

CITY OF
Modesto, California

COMPREHENSIVE ANNUAL FINANCIAL REPORT
Fiscal Year Ended June 30, 2002

Prepared by
Finance Department

CITY OF MODESTO
 June 30, 2002
TABLE OF CONTENTS

INTRODUCTORY SECTION

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

FINANCIAL SECTION

Independent Auditor's Report..... 3 - 4
 Management's Discussion and Analysis (Required Supplementary Information)..... 5 - 14
 Basic Financial Statements:
 Government-wide Financial Statements:
 Statement of Net Assets..... 17
 Statement of Activities..... 18 - 19
 Fund Financial Statements:
 Balance Sheet – Governmental Funds 20
 Reconciliation of the Balance Sheet of Governmental Funds to the
 Statement of Net Assets – Governmental Activities..... 21
 Statement of Revenues, Expenditures, and Changes in Fund
 Balances – Governmental Funds 22
 Reconciliation of the Statement of Revenues, Expenditures, and
 Changes in Fund Balances of Governmental Funds to the
 Statement of Activities – Governmental Activities 23
 Statement of Net Assets – Proprietary Funds 24
 Statement of Revenues, Expenses, and Changes in Fund Net
 Assets – Proprietary Funds 25
 Statement of Cash Flows – Proprietary Funds..... 26 - 27
 Statement of Fiduciary Net Assets – Fiduciary Funds 28
 Statement of Changes in Fiduciary Net Assets – Fiduciary Funds 29
 Notes to Basic Financial Statements 31 - 54
 Required Supplementary Information:
 Schedule of Revenues – Budget (GAAP Basis) and Actual – General Fund 56
 Schedule of Expenditures by Function – Budget (GAAP Basis) and
 Actual – General Fund 57
 Schedule of Revenues, Expenditures, and Changes in Fund
 Balance – Budget (GAAP Basis) and Actual – Special Gas Tax
 Street Improvement Special Revenue Fund 58
 Notes to Required Supplementary Information 59
 Combining and Individual Fund Statements and Schedules:
 Nonmajor Governmental Funds:
 Combining Balance Sheet..... 64 - 66
 Combining Statement of Revenues, Expenditures, and Changes in
 Fund Balances 68 - 70

Schedules of Revenues, Expenditures, and Changes in Fund	
Balance – Budget (GAAP Basis) and Actual:	
Operating Grants Special Revenue Fund.....	71
Local Transportation Special Revenue Fund.....	72
Traffic Safety Special Revenue Fund	73
Downtown Improvement District Special Revenue Fund.....	74
Housing and Community Development Special Revenue Fund.....	75
Strategic Planning and Development Special Revenue Fund	76
Nonmajor Enterprise Funds:	
Combining Statement of Net Assets	78 - 79
Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets.....	80 - 81
Combining Statement of Cash Flows.....	82 - 85
Internal Service Funds:	
Combining Statement of Net Assets	88 - 89
Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets.....	90 - 91
Combining Statement of Cash Flows.....	92 - 95
Capital Assets Used in the Operation of Governmental Funds:	
Schedule by Function and Activity	98
Schedule of Changes by Function	99
Schedule by Source	99

STATISTICAL SECTION

Government-wide information:	
Government-wide Revenues	103
Government-wide Expenses by Function	104
Fund information:	
General Governmental Expenditures by Function – Last Ten Fiscal Years	105
General Revenues by Source – Last Ten Fiscal Years	106
Property Tax Levies and Collections – Last Ten Fiscal Years	107
Assessed and Estimated Actual Value of Taxable Property – Last Ten Fiscal Years	108
Property Tax Rates – All Overlapping Governments – Last Ten Fiscal Years	109
Special Assessment Billings and Collections – Last Ten Fiscal Years.....	110
Computation of Legal Debt Margin	111
Computation of Direct and Overlapping Debt	112
Continuing Disclosure Requirements Information	113 - 116
Revenue Bond Coverage – Wastewater Treatment Facility Revenue Bonds – Last Ten Fiscal Years.....	117
Property Value, Construction and Bank Deposits – Last Ten Fiscal Years.....	118
Principal Payers of Property Tax	119
Schedule of Insurance Policies in Force.....	120
Salaries and Surety Bonds of Principal Officials.....	121
Demographic and Miscellaneous Statistical Data.....	122 - 124

INTRODUCTORY SECTION



(209) 577-5369 FAX (209) 571-5880
www.ci.modesto.ca.us

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

January 25, 2003

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

The Comprehensive Annual Financial Report (CAFR) of the City of Modesto for the fiscal year ended June 30, 2002, prepared by the Finance Department, is hereby submitted. Responsibility for the accuracy of the data, and the completeness and fairness of the presentation including all disclosures, rests with City management. We believe the data are accurate in all material respects and 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. These controls are designed to provide reasonable, but not absolute, assurance that assets are adequately safeguarded from waste, fraud and inefficient use. The system produces financial records which allow for the preparation of financial statements in conformity with generally accepted accounting principles. The concept of reasonable assurance recognizes that the cost of a control should not exceed its benefits. The evaluation of costs and benefits requires estimates and judgments by management.

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. The Charter also requires an annual audit of the books of account, financial records and transactions of all City departments by an independent certified public accountant selected by the City Council. The accounting firm of Macias, Gina & Company LLP was selected in 1999 to perform the City's annual financial audits for a period of three years, with a one-year extension for the current fiscal year. The independent auditor's report is presented on pages 3 – 4. 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.

New Financial Reporting Model

For the first time this year, the City's CAFR has been prepared as prescribed by Statement No. 34 of the Governmental Accounting Standards Board (GASB 34), "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments". This new accounting standard adopts a new reporting model, designed to better demonstrate fiscal as well as operational accountability. The new model improves on the traditional fund-based model by adding a long-term and government-wide perspective on the City's finances. The CAFR under the new model contains three sections:

1. The Introductory Section consists of this letter, an organization chart, and the Certificate of Achievement for Excellence in Financial Reporting presented by the Government Finance Officers Association for the City's June 30, 2001 CAFR. This section is intended to help readers get acquainted with the City, its organizational structure, and the scope of its services.

2. The Financial Section includes the basic financial statements, consisting of government-wide statements, fund statements, required disclosures in the form of notes to the financial statements, and the independent auditor's report. This section also includes management's discussion and analysis of the financial results for the fiscal year, as well as other required supplementary information. As an integral part of the basic financial statements, readers are encouraged to read the management's discussion and analysis beginning on page 5.
3. The Statistical Section presents multi-year statistics on financial trends, demographic data, and the fiscal capacity of the City. Also included in this section are continuing disclosure requirements information for bonds issued after July 3, 1995, as required by Securities and Exchange Commission Rule 15 (c) 2-12.

The Reporting Entity

The 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 three component units are blended into the City's funds because, among other reasons, 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, and the Modesto Public Financing Authority. Component units are discussed in more detail in Note I-A.

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 almost 199,000. 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 other members. The Modesto City Council is elected on a non-partisan and at-large basis, meaning all 7 members represent the entire City rather than specific geographical areas within the City's boundaries. The City Council is responsible, among other things, 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 deputy City Managers and department heads. There are currently two deputies, with general responsibilities for the Economic Development and Health, Safety & Culture components of the City's Vision. Operating departments fall under one of these deputies, with support Services like Finance, Personnel and Information Technology reporting to the City Manager.

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

The annual operating budget serves as the foundation for Modesto's financial planning and control. Budgetary control is maintained to ensure compliance with legal provisions of the annual appropriated budget as approved and modified by the City Council. As purchase orders are issued, corresponding amounts are encumbered for later payment so that appropriations may not be overspent.

Factors Affecting Financial Condition

The information in the financial statements is perhaps best understood when considered from the broader perspective of the specific environment within which the City of Modesto operates.

Local economy

About 250 major industrial plants are located in the Modesto area, including some of the largest food and beverage processing facilities in the United States. Manufacturing accounts for about one-fifth of Stanislaus County's wage and salary workers. Agribusiness remains an important element in the Modesto area economic mix, but continued growth in the service and retail sectors has led toward a more diversified economy.

The local economy continued to improve during 2001 -2002. Building permit activity had grown for six consecutive years through 2001. For 2002, permits were slightly down, but still showed very healthy activity. 1,088 residential permits were issued in 2002, compared to 1,260 in 2001. Still, that equates to roughly three houses a day.

Retail sales continued to increase during the year. Department store and "big-box" retail are still the biggest sales tax generators, with a large home improvement retail center contributing for it's first full fiscal year. Modest growth in the industrial sector resulted primarily from expansions of existing businesses. The economic growth has contributed to an improved employment picture. The Modesto area's unemployment rate continues to fluctuate seasonally, but is holding relatively stable compared to last year.

While the rapid growth of the last several years is not expected to continue, the City has experienced relatively little impact from the energy and economic problems facing the State of California. Construction and sales of new homes continue to be strong and local retail stores are reporting that sales are in excess of last year.

State Impacts

The City of Modesto, along with all cities in California, is concerned with the uncertainties surrounding the State of California's stressed fiscal condition due to economic downturns in certain sectors of the economy. Since January of this year, estimates of the State's budget deficits for fiscal year 2003 have grown from \$12 billion to \$36 billion. The City ended the year with a General Fund unreserved/undesignated balance of \$16,936,358, or 16% of 2002 expenditures. For the City's adopted fiscal year 2002-03 budget, the City Council has approved an 8% reserve (\$9 million) to buffer any potential losses from the State and/or local economy.

Cash management. Under Section 2-3.401 of the Modesto Municipal Code, the Finance Department is responsible for depositing and investing funds in accordance with sound treasury management principles and applicable laws. The City's investment policy is reviewed and approved annually by the City Council. Direct responsibility for managing the City's investment portfolio rests with the Finance Director. Investments are made in accordance with the following criteria, in order of priority: safety, liquidity, and yield.

The City is in compliance with all statutory provisions of the California State Code, which regulates the financial affairs of cities. Investments are secured by the maximum collateral required under law, with maturities laddered at all times to ensure cash is available when needed. Investments of City funds are limited to the following:

- a) U.S. Government securities
- b) Certificates of deposit (or time deposits) with commercial banks and savings and loan institutions
- c) Bankers acceptances (prime only)
- d) Negotiable certificates of deposit
- e) Commercial paper (rated A-1 Moody's and P-1 Standard and Poor's)
- f) Local Agency Investment Fund

- g) Repurchase agreements
- h) Passbook savings account demand deposits
- i) Other investments as may be authorized by the State

Cash temporarily idle during the past year was invested primarily in U.S. Treasury securities, federal agency issues, and the State of California Local Agency Investment Fund. The rates of interest earned ranged from 2.69 to 7.25 percent and the amount of interest earned was \$5,140,403. Investments held on June 30, 2002 had maturities ranging from one day to five years, with 44 percent available with a one-day notice from the Local Agency Investment Fund.

Risk Management. The City is self-insured against liability and workers' compensation claims. As protection against catastrophic loss, the City is a member of the Authority for California Cities Excess Liability (ACCEL). Members fund a pool to finance large losses. The City continues its proactive liability risk management role through careful monitoring of losses, working closely with ACCEL's third-party claims administrator, and designing and implementing programs to minimize risks and reduce losses. In addition, the City's risk management division manages workers' compensation issues by inspecting work conditions and organizing safety-training programs to reduce employee exposure to hazards. Additional information on the City's risk management activity can be found in Note III-A.

Pension Plan. The City provides pension benefits through a defined benefit pension plan, as part of the California Public Employees Retirement System (CalPERS). Active members contribute 7% or 9% of their salaries depending on classifications. The City pays some of the employee contributions by employee group agreements, and is also required to contribute the actuarially determined amounts necessary to fund the plan. State statutes establish the employee contribution rates, while the City's contribution rates are determined by CalPERS and may be amended. Further information on the pension plan can found in Note III-G.

