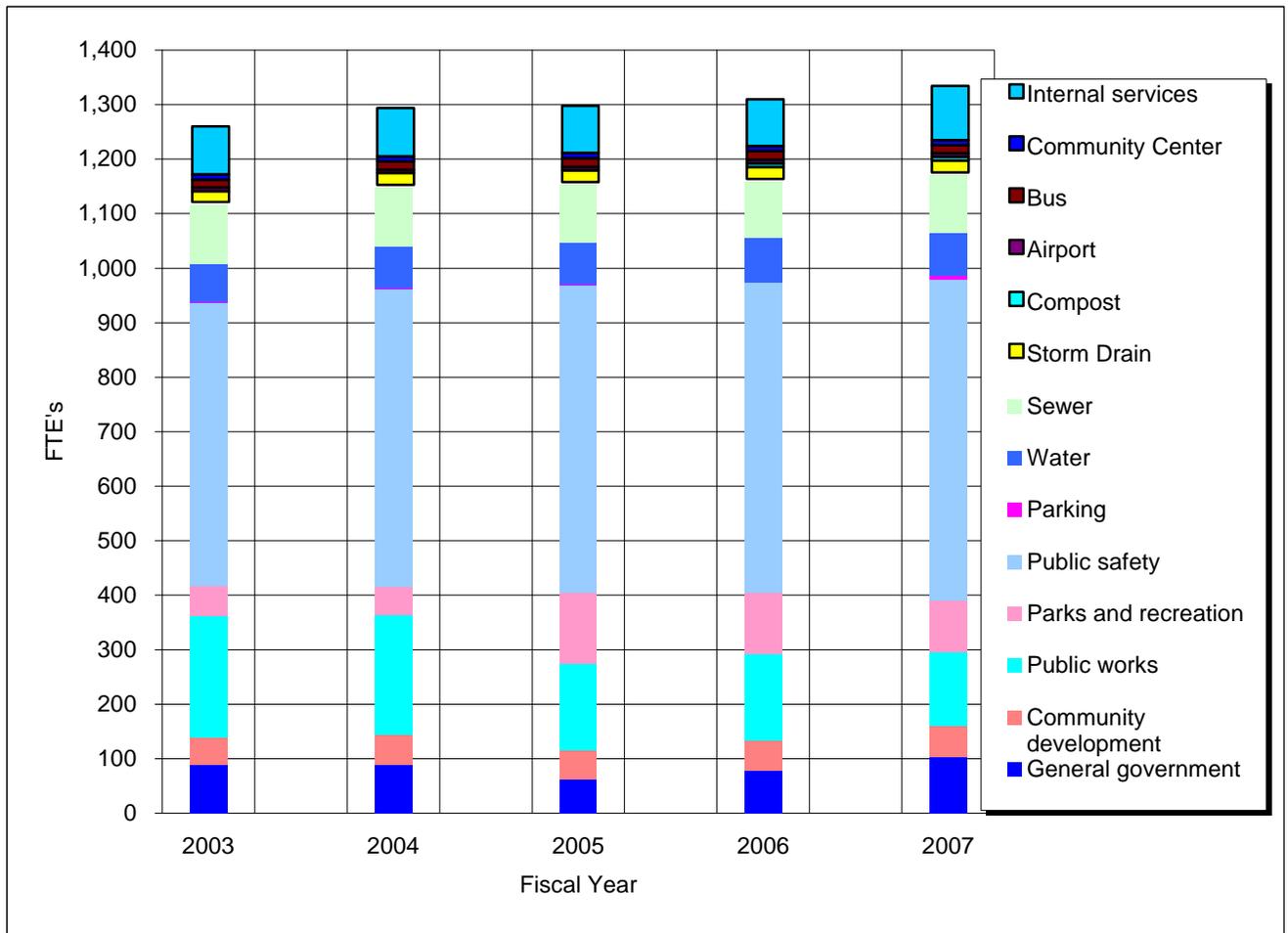
**CITY OF MODESTO  
Principal Employers**

Employer	2006 - 07		
	Number of Employees	Rank	Percentage of Total City Employment
Stanislaus County	4,764	1	4.8%
Modesto City Schools	3,345	2	3.4%
E & J Gallo Winery	3,311	3	3.3%
Memorial Medical Center	2,700	4	2.7%
Edl Monte Foods	2,600	5	2.6%
Modesto Junior College	2,550	6	2.6%
Signature Fruit Company	2,321	7	2.3%
Stanislaus Food Products	2,000	8	2.0%
Doctors Medical Center	1,967	9	2.0%
City of Modesto	1,700	10	1.7%
Subtotal	<u>27,258</u>		27.5%
Total City Employment	99,100		
Total City Population	209,174		

Source: Stanislaus Economic Development & Workforce Alliance

Note: Information about Principal Employers was not available for the fiscal year 1997-98.

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



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

Source: City of Modesto

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

	<b>2006</b>	<b>2007</b>
<b>Function/Program</b>		
Public safety:		
Fire:		
Fire calls for service	20,200	21,526
Primary fire inspections conducted	1,006	936
Police:		
Police calls for Service	129,225	92971
Law violations:		
Part I and Part II crimes	63,954	46401
Physical arrests (adult and juvenile)	13,054	15374
Traffic violations	23,104	27111
Parking violations	20,308	21,600
Public works		
Street resurfacing (miles)	9.98	10.06
Potholes repaired (square miles)	30,252	31,055
Airport:		
Number of passengers enplaned	23,969	50,782
Number of tenant aircraft	201	202
Number of hangers	109	109
Number of runways	2	2
Annual fuel consumption in gallons	998,978	1,102,439
Bus Service:		
Number of buses	43	51
Number of routes	19	19
Total route miles	305	356
Average weekday number of passengers	11,206	12,295
Total number of passengers carried	3,629,191	3,629,128
Community Development		
Permits issued in 20055-2006	5,968	5,174
Estimated cost of construction	\$298,025,900	\$228,814,464
Building Inspections made	49,852	44,542
Culture and recreation:		
Community Services:		
Recreation class participants	5,291	5,175
Solid Waste:		
Recyclables Processed (tons per year)	61,080	74,645

Source: City of Modesto - Various Departments

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

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

<b>Function/Program</b>	<b>2006</b>	<b>2007</b>
<b>Public safety:</b>		
Fire stations	11	11
Police stations	1	1
Police patrol units	98	102
<b>Public works</b>		
Traffic & Streets		
Miles of streets (1)	672	674
Street lights	13,358	13,595
Traffic Signals	140	140
Water:		
Miles of water mains	N/A	990
Fire hydrants	7,060	7,200
Storage capacity (thousands of gallons)	N/A	9,400,000
Wastewater:		
Miles of sanitary sewers	480.8	641
Miles of storm sewers	130.2	132.9
Number of treatment plants (2)	2	2
Treatment capacity (millions of gallons)	70	70
<b>Community services:</b>		
City parks	75	75
City parks acreage	1,088	1,088
Playgrounds	55	55
City trails	4	4
City trails miles	11	11
Regional park acreage	324	324
Regional park facilities:		
Golf courses (18 holes)	2	2
Golf courses (9 holes)	1	1
Clubhouse and banquet facility	8	8
Historic house	4	4
Community gardens	2	2
Community centers	6	6
Senior centers	1	1
Sports centers	1	1
Performing arts centers	1	1
Swimming pools	16	16
Tennis courts	37	37
Baseball/softball diamonds	24	24
Soccer/football fields	22	22

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

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

Source: City of Modesto - Various Departments

Note: N/A denotes information is not available.

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