Awards and Acknowledgments

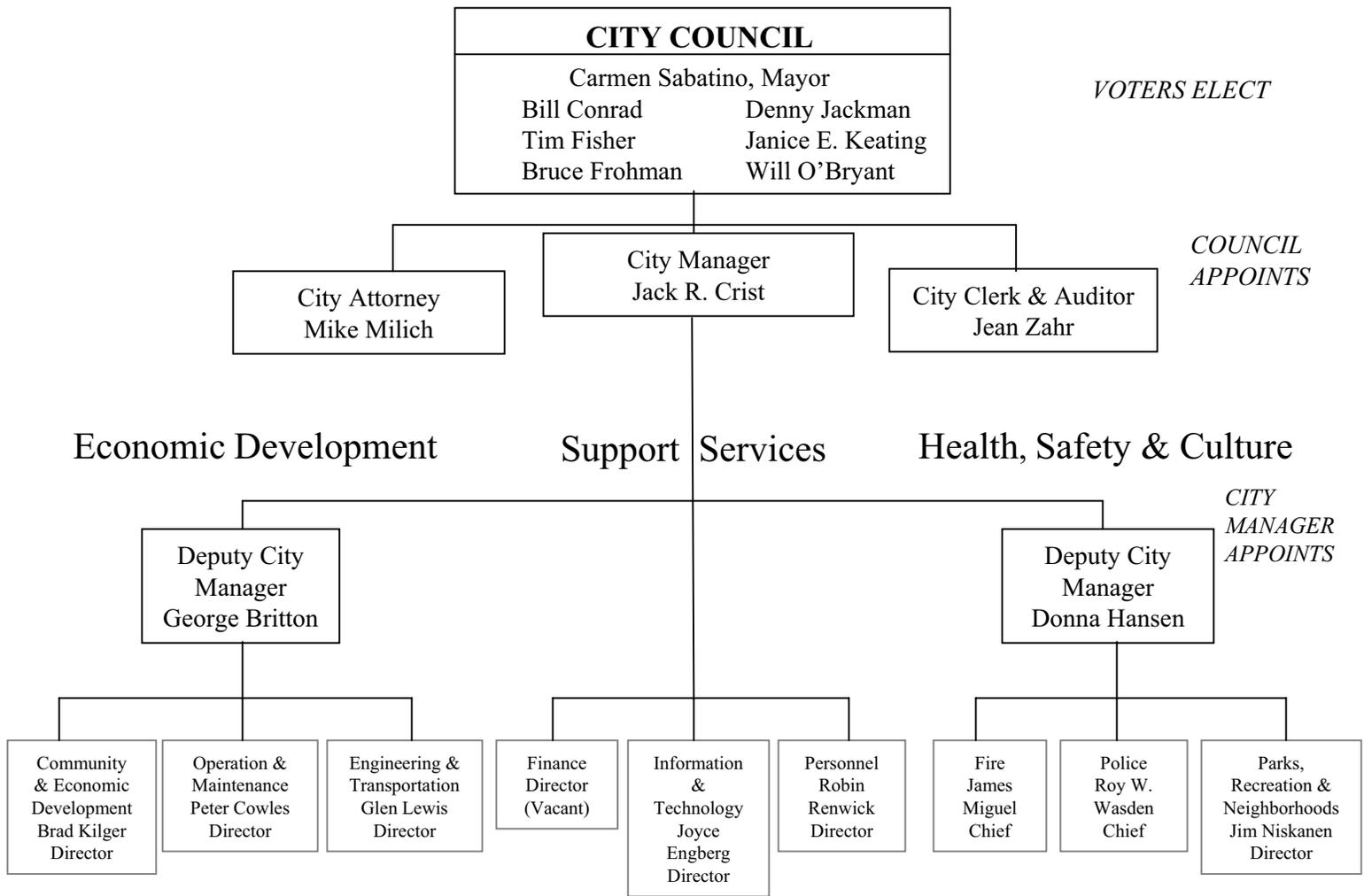
For the eighteenth consecutive year, the Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Modesto for its comprehensive annual financial report for the fiscal year ended June 30, 2001. 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 Certificate of Achievement is valid for a period of one year only. Staff believes that the current comprehensive annual financial report continues to meet the requirements of this program, and it will be submitted to the GFOA to determine its eligibility for another certificate.

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

Respectfully submitted,

Jack R. Crist
City Manager/Acting Director of Finance

CITY OF MODESTO



Advisory Boards, Commissions and Committees

Airport Advisory Committee
Board of Building Appeals
Board of Zoning Adjustments
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

Economic Development Loan Committee
Equal Opportunity/Disability Commission
Golf Course Committee
Housing Rehabilitation Loan Committee
Human Relations Commission
Landmark Preservation Commission
Local Cable Programming Committee
Planning Commission
Tuolumne River Regional Park Citizens Advisory Committee
Youth Commission

FINANCIAL SECTION

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, 2002. 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 2002 fiscal year by \$551,544,407 (*total net assets*). Of this amount, \$52,110,652 (*unrestricted net assets*) may be used to meet ongoing obligations to citizens and creditors, \$65,680,927 is restricted for specific purpose (*restricted net assets*), and \$433,752,828 is invested in capital assets, net of related debt.
- €# The City's total net assets increased by \$22,381,257. Approximately ninety-three percent of this increase is attributable to governmental activities.
- €# As of June 30, 2002, the City's governmental funds reported combined fund balances of \$89,854,857, an increase of \$14,724,687 in comparison with the prior year. Approximately 59% of the combined fund balances, \$52,652,611 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 \$24,473,974, or 27% of total General Fund expenditures. Of this, \$2 million is reserved for encumbrances and non-current assets, and \$5.6 million is designated for specific purposes, including \$3.2 million appropriated in the fiscal year 2002-03 budget. The unreserved/undesignated balance of \$16,936,358 represents 16% 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 \$6,879,553 in comparison with the prior year. The increase resulted primarily from an updated sick leave actuarial valuation for the compensated absences estimate.

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 maintains twenty-one individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures and changes in fund balances for the General Fund and the Special Gas Tax Street Improvement Special Revenue 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, 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 Service 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.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The Water and Sewer 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 pages 28 - 29 of this report.

Notes to Basic Financial Statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes can be found on pages 31 – 54 of this report.

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

Management's Discussion and Analysis *(continued)*

Required supplementary information can be found on pages 56 - 59 of this report.

The *combining and individual fund statements and schedules* referred to earlier provide information for nonmajor governmental funds, 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 64 -99 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

This year is the first period the City applied Governmental Accounting Standards Board (GASB) Statement No. 34. The City has not restated prior periods for purposes of providing the comparative data for the Management's Discussion and Analysis (MD&A) because certain prior-year information is unavailable. However, in future years, when prior-year information is available, a comparative analysis of government-wide data will be presented.

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 \$551,544,407 at the close of the most recent fiscal year.

Statement of Net Assets June 30, 2002

	Governmental Activities	Business-type Activities	Total
Current and other assets	\$494,577,863	\$59,774,360	\$224,352,223
Capital assets	317,132,687	253,585,279	570,717,966
Total assets	481,710,550	313,359,639	795,070,189
Current and other liabilities	15,328,656	10,250,989	25,579,645
Long-term liabilities	141,655,291	76,290,846	217,946,137
Total liabilities	156,983,947	86,541,835	243,525,782
Net assets:			
Invested in capital assets, net of related debt	247,734,751	186,018,077	433,752,828
Restricted net assets	64,478,452	1,202,475	65,680,927
Unrestricted net assets	12,513,400	39,597,252	52,110,652
Total net assets	\$324,726,603	\$226,817,804	\$551,544,407

The largest portion of the City's net assets, \$433,752,828 (79 percent), reflects its investment in capital assets (e.g. land, buildings, improvements, furnishings and equipment, buses and fareboxes, 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 \$52,110,652 (9 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 \$65,680,927 (12 percent) represents resources that are subject to external restrictions on how they may be used.

At the end of the 2002 fiscal year, the City reported positive balances in all three categories of net assets, both for the City as a whole, as well as for its separate governmental and business-type activities.

The City's net assets increased by \$22,381,257 during the current fiscal year. Approximately ninety-three percent of this increase is attributable to governmental activities.

Management's Discussion and Analysis *(continued)*

The following table indicates the changes in net assets for governmental and business-type activities:

Statement of Activities For the Year Ended June 30, 2002			
	Governmental Activities	Business-type Activities	Total
Revenues:			
Program revenues:			
Charges for services	\$ 35,268,849	\$ 60,247,331	\$95,516,180
Operating grants and contributions	9,647,912	5,152,493	14,800,405
Capital grants and contributions	12,267,976	4,621,127	16,889,103
General revenues:			
Taxes	37,916,010	25,548	37,941,558
Grants and contributions not restricted to specific programs	39,547,348	-	39,547,348
Unrestricted investment earnings	5,384,392	2,713,370	8,097,762
Miscellaneous	1,111,982	-	1,111,982
Total revenues	141,144,469	72,759,869	213,904,338
Expenses:			
General government	12,084,695	-	12,084,695
Community development	7,961,413	-	7,961,413
Highways and streets	18,280,988	-	18,280,988
Public works	4,645,729	-	4,645,729
Parks and recreation	15,439,479	-	15,439,479
Public safety	56,563,084	-	56,563,084
Interest on long-term debt	4,736,694	-	4,736,694
Parking	-	696,319	696,319
Water	-	27,829,504	27,829,504
Sewer	-	23,339,356	23,339,356
Storm drain	-	5,571,740	5,571,740
Airport	-	1,129,923	1,129,923
Bus	-	8,629,424	8,629,424
Golf	-	2,441,341	2,441,341
Community center	-	2,173,392	2,173,392
Total expenses	119,712,082	71,810,999	191,523,081
Excess before transfers	21,432,387	948,870	22,381,257
Transfers	(671,690)	671,690	-
Change in net assets	20,760,697	1,620,560	22,381,257
Net assets – July 1, 2001	303,965,906	225,197,244	529,163,150
Net assets – June 30, 2002	\$324,726,603	\$226,817,804	\$551,544,407

Governmental activities. Governmental activities increased the City's net assets by \$20,760,697, accounting for 93 percent of the total growth in net assets of the City. As stated above, this year is the first period the City applied Governmental Accounting Standards Board (GASB) Statement No. 34. The City has not restated prior periods for purposes of providing the comparative data for the Management's Discussion and Analysis (MD&A) because certain prior-year information is unavailable. However, in future years, when prior-year information is available, a comparative analysis of government-wide data will be presented.

Business-type activities. Business-type activities increased the City's net assets by \$1,620,560.

As detailed in the schedule on page 12, the Water, Parking, Airport, and Bus enterprises posted moderate net incomes during the period. Moderate net losses were experienced by the Sewer, Storm Drain, Golf, and Community

Management's Discussion and Analysis (continued)

Center operations. Storm Drain and Golf operations continue to have trouble making ends meet, and the City is addressing those problems.

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, 2002, the City's governmental funds reported combined fund balances of \$89,854,857, an increase of \$14,724,687 in comparison with the prior year. Approximately 59% of the combined fund balances, \$52,652,611, constitutes *unreserved fund balance*, which is available to meet the City's current and future needs. The remainder of fund balance is *reserved* to indicate that it is *not* available for new spending because it has been committed: 1) to pay debt service (\$6,955,519); 2) to reflect advances to other funds and community development block grant loans receivable that are long-term in nature and thus do not represent available spendable resources (\$12,794,190); 3) to liquidate contractual commitments of the period (\$15,753,375); 4) to maintain cash-on-hand in various departments (\$6,800); and 5) to meet Redevelopment Agency low and moderate income housing set-aside requirements (\$1,692,362).

The General Fund is the chief operating fund of the City. At June 30, 2002, unreserved fund balance of the General Fund was \$22,512,913 while total fund balance reached \$24,473,974. 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 25 percent of total fund expenditures, while total fund balance represents 27 percent of that same amount.

Revenues for governmental functions totaled \$141,445,736 in fiscal year 2001-2002, which represents an increase of 17.9% from fiscal year 2000-2001.

The following table presents the amount of revenues from various sources as well as increases or decreases from the prior year.

Revenues Classified by Source
Governmental Funds

Revenues by Source	FY 2002		FY 2001		Increase/(Decrease)	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent Change
Taxes	\$37,855,427	26.8%	\$62,662,051	52.1%	\$(24,806,624)	(39.6)%
Licenses and permits	173,348	.1%	183,226	.2%	(9,878)	(5.4)%
Intergovernmental	62,726,570	44.3%	26,504,340	22.0%	36,222,230	136.7%
Charges for services	33,633,119	23.8%	21,066,378	17.5%	12,566,741	59.7%
Special assessments levied	823,091	.6%	309,649	.3%	513,442	165.8%
Interest and rent	3,418,440	2.4%	4,343,415	3.6%	(924,975)	(21.3)%
Net increase in fair value of investments	647,793	.5%	1,143,444	1.0%	(495,651)	(43.3)%
Fines and forfeits	1,055,966	.7%	1,278,945	1.1%	(222,979)	(17.4)%
Miscellaneous	1,111,982	.8%	2,497,673	2.2%	(1,385,691)	(55.5)%
Total	\$141,445,736	100.0%	\$119,989,121	100.0%	\$21,456,615	17.9%

The following provides an explanation of revenues by source that changed significantly over the prior year.

⊘ Taxes – the large decrease in taxes is attributable to a reclassification of sales taxes and local transportation revenues to intergovernmental revenues to recognize that these are not locally imposed taxes, but rather pass-

Management's Discussion and Analysis *(continued)*

through revenues from the State of California. Other factors were moderate increases in property, franchise and business taxes, and a decrease in utility users taxes due to unusually high rates in 2001 for natural gas.

- ⊘ Intergovernmental – as explained above, sales taxes and local transportation revenues are now in this classification. Increases in sales taxes and motor vehicle license fees, as well as grant revenues also contributed to the increase.
- ⊘ Charges for services – increased largely due to the reclassification of \$7 million of inter-fund labor charges now being recognized as revenues. In prior years, these charges were recognized as a credit to expenses in the department providing the services. In addition, increased growth in the City also resulted in higher building-related revenues, primarily in capital facilities fees (\$1.9 million) and community facilities districts (\$3.9 million).
- ⊘ Interest and rent – decreased due to the overall economic slump and lower interest rates.
- ⊘ Miscellaneous – 2001 included a one-time \$1.1 million settlement from the cable television franchise.

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

Expenditures By Function
Governmental Funds

Expenditures by Function	FY 2002		FY 2001		Increase/(Decrease)	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent Change
General government	\$10,168,110	8.0%	\$11,283,157	10.6%	\$ (1,115,047)	(9.9)%
Community development	7,950,839	6.3%	-	-	7,950,839	100.0%
Highways and streets	7,994,279	6.3%	10,244,794	9.6%	(2,250,515)	(22.0)%
Public works	4,622,232	3.6%	4,513,156	4.3%	109,076	2.4%
Parks and recreation	13,969,712	11.1%	11,691,094	11.0%	2,278,618	19.5%
Public safety	52,812,553	41.8%	49,888,819	46.7%	2,923,734	5.9%
Capital outlay	23,082,610	18.2%	13,172,076	12.3%	9,910,534	75.2%
Debt service – principal retirement	1,422,501	1.1%	1,136,996	1.1%	285,505	25.1%
Debt service – interest charges	4,621,270	3.6%	4,717,220	4.3%	(95,950)	(2.0)%
Debt service – other	29,611	.0%	32,704	.1%	(3,093)	(9.5)%
Total	\$126,673,717	100.0%	\$106,680,016	100.0%	\$19,993,701	18.7%

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

- ⊘ Overall - Many of the individual function variances are the result of reclassification among functions for the current year. Community development is a new function for 2002. Operations included in community development include: from general government – community and economic development, planning, Redevelopment Agency, and Community Facilities Districts; and, from public works – housing and community development. Also moved from general government were: engineering services to public works, and the City's contribution to the Convention and Visitors Bureau to parks and recreation. Major reclassifications were also made for capital outlays in the General and special revenue funds to the capital outlay function. Previously, only capital project funds expenditures were classified as capital outlay. Finally, expenditures increased overall due to the new policy of reporting inter-fund charges as revenue rather than an offset to expenditures. Therefore, expenditures show significantly higher than the prior year.
- ⊘ Operations – the overall costs of operation, including salary increases and utility rates, increased in the general government, community development, highways and streets, public works, parks and recreation and public safety functions. Salary increases were generally 3.25% in the General Fund and 4.5% for public safety.
- ⊘ Capital outlay – as noted above, all capital expenditures previously reported in the other functions are now reported under this function (\$4.6 million). In addition, major capital outlays for the current year included

Management's Discussion and Analysis *(continued)*

increased amounts expended for the remodel of the old police headquarters (\$800,000), land acquisition for Mary Grogan Park (\$2 million), Peggy Mensinger Trail and other parks projects (\$.9 million), and the Kansas/Needham Overpass and other grant funded streets projects (\$1.2 million more than last year).

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

Other Financing Sources (Uses) Governmental Funds

	FY 2002	FY 2001	Increase/(Decrease)	
			Amount	Percent
Transfers in	\$ 18,838,748	\$ 11,658,279	\$ 7,180,469	61.6%
Transfers out	(21,098,333)	(12,443,370)	(8,654,963)	69.6%
Proceeds of capital lease transaction	2,020,418	-	2,020,418	100.0%
Proceeds of loan payable	191,835	-	191,835	100.0%
Net financing sources (uses)	<u>\$ (47,332)</u>	<u>\$ (785,091)</u>	<u>\$ 737,759</u>	<u>(94.0)%</u>

€# Transfers in – Increases included (\$ in millions): \$2.8 to Special Gas Tax Street Improvement Fund for pavement maintenance; \$.9 to Strategic Planning Fund for general plan update, business park development and related capital projects; \$1.6 to Special Fund for Capital Outlay for specific capital projects, including the police headquarters building; \$.9 to the Redevelopment Agency Debt Service Fund for planned debt service shortage on the Tenth Street Place project; and \$.6 to the Public Financing Authority Debt Service Fund for increased debt service due to the depletion of capitalized interest (amounts borrowed to pay interest during the construction phase of Tenth Street Place and police building).

€# Transfers out - Sources for the above transfers in included (\$ in millions): \$5.3 from the General Fund; \$2 million from Local Transportation Fund; and \$.4 from Housing and Community Development Fund for various capital projects. The net change in transfers in and out in governmental funds was \$1.4 million as follows: \$.5 million was transferred from the General Fund to the Water and Sewer Funds to reimburse the utilities for road repairs; and an increase of \$.9 million from the General Fund to the Fleet Internal Service Fund for new rolling stock.

€# Proceeds of capital lease transaction – the acquisition of land for the new Mary Grogan Park will be paid over a five year period. The entire amount is reported as a capital expenditure and offset by other financing source in the current year. Future payments will be recorded as debt service principal and interest expenditures.

€# Proceeds of loan payable – the City took advantage of low interest (3%) financing available from the California Energy Commission to finance the replacement of incandescent bulbs in traffic signals with energy efficient light emitting diodes (LED). The entire amount is reported as a capital expenditure and offset by other financing source in the current year. Future payments will be recorded as debt service principal and interest expenditures.

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 Fund	Special Gas Tax Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	
Revenues	\$96,503,353	\$7,585,805	\$10,653,359	\$24,519,314	\$ 2,183,905	\$ 141,445,736
Expenditures	(91,261,948)	(4,086,741)	(5,979,183)	(19,283,440)	(6,062,405)	(126,673,717)
Other financing sources (uses), net	(7,423,036)	842,269	(3,867,336)	6,691,583	3,709,188	(47,332)
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(2,181,631)	4,341,333	806,840	11,927,457	(169,312)	14,724,687
Fund balances – July 1, 2001, as restated	26,655,605	(2,738,460)	14,342,657	29,745,537	7,124,831	75,130,170
Fund balances – June 30, 2002	<u>\$24,473,974</u>	<u>\$1,602,873</u>	<u>\$15,149,497</u>	<u>\$ 41,672,994</u>	<u>\$6,955,519</u>	<u>\$ 89,854,857</u>

The fund balance of the City's General Fund decreased by \$2,181,631 during the fiscal year. The key factor in this decrease is the increase in transfers out for pavement maintenance and other capital projects.

The Special Gas Tax Street Improvement Fund's fund balance increased due to increased recognition of intergovernmental and grant revenues. Some revenues that were deferred in the previous year were received and recognized in the current year, turning the prior deficit fund balance to positive.

The increase in the fund balance of capital projects funds is due mainly to increased revenues in the Capital Facilities Fees and Community Facilities Districts Funds.

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	Parking	Storm Drain	Airport	Bus	Golf	Community Center	
Operating revenues	\$ 27,606,481	\$ 20,901,619	\$ 647,064	\$ 4,920,128	\$ 1,333,977	\$ 2,304,332	\$ 2,097,479	\$ 436,251	\$ 60,247,331
Operating expenses	(25,968,732)	(22,158,063)	(689,427)	(5,553,912)	(1,126,398)	(8,529,791)	(2,090,770)	(2,136,889)	(68,253,982)
Operating income (loss)	1,637,749	(1,256,444)	(42,363)	(633,784)	207,579	(6,225,459)	6,709	(1,700,638)	(8,006,651)
Non-operating revenues (expenses), net	(709,725)	(721,892)	47,931	15,746	133,966	5,507,235	(314,220)	375,353	4,334,394
Income (loss) before capital contributions and transfers	928,024	(1,978,336)	5,568	(618,038)	341,545	(718,224)	(307,511)	(1,325,285)	(3,672,257)
Contributions and transfers	1,093,189	820,548	34,500	64,000	611,783	1,755,692	220,000	693,105	5,292,817
Net income (loss)	<u>\$ 2,021,213</u>	<u>\$ (1,157,788)</u>	<u>\$40,068</u>	<u>\$ (554,038)</u>	<u>\$ 953,328</u>	<u>\$ 1,037,468</u>	<u>\$ (87,511)</u>	<u>\$ (632,180)</u>	<u>\$ 1,620,560</u>

The funds experienced a net loss before contributions and transfers of enterprise funds of \$3.7 million. Normal contributions (in the form of connection fees and capital grants) of \$4.6 million, and net transfers in of \$.7 million bring the total combined net income to \$1.6 million.

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, with total estimated revenues increasing by \$.8 million, or 1%, and total appropriations going up 1.5%, or \$1.4 million. These amendments, generally, were to adjust for actual beginning balances and carryovers after closing the prior fiscal year, and for new sources and uses discovered during the fiscal year.

Management's Discussion and Analysis *(continued)*

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital assets

The City's investment in capital assets for its governmental and business-type activities as of June 30, 2002, amounted to \$570,717,966 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, furnishings and equipment, equipment pool, buses and fareboxes, pipelines, infrastructure (streets, signalization, bridges), and construction in progress. The total increase in the City's investment in capital assets for the current period was 2 percent.

Capital assets, net of depreciation, for the governmental and business-type activities are presented below to illustrate changes from the prior year:

	Governmental activities		Business-type activities		Total		Increase/ (Decrease)
	2002	2001	2002	2001	2002	2001	Percent Change
Land	\$20,187,861	\$16,517,129	\$22,163,660	\$22,163,660	\$42,351,521	\$38,680,789	9.5 %
Buildings	13,604,493	11,642,920	45,731,915	47,845,110	59,336,408	59,488,030	(.3)%
Improvements	13,919,455	13,750,697	73,199,780	77,269,114	87,119,235	91,019,811	(4.3)%
Furnishings and equipment	6,703,469	8,241,078	3,156,300	3,939,630	9,859,769	12,180,708	(19.1)%
Equipment pool	13,937,493	9,894,176	-	-	13,937,493	9,894,176	40.9%
Streets	219,760,103	218,540,120	-	-	219,760,103	218,540,120	.6%
Signalization	6,748,311	5,130,503	-	-	6,748,311	5,130,503	31.5%
Bridges	3,082,200	3,019,228	-	-	3,082,200	3,019,228	2.1%
Buses and fareboxes	-	-	4,897,075	3,739,436	4,897,075	3,739,436	31.0%
Pipelines	-	-	90,750,681	89,397,027	90,750,681	89,397,027	1.5%
Construction in progress	19,189,302	18,605,321	13,685,868	10,282,952	32,875,170	28,888,273	13.8%
Total	\$317,132,687	\$305,341,172	\$253,585,279	\$254,636,929	\$570,717,966	\$559,978,101	1.9%

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

- ⌘ Land – the increase in governmental activities land relate to the acquisition for the new Mary Grogan community park (\$2 million) and property acquisitions for the Kansas/Needham Overpass.
- ⌘ Buildings – about \$2 million was expended during the year for the new and remodeled police headquarters building.
- ⌘ Furnishings and equipment – acquisition of new equipment amounted to approximately \$.8 million, while deletion of assets under the capitalization threshold account for a decrease of \$2.2 million (net of depreciation).
- ⌘ Equipment pool – increases represent regular replacements and additions to the vehicle fleet.

The City's infrastructure assets are recorded at historical cost in the government-wide financial statements as required by GASB Statement No. 34. 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 38-39 of this report.

Long-term debt

At June 30, 2002, the City had total long-term liabilities outstanding of \$217,946,137, net of unamortized discounts and deferred amounts on refunding, as compared to \$211,066,584 in the prior year. This amount was comprised of \$64,250,000 of lease revenue bonds, \$52,317,434 of certificates of participation, \$43,074,979 of revenue bonds payable, \$36,634,822 of estimated compensated absences, \$11,162,477 of claims liability, \$3,079,177 of loans payable, \$2,636,091 of developer advances, \$2,375,000 of special assessment debt with government commitment, \$2,153,350 of capital leases, and \$262,807 of notes payable. During the year, retirement of debt and other reductions amounted to \$15,829,357, and new debt and other additions totaled \$22,708,910. The largest portion of additions is attributable to compensated absences, \$14,334,169, based on an updated sick leave actuarial report. Additional information on the City's long-term debt can be found in note II.C on pages 40-44 of this report.

Management's Discussion and Analysis (continued)

Economic Factors and Next Year's Budget and Rates

€# *Consumer Price Index* - The national CPI has been relatively stable during the past six years. In 2000, the CPI in Modesto grew by 3.7%. In 2002, the CPI was about 1.8%.

€# *Taxable Sales* - Taxable sales growth has ranged from 11% to 5.7% during the last couple of years. In 2003, projected slowdown in the overall economy will be a factor contributing to a slower sales tax growth rate.

€# *Building Permit Valuations* - This is measured by the sum of all residential and non-residential permit activity and their associated construction valuation. In 2002, total building permit valuation in the City was \$341,991.327. The projected valuation for fiscal year 2003 is \$350 million.

€# *State Economics* - During 2000, California's economy grew by \$121 million and the Gross State Product growth rate was estimated at 9.9%. In 2001, the job growth rate was estimated at 1.4% and the unemployment rate was 5.3%. A portion of the City's economy is linked to the health of the State. Fluctuations in recurring revenues may not connect entirely with State economic trends; however, the City's revenue is certainly affected by the State budget.

€# Major revenue growth is estimated for FY 2003 at 4.9%. Overall revenue growth is estimated at 3.3%.

All of these factors were considered in preparing the City's budget for fiscal year 2003.

During the current fiscal year, unreserved fund balance in the General Fund decreased by \$2,119,406, to \$22,512,913. Of this amount, \$5.6 million is designated for specific purposes, including \$3.2 million appropriated in the fiscal year 2002-03 budget. The unreserved/undesignated balance of \$16,936,358 presents 16% of total General Fund outflows, versus the City Council's target of 8%. The budget adopted for fiscal year 2002-2003 maintains this target level reserve.

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 its finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of Modesto, Finance Department, P. O. Box 642, Modesto, CA 95353.

This page is intentionally left blank

BASIC FINANCIAL STATEMENTS

CITY OF MODESTO
STATEMENT OF NET ASSETS
June 30, 2002

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
<u>ASSETS</u>			
Cash and cash equivalents	\$ 108,622,782	\$ 49,310,992	\$ 157,933,774
Accounts receivables	1,575,409	314,148	1,889,557
Interest receivable	330,093	206,192	536,285
Utilities receivable, net	613,454	6,243,281	6,856,735
Taxes receivable	7,929,450	1,992	7,931,442
Special assessments receivable	626,095		626,095
Due from governments	14,174,138	3,092,904	17,267,042
Notes receivable, net	12,436,070		12,436,070
Internal balances	337,300	(337,300)	
Inventories	339,866		339,866
Unamortized costs of issuance		942,151	942,151
Investments in joint ventures	17,593,206		17,593,206
Capital assets:			
Land and construction in progress	39,377,163	35,849,528	75,226,691
Other capital assets, net of accumulated depreciation	<u>277,755,524</u>	<u>217,735,751</u>	<u>495,491,275</u>
Total assets	<u>481,710,550</u>	<u>313,359,639</u>	<u>795,070,189</u>
<u>LIABILITIES</u>			
Accounts payable	7,932,414	3,171,693	11,104,107
Accrued salaries and benefits	2,267,199	381,816	2,649,015
Approved loans payable	216,740		216,740
Interest payable	1,353,943	774,544	2,128,487
Deferred revenues	2,097,563	5,148,280	7,245,843
Refundable deposits	1,460,797	774,656	2,235,453
Long-term liabilities:			
Due within one year	12,627,812	2,239,861	14,867,673
Due in more than one year	<u>129,027,479</u>	<u>74,050,985</u>	<u>203,078,464</u>
Total liabilities	<u>156,983,947</u>	<u>86,541,835</u>	<u>243,525,782</u>
<u>NET ASSETS</u>			
Invested in capital assets, net of related debt	247,734,751	186,018,077	433,752,828
Restricted for:			
Capital projects	40,169,398	1,202,475	41,371,873
Other purposes	24,309,054		24,309,054
Unrestricted	<u>12,513,400</u>	<u>39,597,252</u>	<u>52,110,652</u>
Total net assets	<u>\$ 324,726,603</u>	<u>\$ 226,817,804</u>	<u>\$ 551,544,407</u>

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

CITY OF MODESTO
STATEMENT OF ACTIVITIES
Year ended June 30, 2002

FUNCTIONS/PROGRAMS:	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities:				
General government	\$ 12,084,695	\$ 3,601,079		
Community development	7,961,413	12,190,748	\$ 2,274,453	\$ 566,445
Highways and streets	18,280,988	1,090,500	4,308,476	11,035,662
Public works	4,645,729	8,763,382	531,577	(267,456)
Parks and recreation	15,439,479	3,876,362	(11,978)	27,687
Public safety	56,563,084	5,746,778	2,545,384	905,638
Interest on long-term debt	4,736,694			
Total governmental activities	119,712,082	35,268,849	9,647,912	12,267,976
Business-type activities:				
Parking	696,319	647,064		
Water	27,829,504	27,606,481		1,248,689
Sewer	23,339,356	20,901,619		998,048
Storm Drain	5,571,740	4,920,128		
Airport	1,129,923	1,333,977		611,783
Bus	8,629,424	2,304,332	5,152,493	1,762,607
Golf	2,441,341	2,097,479		
Community Center	2,173,392	436,251		
Total business-type activities	71,810,999	60,247,331	5,152,493	4,621,127
Total	\$ 191,523,081	\$ 95,516,180	\$ 14,800,405	\$ 16,889,103

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

Grants and contributions not restricted to specific programs:

 Sales tax

 Motor vehicle license fee

 Other

Unrestricted investment earnings

Miscellaneous

Transfers

Total general revenues and transfers

Change in net assets

Net assets, July 1, as restated

Net assets, June 30

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

Net (Expense) Revenue and
Changes in Net Assets

Governmental Activities	Business-type Activities	Total
\$ (8,483,616)		\$ (8,483,616)
7,070,233		7,070,233
(1,846,350)		(1,846,350)
4,381,774		4,381,774
(11,547,408)		(11,547,408)
(47,365,284)		(47,365,284)
(4,736,694)		(4,736,694)
<u>(62,527,345)</u>		<u>(62,527,345)</u>
	\$ (49,255)	(49,255)
	1,025,666	1,025,666
	(1,439,689)	(1,439,689)
	(651,612)	(651,612)
	815,837	815,837
	590,008	590,008
	(343,862)	(343,862)
	(1,737,141)	(1,737,141)
	<u>(1,790,048)</u>	<u>(1,790,048)</u>
<u>(62,527,345)</u>	<u>(1,790,048)</u>	<u>(64,317,393)</u>
12,516,962		12,516,962
9,132,278		9,132,278
	408	408
2,166,680		2,166,680
2,119,804		2,119,804
3,079,286		3,079,286
8,734,281		8,734,281
166,719		166,719
	25,140	25,140
27,061,426		27,061,426
10,735,611		10,735,611
1,750,311		1,750,311
5,384,392	2,713,370	8,097,762
1,111,982		1,111,982
(671,690)	671,690	
<u>83,288,042</u>	<u>3,410,608</u>	<u>86,698,650</u>
20,760,697	1,620,560	22,381,257
<u>303,965,906</u>	<u>225,197,244</u>	<u>529,163,150</u>
<u>\$ 324,726,603</u>	<u>\$ 226,817,804</u>	<u>\$ 551,544,407</u>

CITY OF MODESTO
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2002

	General	Special Gas Tax Street Improvement	Other Governmental	Total Governmental
<u>ASSETS</u>				
Cash and cash equivalents	\$ 17,355,651	\$ 3,766	\$ 44,154,646	\$ 61,514,063
Cash and cash equivalents with fiscal agent			10,263,293	10,263,293
Receivables:				
Accounts	453,374	790,280	179,610	1,423,264
Interest	62,235		174,185	236,420
Utilities, net	613,454			613,454
Taxes	7,880,490		48,960	7,929,450
Special assessments			626,095	626,095
Due from governments	597,046	10,882,407	2,694,685	14,174,138
Due from other funds	1,689,000		1,325,113	3,014,113
Notes receivable, net	92,283		12,256,646	12,348,929
Restricted assets:				
Cash and cash equivalents	1,460,797			1,460,797
Advances to other funds	662,001			662,001
Total assets	\$ 30,866,331	\$ 11,676,453	\$ 71,723,233	\$ 114,266,017
<u>LIABILITIES AND FUND BALANCES</u>				
Liabilities:				
Accounts payable	\$ 2,536,338	\$ 1,371,896	\$ 2,693,880	\$ 6,602,114
Accrued salaries and benefits	2,099,671		38,324	2,137,995
Approved loans payable			216,740	216,740
Due to other funds		1,145,000	1,785,113	2,930,113
Deferred revenues	295,551	7,556,684	2,886,465	10,738,700
Payable from restricted assets:				
Refundable deposits	1,460,797			1,460,797
Advances from other funds			324,701	324,701
Total liabilities	6,392,357	10,073,580	7,945,223	24,411,160
Fund balances:				
Reserved	1,961,061	11,179,350	24,061,835	37,202,246
Unreserved:				
Designated	5,576,555		40,350,154	45,926,709
Undesignated, reported in:				
General fund	16,936,358			16,936,358
Special revenue funds		(9,576,477)	(227,750)	(9,804,227)
Capital projects funds			(406,229)	(406,229)
Total fund balances	24,473,974	1,602,873	63,778,010	89,854,857
Total liabilities and fund balances	\$ 30,866,331	\$ 11,676,453	\$ 71,723,233	\$ 114,266,017

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, 2002

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

Total fund balances - total governmental funds	\$	89,854,857
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		
General fixed assets:		
Nondepreciable	\$	38,621,885
Depreciable		57,443,312
Accumulated depreciation on general fixed assets		(26,714,245)
Infrastructure:		
Depreciable		383,991,262
Accumulated depreciation on infrastructure		<u>(154,400,648)</u>
		298,941,566
Other long-term assets are not available to pay for current-period expenditures and, therefore, are:		
deferred in the governmental funds, or	\$	8,641,137
not included in the governmental funds for investments in joint ventures		<u>17,593,206</u>
		26,234,343
Internal service funds are used by management to charge the costs of activities to individual funds. The assets and liabilities of internal service funds are included in governmental activities in the statement of net assets.		
		4,557,584
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	\$	(93,507,804)
Accrued interest		<u>(1,353,943)</u>
		<u>(94,861,747)</u>
Net assets of governmental activities	\$	<u><u>324,726,603</u></u>

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

CITY OF MODESTO
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
Year ended June 30, 2002

	<u>General</u>	<u>Special Gas Tax Street Improvement</u>	<u>Other Governmental</u>	<u>Total Governmental</u>
REVENUES:				
Taxes	\$ 35,522,028		\$ 2,333,399	\$ 37,855,427
Licenses and permits	173,348			173,348
Intergovernmental	41,803,124	\$ 7,589,180	13,334,266	62,726,570
Charges for services	15,372,308		18,260,811	33,633,119
Special assessments levied	256,646		566,445	823,091
Interest and rent	1,429,709	(826)	1,989,557	3,418,440
Net increase (decrease) in fair value of investments	324,154	(2,549)	326,188	647,793
Fines and forfeits	546,199		509,767	1,055,966
Miscellaneous	1,075,837		36,145	1,111,982
Total revenues	<u>96,503,353</u>	<u>7,585,805</u>	<u>37,356,578</u>	<u>141,445,736</u>
EXPENDITURES:				
Current:				
General government	10,100,976		67,134	10,168,110
Community development	4,354,977		3,595,862	7,950,839
Highways and streets	6,127,102	369,552	1,497,625	7,994,279
Public works	4,411,426		210,806	4,622,232
Parks and recreation	13,543,782		425,930	13,969,712
Public safety	51,697,705		1,114,848	52,812,553
Capital outlay	1,015,003	3,717,189	18,350,418	23,082,610
Debt service:				
Principal retirement	7,501		1,415,000	1,422,501
Interest	3,476		4,617,794	4,621,270
Other			29,611	29,611
Total expenditures	<u>91,261,948</u>	<u>4,086,741</u>	<u>31,325,028</u>	<u>126,673,717</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>5,241,405</u>	<u>3,499,064</u>	<u>6,031,550</u>	<u>14,772,019</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	4,637,518	3,660,000	10,541,230	18,838,748
Transfers out	(12,252,389)	(2,817,731)	(6,028,213)	(21,098,333)
Proceeds of capital lease			2,020,418	2,020,418
Proceeds of loan payable	191,835			191,835
TOTAL OTHER FINANCING SOURCES (USES)	<u>(7,423,036)</u>	<u>842,269</u>	<u>6,533,435</u>	<u>(47,332)</u>
NET CHANGE IN FUND BALANCES	(2,181,631)	4,341,333	12,564,985	14,724,687
FUND BALANCES, July 1 (as restated)	<u>26,655,605</u>	<u>(2,738,460)</u>	<u>51,213,025</u>	<u>75,130,170</u>
FUND BALANCES, June 30	<u>\$ 24,473,974</u>	<u>\$ 1,602,873</u>	<u>\$ 63,778,010</u>	<u>\$ 89,854,857</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, 2002

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

Net change in fund balances - total governmental funds	\$	14,724,687
<p>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.</p>		
Capital outlay	\$	23,082,610
Depreciation expense	<u>(12,612,959)</u>	10,469,651
<p>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.</p>		
		(1,869,590)
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.</p>		
Deferred revenue unavailable	\$	(1,546,457)
Change in investment in joint venture	<u>18,169</u>	(1,528,288)
<p>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.</p>		
Principal retirement	\$	1,422,501
Proceeds of long-term debt	<u>(2,212,253)</u>	(789,752)
<p>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.</p>		
Accrued interest		(65,930)
<p>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.</p>		
		<u>(180,081)</u>
Change in net assets of governmental activities	\$	<u><u>20,760,697</u></u>

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

CITY OF MODESTO
STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
June 30, 2002

	Enterprise				Internal Service
	Water	Sewer	Other Enterprise	Total Enterprise	
<u>ASSETS</u>					
Current assets:					
Cash and cash equivalents	\$ 23,759,824	\$ 6,985,297	\$ 9,155,880	\$ 39,901,001	\$ 35,384,629
Cash and cash equivalents with fiscal agent	344,256	6,482,201	606,403	7,432,860	
Receivables:					
Accounts	3,342	116,417	194,389	314,148	152,145
Interest	24,472	140,527	41,193	206,192	93,673
Utilities, net	3,466,225	2,261,447	515,609	6,243,281	
Taxes	1,992			1,992	
Due from governments		127,064	2,965,840	3,092,904	
Inventories					339,866
Total current assets	<u>27,600,111</u>	<u>16,112,953</u>	<u>13,479,314</u>	<u>57,192,378</u>	<u>35,970,313</u>
Noncurrent assets:					
Notes receivable, net					87,141
Restricted assets-cash and cash equivalents	516,682	1,460,449		1,977,131	
Unamortized costs of issuance	295,969	646,182		942,151	
Land and construction in progress	2,332,378	22,619,961	10,897,189	35,849,528	755,278
Other capital assets, net of accumulated depreciation	<u>60,789,907</u>	<u>110,238,644</u>	<u>46,707,200</u>	<u>217,735,751</u>	<u>17,435,843</u>
Total assets	<u>91,535,047</u>	<u>151,078,189</u>	<u>71,083,703</u>	<u>313,696,939</u>	<u>54,248,575</u>
<u>LIABILITIES</u>					
Current liabilities:					
Accounts payable	447,542	1,226,678	1,497,473	3,171,693	1,330,300
Accrued salaries and benefits	110,893	178,038	92,885	381,816	129,204
Due to other funds					84,000
Interest payable	312,566	404,903	57,075	774,544	
Current portion - compensated absences					6,538,782
Current portion - claims liability					4,142,117
Current portion - long-term debt	804,276	1,150,000	170,000	2,124,276	40,710
Current portion - developer advances	115,585			115,585	
Deferred revenues			5,148,280	5,148,280	
Total current liabilities	<u>1,790,862</u>	<u>2,959,619</u>	<u>6,965,713</u>	<u>11,716,194</u>	<u>12,265,113</u>
Noncurrent liabilities:					
Payable from restricted assets - refundable deposits	516,682	257,974		774,656	
Advances from other funds			337,300	337,300	
Compensated absences					30,096,040
Claims liability					7,020,360
Long-term debt:					
Revenue bonds payable		41,924,979		41,924,979	
Loan payable	2,713,066			2,713,066	
Notes payable					241,880
Obligations under capital leases					67,598
Certificates of participation	20,482,434		6,410,000	26,892,434	
Developer advances	<u>2,520,506</u>			<u>2,520,506</u>	
Total liabilities	<u>28,023,550</u>	<u>45,142,572</u>	<u>13,713,013</u>	<u>86,879,135</u>	<u>49,690,991</u>
<u>NET ASSETS</u>					
Invested in capital assets, net of related debt	39,442,590	94,962,168	51,613,319	186,018,077	17,840,933
Restricted for capital projects		1,202,475		1,202,475	
Unrestricted	<u>24,068,907</u>	<u>9,770,974</u>	<u>5,757,371</u>	<u>39,597,252</u>	<u>(13,283,349)</u>
Total net assets	<u>\$ 63,511,497</u>	<u>\$ 105,935,617</u>	<u>\$ 57,370,690</u>	<u>\$ 226,817,804</u>	<u>\$ 4,557,584</u>

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

STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET ASSETS - PROPRIETARY FUNDS
Year ended June 30, 2002

	Enterprise				Internal Service
	Water	Sewer	Other Enterprise	Total Enterprise	
OPERATING REVENUES:					
Charges for services	\$ 27,606,481	\$ 20,901,619	\$ 11,739,231	\$ 60,247,331	\$ 44,145,225
Sales					3,000,193
Cost of sales					(2,863,952)
Total operating revenues	<u>27,606,481</u>	<u>20,901,619</u>	<u>11,739,231</u>	<u>60,247,331</u>	<u>44,281,466</u>
OPERATING EXPENSES:					
Salaries and wages	2,845,085	4,363,935	2,641,046	9,850,066	3,065,441
Contractual services	2,175,116	4,906,414	9,091,911	16,173,441	1,374,459
Utilities	1,474,699	1,009,424	469,420	2,953,543	665,346
Maintenance and supplies	3,318,081	3,427,830	2,715,585	9,461,496	3,327,933
Water purchases	10,269,652			10,269,652	
Insurance	130,267	180,503	130,249	441,019	7,017,090
Claims expense					5,890,806
Employee benefits	618,221	971,514	624,133	2,213,868	21,975,381
Administration services	2,020,447	1,097,009	991,283	4,108,739	966,874
Allocated indirect administrative costs	779,388	975,307	510,281	2,264,976	178,478
Other	39,925	99,802	100,283	240,010	113,254
Depreciation	2,297,851	5,126,325	2,852,996	10,277,172	2,467,199
Total operating expenses	<u>25,968,732</u>	<u>22,158,063</u>	<u>20,127,187</u>	<u>68,253,982</u>	<u>47,042,261</u>
OPERATING INCOME (LOSS)	<u>1,637,749</u>	<u>(1,256,444)</u>	<u>(8,387,956)</u>	<u>(8,006,651)</u>	<u>(2,760,795)</u>
NONOPERATING REVENUES (EXPENSES)					
Operating grants			5,152,493	5,152,493	
Loss on disposition of capital assets	(418,984)	(379,227)	(164,305)	(962,516)	(606,022)
Tax revenue			25,548	25,548	
Tax expense	(71,579)	(86,179)	(5,584)	(163,342)	
Interest income	910,264	388,294	341,445	1,640,003	974,735
Net increase in fair value of investments	221,694	71,007	84,089	376,790	252,286
Rental income	19,089	100	677,388	696,577	
Interest expense	(1,356,370)	(663,661)	(345,063)	(2,365,094)	(19,883)
Amortization of costs of issuance	(13,839)	(52,226)		(66,065)	
Total nonoperating revenues (expenses)	<u>(709,725)</u>	<u>(721,892)</u>	<u>5,766,011</u>	<u>4,334,394</u>	<u>601,116</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	928,024	(1,978,336)	(2,621,945)	(3,672,257)	(2,159,679)
Capital contributions	1,248,689	998,048	2,374,390	4,621,127	391,703
Transfers in	257,000	169,000	1,022,690	1,448,690	1,598,530
Transfers out	(412,500)	(346,500)	(18,000)	(777,000)	(10,635)
CHANGE IN NET ASSETS	2,021,213	(1,157,788)	757,135	1,620,560	(180,081)
NET ASSETS, July 1 (as restated)	<u>61,490,284</u>	<u>107,093,405</u>	<u>56,613,555</u>	<u>225,197,244</u>	<u>4,737,665</u>
NET ASSETS, June 30	<u>\$ 63,511,497</u>	<u>\$ 105,935,617</u>	<u>\$ 57,370,690</u>	<u>\$ 226,817,804</u>	<u>\$ 4,557,584</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, 2002

	Enterprise				Internal Service
	Water	Sewer	Other Enterprise	Total Enterprise	
CASH FLOWS FROM OPERATING ACTIVITIES:					
Receipts from customers and users	\$ 26,692,736	\$ 20,592,221	\$ 12,994,223	\$ 60,279,180	\$ 386,158
Receipts from interfund services provided	640,659	58,888	14,463	714,010	44,187,033
Payments to suppliers	(16,580,976)	(8,106,881)	(10,975,393)	(35,663,250)	(31,704,672)
Payments to employees	(2,766,719)	(4,340,794)	(2,632,009)	(9,739,522)	(3,050,031)
Payments for interfund services used	(4,437,577)	(4,036,020)	(2,898,157)	(11,371,754)	(1,574,152)
Net cash provided (used) by operating activities	<u>3,548,123</u>	<u>4,167,414</u>	<u>(3,496,873)</u>	<u>4,218,664</u>	<u>8,244,336</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:					
Operating grants received			5,152,493	5,152,493	
Taxes received			25,548	25,548	
Transfers in	257,000	169,000	1,022,690	1,448,690	1,598,530
Transfers out	(412,500)	(346,500)	(18,000)	(777,000)	(10,635)
New advances from other funds			250,000	250,000	
Repayments of advances from other funds			(50,000)	(50,000)	(150,000)
Net cash provided (used) by noncapital financing activities	<u>(155,500)</u>	<u>(177,500)</u>	<u>6,382,731</u>	<u>6,049,731</u>	<u>1,437,895</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Acquisition and construction of capital assets	(2,666,930)	(2,821,057)	(2,936,008)	(8,423,995)	(6,278,184)
Proceeds from sale of capital assets					14,620
Principal repayments	(894,638)	(1,095,000)	(160,000)	(2,149,638)	(197,517)
Interest paid	(1,267,554)	(2,455,019)	(346,370)	(4,068,943)	(27,127)
Capital grants received			2,231,706	2,231,706	
Connection fees for capital purposes	1,248,689	998,048		2,246,737	
Net cash used by capital and related financing activities	<u>(3,580,433)</u>	<u>(5,373,028)</u>	<u>(1,210,672)</u>	<u>(10,164,133)</u>	<u>(6,488,208)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:					
Interest received	986,316	591,026	340,311	1,917,653	1,044,974
Net increase in the fair value of investments	221,694	71,007	84,089	376,790	252,286
Net cash provided by investing activities	<u>1,208,010</u>	<u>662,033</u>	<u>424,400</u>	<u>2,294,443</u>	<u>1,297,260</u>
Net increase (decrease) in cash and cash equivalents	1,020,200	(721,081)	2,099,586	2,398,705	4,491,283
CASH AND CASH EQUIVALENTS, JULY 1	<u>23,600,562</u>	<u>15,649,028</u>	<u>7,662,697</u>	<u>46,912,287</u>	<u>30,893,346</u>
CASH AND CASH EQUIVALENTS, JUNE 30	<u>\$ 24,620,762</u>	<u>\$ 14,927,947</u>	<u>\$ 9,762,283</u>	<u>\$ 49,310,992</u>	<u>\$ 35,384,629</u>
RECONCILIATION TO STATEMENT OF NET ASSETS:					
Cash and cash equivalents	\$ 23,759,824	\$ 6,985,297	\$ 9,155,880	\$ 39,901,001	\$ 35,384,629
Cash and cash equivalents with fiscal agent	344,256	6,482,201	606,403	7,432,860	
Restricted assets-cash and cash equivalents	<u>516,682</u>	<u>1,460,449</u>		<u>1,977,131</u>	
TOTAL CASH AND CASH EQUIVALENTS	<u>\$ 24,620,762</u>	<u>\$ 14,927,947</u>	<u>\$ 9,762,283</u>	<u>\$ 49,310,992</u>	<u>\$ 35,384,629</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, 2002

	Enterprise				Internal Service
	Water	Sewer	Other Enterprise	Total Enterprise	
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:					
Operating income (loss)	\$ 1,637,749	\$ (1,256,444)	\$ (8,387,956)	\$ (8,006,651)	\$ (2,760,795)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation	2,297,851	5,126,325	2,852,996	10,277,172	2,467,201
Rental income	19,089	100	677,388	696,577	
Taxes paid	(71,579)	(86,179)	(5,584)	(163,342)	
Change in assets and liabilities:					
(Increase) in accounts receivable	(273,630)	(296,962)	(56,935)	(627,527)	(106,377)
Decrease in taxes receivable	204			204	
(Increase) in notes receivable					(5,677)
(Increase) decrease in due from governments		5,258	(74,723)	(69,465)	70,755
Decrease in inventories					107,782
Increase (decrease) in accounts payable and accrued expenses	(42,812)	634,222	774,216	1,365,626	398,883
Increase in due to other funds					84,000
Increase in compensated absences					6,986,956
Increase in claims liability					1,001,608
Increase in deferred revenues			723,725	723,725	
Increase (decrease) in refundable deposits	(18,749)	41,094		22,345	
Total adjustments	<u>1,910,374</u>	<u>5,423,858</u>	<u>4,891,083</u>	<u>12,225,315</u>	<u>11,005,131</u>
Net cash provided (used) by operating activities	<u>\$ 3,548,123</u>	<u>\$ 4,167,414</u>	<u>\$ (3,496,873)</u>	<u>\$ 4,218,664</u>	<u>\$ 8,244,336</u>
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:					
Capital asset additions accrued at year end	\$ 42,766	\$ 119,493	\$ 92,071	\$ 254,330	
Capital assets transferred in					\$ 391,703
Capitalized interest expense on revenue bonds accrued at year end		310,511		310,511	

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

CITY OF MODESTO
STATEMENT OF FIDUCIARY NET ASSETS - FIDUCIARY FUNDS
June 30, 2002

	<u>Investment Trust</u>
<u>ASSETS</u>	
Cash and cash equivalents	\$ <u>483,224</u>
<u>NET ASSETS</u>	
Held in trust for external pool participant	\$ <u><u>483,224</u></u>

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

CITY OF MODESTO
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS - FIDUCIARY FUNDS
Year ended June 30, 2002

	Investment Trust
Additions:	
Principal contributions from external pool participant	\$ 524,204
Interest earnings	22,289
Net increase in fair value of investments	5,082
Total additions	551,575
Deductions:	
Withdrawals by external pool participant	478,310
Change in net assets of external pool participant	73,265
Net assets held in trust for external pool participant July 1	409,959
Net assets held in trust for external pool participant June 30	\$ 483,224

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

This page is intentionally left blank

**CITY OF MODESTO
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2002**

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.

Although all three 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 - D 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 and fiduciary fund financial statements. 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 Special Gas Tax Street Improvement Fund accounts 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.

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.

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.

The Investment Trust Fund accounts for the transactions of the external portion of the City's cash and investment pool. The assets of this fund belong to the Tuolumne River Regional Park joint powers agency.

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

Proceeds of the Wastewater Revenue Bonds Series 1997, which are held by the City and are set aside for construction purposes, are classified as restricted assets – cash and cash equivalents on the proprietary fund statement of net assets because their use is limited by bond covenants. Refundable deposits of the General Fund are also 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 classified as restricted assets 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, 2002 is \$17,267,042.

Utility service accounts receivable are reported net of \$308,657 allowance for doubtful collections and include unbilled receivables using actual amounts billed in July for June services.

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.

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 the borrowing until completion of the project against interest earned on invested proceeds over the same period. \$1,698,696 of net interest expense on tax-exempt debt was capitalized in the enterprise funds during the fiscal year ended June 30, 2002.

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. The City contracts with an actuary to calculate the sick leave portion of the compensated absences liability. As of June 30, 2002, the total estimated liability for all compensated absences, including sick leave, is \$36,634,822. The current portion of \$6,538,782 is funded by charges to all operating funds. The estimated long-term portion is \$30,096,040.

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. Quasi-external transactions, 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, except quasi-external transactions and reimbursements, are reported as transfers.

3. Implementation of New Accounting Pronouncements

In June 1999 and June 2001, the GASB issued Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments," and Statement No. 37, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments – Omnibus," respectively. These statements provide for the most significant change in financial reporting in over twenty years and are scheduled for a phased implementation (based on size of government) starting with fiscal year ending 2002. As a part of these statements, there is a new reporting requirement regarding the local government's infrastructure (roads, bridges, traffic signals, etc.). This requirement permits an optional four-year further delay for implementation to the fiscal year ending 2006 infrastructure assets acquired before June 30, 2001.

In June 2001, the GASB issued Statement No. 38, "Certain Financial Statement Note Disclosures." This statement modifies, adds, and deletes various note disclosure requirements. Those requirements address revenue recognition policies, actions taken in response to legal violations, debt service requirements, variable-rate debt, receivable and payable balances, interfund transactions and balances, and short-term debt.

The accounting and reporting requirements of GASB 34, 37, and 38 have been implemented in these basic financial statements.

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 and proceeds of the Wastewater Revenue Bonds, Series 1997, held by the City under the bond indenture for construction purposes 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. The fiscal agents invest these monies in investments authorized by the City.

Deposits

All deposits are entirely insured and/or collateralized. At year-end, the reconciled book balance of the City's deposits was \$(543,188) and the bank balance was \$2,605,087. Of the bank balance, \$300,000 was covered by federal depository insurance and \$2,305,087 was covered by collateral held in the pledging bank's trust department in the City's name.

Investments

Statutes authorize the City to invest in obligations of U.S. Government agencies and in U.S. Government securities, certificates of deposit, bankers' acceptances, mutual funds, repurchase agreements, commercial paper rated A-1 by Standard & Poor's Corporation or P-1 by Moody's Commercial Paper Record, and Local Agency Investment Fund demand deposits. Investments are stated at fair value. The City's investment in the Local Agency Investment Fund (LAIF) is \$62,224,628. The value of the pool shares in LAIF, which may be withdrawn, is determined on an amortized cost basis, which is different than the fair value of the City's portion in the pool. The total amount invested by all public agencies in LAIF is \$47,719,552,487. Of that amount, 96.91 percent is invested in non-derivative financial products and 3.09 percent in derivative financial products. The Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members as designated by state statute.

The City's investments are categorized in the following table to give an indication of the level of custodial credit risk associated with each investment at year-end. Category one includes investments that are insured or registered, or securities held by the City or its agent in the City's name. Category two includes uninsured and unregistered investments, with securities held by the counterparty's trust department or agent in the City's name. Category three includes uninsured and unregistered investments, with securities held by the counterparty's trust department or agent but not in the City's name. The table also includes investments not subject to categorization, and deposits.

	Category			Not Required to be Categorized	Carrying Amount at Fair Value
	One	Two	Three		
Amounts invested in City pool:					
Deposits				\$ (543,188)	\$ (543,188)
U.S. Government agencies	\$78,187,444				78,187,444
LAIF				62,224,628	62,224,628
Total investments and cash controlled by City Treasurer	<u>78,187,444</u>			<u>61,681,440</u>	<u>139,868,884</u>
Amounts invested with fiscal agents:					
Money market mutual funds				10,388,491	10,388,491
Repurchase agreements		\$1,977,050			1,977,050
U.S. Government agencies	<u>4,980,098</u>				<u>4,980,098</u>
Total investments controlled by fiscal agents	<u>4,980,098</u>	<u>1,977,050</u>		<u>10,388,491</u>	<u>17,345,639</u>
Other pooled investments:					
California Asset Management Program				1,202,475	1,202,475
Total cash and investments	<u>\$83,167,542</u>	<u>\$1,977,050</u>		<u>\$73,272,406</u>	<u>158,416,998</u>
Presented in the statement of fiduciary net assets:					
Investment Trust Fund					<u>483,224</u>
Presented in the government-wide statement of net assets					<u>\$157,933,774</u>

A summary of the investments held by the City Treasurer is as follows:

Investments	Fair Value	Principal	Interest Rates	Maturity Dates
U.S. Government agencies	\$ 78,187,444	\$ 76,952,493	3.55% - 6.00%	2/04/03 - 6/20/07
LAIF	62,224,628	62,052,114	2.69%	NA
	<u>\$140,412,072</u>	<u>\$139,004,607</u>		

Statutes require that securities underlying repurchase agreements must have a fair value of at least 102 percent of the cost of the repurchase agreement. The City's investment policy allows investment in repurchase agreements provided the collateral is an allowable security under current statutes and the City's policy. The securities underlying repurchase agreements met the required fair value level and were allowable securities under current statutes and the City's investment policy.

The following are condensed statements of net assets, and changes in net assets, for the City Treasurer's investment pool as of June 30, 2002:

Statement of Net Assets

Net assets held for pool participants	<u>\$139,868,884</u>
Equity of internal pool participants	\$139,385,660
Equity of external pool participants	483,224
Total equity	<u>\$139,868,884</u>

Statement of Changes in Net Assets

Net assets, July 1, 2001	\$124,472,620
Net change in investments by pool participants	15,396,264
Net assets, June 30, 2002	<u>\$139,868,884</u>

The Finance Director/Treasurer prepares and submits a comprehensive investment report to the City Council on a quarterly basis. The City determines and adjusts to the fair value at the end of each fiscal year. The pool values participants' shares on an amortized cost basis. Specifically, the pool distributes income to participants on a monthly basis based on their relative participation during the month that is calculated based on (1) realized investment gains and losses calculated on an amortized cost basis; (2) interest income based on stated rates (both paid and accrued); (3) amortization of discounts and premiums on a straight-line basis; and (4) investment and administrative expenses. This method differs from the fair value method used to value investments in these financial statements because the amortized cost method is not designed to distribute to participants all unrealized gains and losses in the fair values of the pool's investments.

The only external participant in the City's pool is the Tuolumne River Regional Park (see III-D), which is an involuntary participant.

The City has not provided nor obtained any legally binding guarantees during the fiscal year ended June 30, 2002 to support the value of shares in the Treasurer's investment pool.

B. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2002 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 16,517,129	\$ 3,670,732		\$20,187,861
Construction in progress	18,605,321	5,388,639	\$(4,804,658)	19,189,302
Total capital assets, not being depreciated	<u>35,122,450</u>	<u>9,059,371</u>	<u>(4,804,658)</u>	<u>39,377,163</u>
Capital assets, being depreciated:				
Buildings	17,967,218	2,519,199		20,486,417
Improvements other than buildings	28,624,179	1,367,591		29,991,770
Furnishings and equipment	17,028,310	2,043,879	(5,246,768)	13,825,421
Equipment pool	20,346,583	6,224,903	(1,403,845)	25,167,641
Streets	358,441,430	10,882,142		369,323,572
Signalization	9,050,100	2,179,277		11,229,377
Bridges	3,335,757	102,556		3,438,313
Total capital assets, being depreciated	<u>454,793,577</u>	<u>25,319,547</u>	<u>(6,650,613)</u>	<u>473,462,511</u>
Less accumulated depreciation for:				
Buildings	(6,324,298)	(557,626)		(6,881,924)
Improvements other than buildings	(14,873,482)	(1,198,833)		(16,072,315)
Furnishings and equipment	(8,787,232)	(1,236,990)	2,902,270	(7,121,952)
Equipment pool	(10,452,407)	(1,823,497)	1,045,756	(11,230,148)
Streets	(139,901,310)	(9,662,159)		(149,563,469)
Signalization	(3,919,597)	(561,469)		(4,481,066)
Bridges	(316,529)	(39,584)		(356,113)
Total accumulated depreciation	<u>(184,574,855)</u>	<u>(15,080,158)</u>	<u>3,948,026</u>	<u>(195,706,987)</u>
Total capital assets, being depreciated, net	<u>270,218,722</u>	<u>10,239,389</u>	<u>(2,702,587)</u>	<u>277,755,524</u>
Governmental activities capital assets, net	<u>\$ 305,341,172</u>	<u>\$19,298,760</u>	<u>\$(7,507,245)</u>	<u>\$317,132,687</u>

	Beginning Balance	Additions	Deletions	Ending Balance
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 22,163,660			\$22,163,660
Construction in progress	10,282,952	\$ 4,416,050	\$(1,013,134)	13,685,868
Total capital assets, not being depreciated	<u>32,446,612</u>	<u>4,416,050</u>	<u>(1,013,134)</u>	<u>35,849,528</u>
Capital assets, being depreciated:				
Buildings	69,326,853			69,326,853
Improvements other than buildings	127,072,097	1,706,692		128,778,789
Furnishings and equipment	6,258,746	407,137	(1,523,048)	5,142,835
Buses and fareboxes	8,337,387	1,643,662		9,981,049
Pipelines	103,581,156	2,774,182	(3,857)	106,351,481
Total capital assets, being depreciated	<u>314,576,239</u>	<u>6,531,673</u>	<u>(1,526,905)</u>	<u>319,581,007</u>
Less accumulated depreciation for:				
Buildings	(21,481,743)	(2,113,195)		(23,594,938)
Improvements other than buildings	(49,802,983)	(5,776,026)		(55,579,009)
Furnishings and equipment	(2,319,116)	(485,257)	817,838	(1,986,535)
Buses and fareboxes	(4,597,951)	(486,023)		(5,083,974)
Pipelines	(14,184,129)	(1,416,671)		(15,600,800)
Total accumulated depreciation	<u>(92,385,922)</u>	<u>(10,277,172)</u>	<u>817,838</u>	<u>(101,845,256)</u>
Total capital assets, being depreciated, net	<u>222,190,317</u>	<u>(3,745,499)</u>	<u>(709,067)</u>	<u>217,735,751</u>
Business-type activities capital assets, net	<u>\$254,636,929</u>	<u>\$ 670,551</u>	<u>\$(1,722,201)</u>	<u>\$253,585,279</u>

Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
General government	\$ 46,995
Community development	10,574
Highways and streets, including depreciation of general infrastructure assets	10,286,709
Public works	23,497
Parks and recreation	1,469,767
Public safety	775,417
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	<u>2,467,199</u>
Total depreciation expense – governmental activities	<u>\$15,080,158</u>
Business-type activities:	
Parking	\$ 68,473
Water	2,297,851
Sewer	5,126,325
Storm Drain	522,068
Airport	420,908
Bus	784,408
Golf	323,811
Community center	<u>733,328</u>
Total depreciation expense – business-type activities	<u>\$10,277,172</u>

C. LONG-TERM DEBT

Loans Payable

Governmental activities:

Loan payable to the California Energy Commission for the purpose of reimbursing the City for costs of replacing incandescent bulbs for traffic signals with Light Emitting diodes (LED's); interest at 3%; semi-annual installments on December 22 and June 22, in the amount of \$20,776 , including interest, through June 22, 2007.

\$ 191,835

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 \$132,327, including interest, through October 1, 2015.

\$ 2,887,342

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>
2003	\$ 36,321	\$ 5,231	\$ 174,276	\$90,377
2004	37,151	4,401	179,686	84,968
2005	38,285	3,266	185,778	78,876
2006	39,443	2,110	191,563	73,091
2007	40,635	917	197,698	66,956
2008-2012			1,087,541	235,725
2013-2016			870,800	56,225
Total	<u>\$191,835</u>	<u>\$15,925</u>	<u>\$2,887,342</u>	<u>\$686,218</u>

Special Assessment Debt with Government Commitment – Governmental activities:

1915 Act Special Assessment Bonds; interest rates range from 5.75% to 9.70%, with annual maturities in amounts from \$95,000 to \$210,000 through 2007. The general credit of the City is obligated only to the extent that liens foreclosed against the properties in the special assessment districts are insufficient to retire outstanding bonds.

\$ 755,000

Community Facilities District No. 1998-1 Special Tax Bonds; variable interest rate, currently 1.2%, to a maximum of 12%; with annual maturities on September 1, in amounts from \$200,000 to \$1,215,000 through 2004 with an option to extend to 2023. The general credit of the City is obligated only to the extent that liens foreclosed against the properties in the community facilities district are insufficient to retire outstanding bonds. The bonds are also secured by an irrevocable letter of credit in favor of the trustee.

1,620,000

Total governmental activities special assessment debt

\$2,375,000

Annual debt service requirements to maturity for special assessment debt are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2003	\$ 415,000	\$218,597
2004	360,000	181,876
2005	1,385,000	44,790
2006	120,000	10,445
2007	95,000	3,183
Total	<u>\$2,375,000</u>	<u>\$458,891</u>

Certificates of Participation

Governmental activities:

1993 Refunding Certificates of Participation (Community Center Project); serial certificates with annual maturities on November 1, in amounts from \$690,000 to \$1,040,000; interest rates from 4.6% - 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.

\$ 24,625,000

Business-type activities:

Golf Enterprise Fund:

1993 Refunding Certificates of Participation (Golf Course Project); serial certificates with annual maturities on November 1, in amounts from \$170,000 to \$235,000; interest rates from 4.6% 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.

\$ 6,580,000

Water Enterprise Fund:

1997 Refunding Certificates of Participation (Water Utility System Project); serial certificates with annual maturities on October 1, in amounts from \$630,000 to \$1,050,000; interest rates from 4.5% 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.

23,185,000

Total principal balances – business-type activities

29,765,000

Less:

Unamortized bond discount – Water Enterprise Fund

(474,251)

Deferred amount on refunding – Water Enterprise Fund

(1,598,315)

Total business-type activities certificates of participation

\$ 27,692,434

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
2003	\$ 690,000	\$ 1,269,800	\$ 800,000	\$ 1,482,293
2004	720,000	1,234,190	840,000	1,444,775
2005	760,000	1,196,070	885,000	1,405,122
2006	800,000	1,155,110	935,000	1,360,896
2007	835,000	1,111,365	985,000	1,313,655
2008-2012	4,935,000	4,795,740	5,700,000	5,772,110
2013-2017	6,125,000	3,244,035	7,375,000	4,106,067
2018-2022	6,615,000	1,645,375	9,540,000	1,953,393
2023-2024	3,145,000	159,125	2,705,000	92,728
Total	<u>\$24,625,000</u>	<u>\$15,810,810</u>	<u>\$29,765,000</u>	<u>\$18,931,039</u>

Lease Revenue Bonds – Governmental activities:

1997 Lease Revenue Bonds (John Thurman Field Renovation Project); term certificates bearing interest at 6.125% maturing November 1, 2016, with mandatory annual redemption of amounts from \$130,000 to \$305,000 on November 1. \$ 3,065,000

1998 Lease Revenue Bonds (Capital Improvements and Refinancing Project); serial certificates totaling \$6,125,000 with annual maturities beginning September 1, 2001, in amounts from \$255,000 to \$910,000; interest payments beginning September 1, 1998, at 4.0% to 4.8%; term certificates totaling \$55,305,000, maturing in 2016, 2020, 2024, 2029, and 2033, bearing interest rates of 4.75% to 5.125%, with annual payments beginning in 2014. Of the total principal, \$18,490,000 is payable through a reimbursement agreement with the Redevelopment Agency. 61,185,000

Total lease revenue bonds \$ 64,250,000

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

Year Ending June 30,	Principal	Interest
2003	\$ 385,000	\$ 3,210,136
2004	410,000	3,191,419
2005	455,000	3,171,144
2006	495,000	3,148,787
2007	545,000	3,124,228
2008-2012	3,605,000	15,160,660
2013-2017	6,520,000	13,913,437
2018-2022	8,870,000	11,948,760
2023-2027	13,765,000	9,215,961
2028-2032	19,735,000	5,045,389
2033-2034	9,465,000	491,359
Total	<u>\$64,250,000</u>	<u>\$71,621,280</u>

Revenue Bonds – Business-type activities:

Sewer Enterprise Fund:

Wastewater Treatment Facility Revenue Bonds, Series 1997; interest payable on May 1 and November 1; serial certificates with annual maturities on November 1 beginning in 2000, in amounts from \$5,000 to \$1,335,000, with interest rates from 4.6% to 6.0%; term certificates in the amount of \$10,955,000 at 5.625% maturing November 1, 2017, and in the amount of \$15,435,000 at 5.75% maturing November 1, 2022, with annual payments ranging from \$1,410,000 to \$3,450,000 beginning in 2013.	\$ 32,390,000
Wastewater Treatment Facility Refunding Revenue Bonds, Series 1996; interest payable on May 1 and November 1; serial certificates with annual maturities on November 1, in amounts from \$775,000 to \$815,000, with interest rates from 4.5% to 5.3%; term certificates at 5.5% in the amount of \$1,920,000 maturing November 1, 2007 with annual payments of \$935,000 to \$985,000 beginning in 2006.	5,050,000
Wastewater Revenue Bonds, Series 1993; interest rates from 4.0% to 5.1% payable semi-annually on May 1 and November 1; principal amounts from \$365,000 to \$660,000, final payment on November 1, 2013; bonds maturing on or after November 1, 2004 are subject to call.	<u>6,200,000</u>
Total principal balances – business-type activities	43,640,000
Less:	
Unamortized bond discount	
1997 Bonds	\$(207,490)
1996 Bonds	<u>(19,231)</u>
	(226,721)
Deferred amount on refunding	
1996 Bonds	\$(338,300)
	<u>(338,300)</u>
Total business-type activities revenue bonds	<u>\$ 43,074,979</u>

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2003	\$ 1,150,000	\$ 2,401,960
2004	1,205,000	2,345,119
2005	1,265,000	2,284,633
2006	1,330,000	2,220,145
2007	1,400,000	2,150,099
2008-2012	8,280,000	9,473,779
2013-2017	10,985,000	6,775,334
2018-2022	14,575,000	3,181,437
2023	<u>3,450,000</u>	<u>99,188</u>
Total	<u>\$43,640,000</u>	<u>\$30,931,694</u>

Note Payable – Governmental activities:

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%; monthly payments of \$3,010, including interest, through February 2012.

\$ 262,807

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2003	\$ 20,927	\$ 15,199
2004	22,217	13,908
2005	23,588	12,538
2006	25,042	11,083
2007	26,587	9,539
2008-2012	<u>144,446</u>	<u>21,129</u>
Total	<u>\$262,807</u>	<u>\$83,396</u>

Long-term liability activity for the year ended June 30, 2002, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities:					
Loan payable		\$ 191,835		\$ 191,835	\$ 36,321
Special assessment debt	\$ 2,770,000		\$ 395,000	2,375,000	415,000
Certificates of participation	25,280,000		655,000	24,625,000	690,000
Lease revenue bonds	64,615,000		365,000	64,250,000	385,000
Note payable		271,163	8,356	262,807	20,927
Obligations under capital leases	329,594	2,020,418	196,662	2,153,350	399,665
Compensated absences	29,647,866	14,334,169	7,347,213	36,634,822	6,538,782
Claims liability	10,160,869	5,891,325	4,889,717	11,162,477	4,142,117
Governmental activities long-term liabilities	<u>\$132,803,329</u>	<u>\$22,708,910</u>	<u>\$13,856,948</u>	<u>\$141,655,291</u>	<u>\$12,627,812</u>
Business-type activities:					
Loan payable	\$ 3,056,210		\$ 168,868	\$ 2,887,342	\$ 174,276
Certificates of participation	30,525,000		760,000	29,765,000	800,000
Unamortized discounts	(496,426)		(22,175)	(474,251)	
Deferred amount on refunding	(1,673,051)		(74,736)	(1,598,315)	
Revenue bonds	44,735,000		1,095,000	43,640,000	1,150,000
Unamortized discounts	(240,689)		(13,968)	(226,721)	
Deferred amount on refunding	(404,651)		(66,351)	(338,300)	
Developer advances	2,761,862		125,771	2,636,091	115,585
Business-type activities long-term liabilities	<u>\$ 78,263,255</u>		<u>\$1,972,409</u>	<u>\$76,290,846</u>	<u>\$2,239,861</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 \$87,381 of internal service funds obligations under 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.

D. OBLIGATIONS UNDER CAPITAL LEASES

The City has acquired ballfield parking lot lighting and land for a park under capital lease agreements. The related liability is included in obligations under capital leases under governmental activities. The following is a schedule of the future minimum lease payments on the capital lease as of June 30, 2002:

<u>Year Ending June 30,</u>	
2003	\$ 468,977
2004	468,977
2005	468,977
2006	468,977
2007	<u>463,803</u>
Total minimum lease payments	2,339,711
Less: amount representing interest	<u>(273,742)</u>
Present value of minimum lease payments	<u>\$2,065,969</u>

Assets subject to the above capital leases valued at \$2,078,430, net of \$19,319 accumulated depreciation, have been presented under governmental activities. Rental expenses incurred under operating leases are not material.

Leases - Internal Service Funds

A leased printer valued at \$181,620, net of accumulated depreciation of \$49,822, is recorded in the Technology and Information Services Internal Service Fund. The following is a schedule of the future minimum lease payments on the Internal Service Fund capital lease as of June 30, 2002:

<u>Year Ending June 30,</u>	
2003	\$ 28,005
2004	28,005
2005	28,006
2006	<u>21,003</u>
Total minimum lease payments	105,019
Less: amount representing interest	<u>(17,638)</u>
Present value of minimum lease payments	<u>\$ 87,381</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, 2002, the total outstanding balance due under the agreements is \$2,636,091. The total annual payments fluctuate depending on the ending date of each agreement. At June 30, 2002, the amount of \$115,585, due during fiscal year 2003, has been reported as "current portion-developer advances" on the Proprietary Funds statement of net assets. The remaining \$2,520,506 of outstanding principal has been reported under noncurrent liabilities, as "developer advances."

F. INTERFUND BALANCES

Interfund balances as of June 30, 2002 consist of the following:

<u>Due to General Fund from:</u>	
Special Gas Tax Street Improvement Fund	\$1,145,000
Other governmental funds	460,000
Internal service funds	84,000
Total due to General Fund	<u>1,689,000</u>
Due to other governmental funds from other governmental funds	<u>1,325,113</u>
Total due to/due from	<u><u>3,014,113</u></u>
 <u>Advances from General Fund to:</u>	
Other governmental funds	\$324,701
Other enterprise funds	337,300
Total advances from/advances to	<u><u>\$662,001</u></u>

All balances reported as “due to/due from” are short-term loans to cover temporary fund cash shortages as of June 30, 2002, and will be repaid early in fiscal year 2003. 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. \$552,441 of advances are not currently scheduled for repayment during 2003.

G. RESERVES AND DESIGNATIONS OF FUND BALANCES

The City’s reserves and designations at June 30, 2002 are comprised of the following:

	<u>General</u>	<u>Special Gas Tax Street Improvement</u>	<u>Other Governmental</u>
<u>Reserved for:</u>			
Encumbrances	\$1,199,977	\$11,179,350	\$ 3,374,048
Petty cash	6,800		
Loan programs	92,283		12,039,906
Interfund advances	662,001		
Set-aside requirement			1,692,362
Debt service			6,955,519
 Total reserved	 <u>\$1,961,061</u>	 <u>\$11,179,350</u>	 <u>\$24,061,835</u>
 <u>Designated for:</u>			
Pending projects	\$ 730,000		\$40,350,154
Subsequent year expenditures	3,200,000		
Departmental savings	1,646,555		
 Total designated	 <u><u>\$5,576,555</u></u>		 <u><u>\$40,350,154</u></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 petty cash - An amount equal to the City's petty cash account is reserved in the General Fund because it is available only for petty cash purposes.

3. 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, General Fund and the Redevelopment Agency Capital Projects Fund.
4. Reserve for interfund advances - The City reserves an amount in each fund equal to the advances to other funds.
5. 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.
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.
8. Designation for subsequent year expenditures - Designations for subsequent year expenditures represent that portion of fund balance set aside for fiscal year 2002/03.
9. Designation for departmental savings - The City designates 50% of net General Fund appropriation savings to be carried over for use by the saving departments in the subsequent fiscal year

H. DEFICIT FUND EQUITY

The State Parks and Recreation Special Revenue Fund has a deficit fund balance of \$7,874 as of June 30, 2002. This deficit is a result of budgeted grant revenues not received during the period. Reimbursements are anticipated during the next fiscal year.

The Capital Grants Capital Projects Fund has a deficit fund balance of \$301,301 due to interfund transfers not made during the year, but carried over to 2003.

The Golf Enterprise Fund has a net assets deficit of \$1,127,715, due to a change in accounting policy in the previous fiscal year. 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 Insurance Internal Service fund has a net assets deficit of \$1,963,151. Despite increased charges to departments, insurance and claims expenses continued to outpace revenues. This situation will be addressed during the next budget formation.

The Employee Benefits Management Internal Service Fund has a net assets deficit of \$21,037,331. It exists because the total compensated absences balance previously classified as debt of the governmental funds was included in this fund at its inception nine years ago, and has not been fully funded. In addition, the City performed an actuarial valuation of the sick leave liability during 1999, updated during 2002, which increased the deficit. The City is planning to reduce this deficit over time by increasing the benefit rates charged to the operating funds, and by continuing to deposit in this Fund portions of one-time revenues related to employee benefits.

I. INTERFUND TRANSFERS

The following is a schedule of interfund transfers.

Transfers to:	Transfers from:							Total
	General Fund	Special Gas Tax Street Improvement	Other Govern-mental	Water	Sewer	Other Enter-prise	Internal Service	
General Fund		\$2,797,837	\$1,674,681	\$73,500	\$73,500	\$18,000		\$ 4,637,518
Special Gas Tax Street Improvement	\$760,000		2,900,000					3,660,000
Other Governmental	9,084,909	19,894	1,436,427					10,541,230
Water	257,000							257,000
Sewer	169,000							169,000
Other Enterprise	994,950		17,105				\$10,635	1,022,690
Internal Service	986,530			339,000	273,000			1,598,530
Total	\$12,252,389	\$2,817,731	\$6,028,213	\$412,500	\$346,500	\$18,000	\$10,635	\$21,885,968

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 \$12,256,646, net of \$147,394 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.

The General Fund notes receivable of \$92,283 consist of small business loans. These notes were determined to be ineligible for federal grant funds; therefore, the General Fund purchased them from the Housing and Community Development Special Revenue Fund.

Loans to employees for computer acquisition make up the \$87,141 notes receivable balance in the Internal Service Funds. The maximum loan period is 3 years, with payment deducted from paychecks.

K. APPROVED LOANS PAYABLE

The approved loans payable in the Housing and Community Development Special Revenue Fund of \$216,740 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.

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 \$400,000; liability \$1,000,000; employee disability \$123,000; and dental care \$1,200. The maximum allowed per covered employee under the self-insured vision plan is \$1,000 over a two year period. 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 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 \$10,000,000. 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 \$10,000,000, up to an additional \$10,000,000 per claim. Settled claims have not exceeded this commercial coverage in any of the past three 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, 2002 is \$11,162,477 consisting of \$7,260,000 workers' compensation, \$3,528,000 general liability, \$271,919 dental, \$50,492 disability, and \$52,066 vision. The current portion of the total claims liability is estimated to be \$4,142,117 and the balance of \$7,020,360 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, 2002. Changes in the Insurance Fund claims liability during the fiscal years ended June 30, 2001 and June 30, 2002 were:

	Claims Liability July 1	Current-Year Claims and Changes in Estimates	Current-Year Claim Payments	Claims Liability June 30
2000-01	\$ 9,337,118	\$5,304,480	\$(4,480,729)	\$10,160,869
2001-02	10,160,869	5,890,806	(4,889,198)	11,162,477

B. 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, 2002 there were nine series of conduit revenue bonds outstanding. The aggregate principal

amount payable for these multiple-family housing and health care facility bond issues, issued between 1992 and 2001 was \$64,825,000.

C. 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.

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 \$23,150,507 as of June 30, 2002 for contracts awarded but not completed and other outstanding purchase orders. This amount consists of \$1,199,977 in the General Fund, \$11,179,350 in the Special Gas Tax Street Improvement Fund, \$3,374,048 in other governmental funds, \$5,503,864 in the enterprise funds, and \$1,893,268 in the internal service funds. Commitments of the governmental funds are recorded as fund balance reserve for encumbrances on the balance sheet. Major contracts and other purchase orders outstanding are for the new police headquarters building, Kansas-Needham Ninth Street overcrossing, various wastewater and street maintenance and improvement projects, bus refurbishment, and fleet vehicle purchases.

Proposition 218, which was approved by the voters in November 1996, provides certain limitations over the ability of local governments within the State of California to impose, increase and extend taxes, assessments and fees. Any new, increased, or extended taxes, assessments, and fees subject to the provisions of Proposition 218, require voter approval before they can be implemented. Additionally, Proposition 218 provides that taxes, assessments and fees are subject to the voter initiative process and may, in some circumstances, be rescinded in the future by the voters. As a result, the ability of local governments to finance the services for which the taxes, assessments and fees were imposed could be significantly impaired. Significant taxes, fees, and assessments that may be subject to the provisions of Proposition 218, which the City of Modesto currently imposes for its own benefit or as an agent for a special district, or receives from other governmental agencies, potentially include business license tax, landscape and lighting district assessments, water, sewer, and storm drain utility fees, utility users tax, and community facilities district taxes. The City's management is unable to determine the future impact, if any, of this statute.

The City had been trying to collect unpaid business taxes from one taxpayer. Subsequent to year-end, the City received a lower court ruling in the case that one part of the City's business tax ordinance was unconstitutional as it applied to that business. There is a possibility that other businesses may request refunds, but an estimate of possible loss, if any, cannot be made at this time.

D. 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 \$185,108 for the fiscal year ended June 30, 2002. As of June 30, 2002 the City's investment in this joint venture was \$1,380,398, 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, 2002 was \$587,581, consisting of a \$242,210 cash contribution and in-kind services valued at \$345,371. The City's investment in this joint venture was \$778,825 as of June 30, 2002. This amount is reported in governmental activities in the statement of net assets. The City also has an interest in the financial assets of the SDEA due to a pass through grant. The receivable amount of \$164,093 is reported as part of due from governments in the General Fund. Financial statements of the SDEA are prepared by Stanislaus County.

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 is the fiscal administrator during the construction phase. The City's equity interest in the Agency is reported in governmental activities as investments in joint ventures in the Statement of Net Assets equal to its contributions to date of \$15,433,983. The City's contribution during the fiscal year ended June 30, 2002 was \$661,753.

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, 2002, 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.

Criminal Justice Training Agency

The City has entered into an agreement with the Yosemite Community College District (YCCD) and Stanislaus County (County) to provide Modesto Junior College Criminal Justice Courses at the regional training center or other locations as approved by the Agency. The agency is administered by a four-member commission consisting of the Chief Executive Officer of the YCCD, the Chief Executive Officer of the County, the President of

Modesto Junior College, and the City Manager of Modesto. Stanislaus County is responsible for accounting and for monitoring the budget. All three entities share in the operating costs, and the City's contributions of cash and/or in-kind contributions of staff or guest lecturers are currently set at \$125,000 annually. For 2002, the City's required contributions were entirely covered by in-kind services. Construction costs of the training center were paid by Stanislaus County, and the County holds title to the center. Upon termination of the joint powers agreement, any other property acquired by the Agency will be distributed based on contributions made. As of June 30, 2002, the City has no equity interest. Financial statements of the Agency are available from Stanislaus County.

E. 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 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 \$6,714,332. 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 amount paid to MID during the fiscal year ended June 30, 2002 was \$10,269,652, and is reported as "water purchases" on the proprietary funds statement of revenues, expenses and changes in net assets.

F. 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 actuarial liability for current retirees' future premiums is \$6,329,861 as of June 30, 2002. The current portion of \$771,595 is fully funded. The long-term portion of \$5,558,266 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.

G. 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 0% of annual covered payroll for both non-safety employees and safety employees. The

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

Annual Pension Cost

For 2002, the City's annual pension cost of \$0 for CalPERS was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 1999 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) 8.25% 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 3.5%. 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, 2001 was 41 years for the miscellaneous plan, and 23 years for the safety plan.

THREE-YEAR TREND INFORMATION FOR PERS

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/00	\$1,407,029	100%	\$ -
6/30/01	1,225,521	100	-
6/30/02	-	-	-

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 Actuarial Accrued Liability (A - B)</u>	<u>Funded Ratio (A/B)</u>	<u>Covered Payroll (C)</u>	<u>Overfunded Actuarial Liability as Percentage of Covered Payroll [(A - B)/C]</u>
6/30/99:						
Misc.	\$185,644,453	\$135,001,258	\$50,643,495	137.5%	\$29,581,339	171.2%
Safety	186,134,042	158,167,937	27,966,105	117.7%	22,808,490	122.6%
Total	<u>\$371,778,495</u>	<u>\$293,169,195</u>	<u>\$78,609,300</u>	126.8%	<u>\$52,389,829</u>	150.0%
6/30/00:						
Misc.	\$202,858,050	\$144,359,908	\$58,498,142	140.5%	\$30,129,271	194.2%
Safety	212,877,025	183,470,121	29,406,904	116.0%	22,874,255	128.6%
Total	<u>\$415,735,075</u>	<u>\$327,830,029</u>	<u>\$87,905,046</u>	126.8%	<u>\$53,003,526</u>	165.8%
6/30/01:						
Misc.	\$206,211,311	\$159,669,273	\$46,542,038	129.1%	\$33,588,996	138.6%
Safety	219,451,614	203,171,045	16,280,569	108.0%	22,818,695	71.3%
Total	<u>\$425,662,925</u>	<u>\$362,840,318</u>	<u>\$62,822,607</u>	117.3%	<u>\$56,407,691</u>	111.4%

H. CHANGE IN ACCOUNTING PRINCIPLES AND PRIOR PERIOD ADJUSTMENTS

1. GASB 34 requires interfund balances to be recorded as transfers if repayment is not expected within a reasonable time. Several balances have been adjusted to comply with this change in accounting principles.
2. Community Facility District developer reimbursement expenditures for the Carver Bangs district were understated in previous years, and required a prior period adjustment to Other Governmental Funds.
3. Certain amounts which should have been recognized as revenue in the Bus Enterprise Fund during the fiscal year 2001, were improperly classified as deferred revenue, resulting in a prior period adjustment.

Beginning fund balances of Governmental Funds have been restated, as follows:

	<u>General Fund</u>	<u>Other Governmental Funds</u>
Fund balances, July 1, 2001, as originally reported	\$34,866,105	\$45,318,968
1. Cumulative effect of change in accounting principles	(8,210,500)	6,865,500
2. Prior period adjustment-developer fees		(971,443)
Fund balances, July 1, 2001 as restated	<u>\$26,655,605</u>	<u>\$51,213,025</u>

Beginning net assets of Proprietary Funds have been restated for these changes, as follows:

	<u>Other Enterprise Funds</u>	<u>Internal Service Funds</u>
Net assets, July 1, 2001, as originally reported	\$53,687,982	\$4,424,665
1. Cumulative effect of change in accounting principles	1,032,000	313,000
3. Prior period adjustment-Bus Fund revenue	1,893,573	
Net assets, July 1, 2001 as restated	<u>\$56,613,555</u>	<u>\$4,737,665</u>

I. SUBSEQUENT EVENT

In 1999, the City Council transferred \$500,000 from the land acquisition for the Tenth Street Place redevelopment project to the Parking Enterprise Fund for unspecified public parking projects. Subsequent to the fiscal year end, the City Council approved transferring those funds, plus interest, back to the Redevelopment Agency Capital Projects Fund to be used for the completion of the original project.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF MODESTO
SCHEDULE OF REVENUES - BUDGET (GAAP BASIS)
AND ACTUAL - GENERAL FUND
Year ended June 30, 2002

	Budget		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
TAXES:				
Utility users tax	\$ 13,662,237	\$ 13,662,237	\$ 12,516,962	\$ (1,145,275)
Property tax	8,313,442	8,651,442	9,132,278	480,836
Transient occupancy tax	2,258,894	2,292,931	2,119,804	(173,127)
Franchise tax	2,944,857	3,144,006	3,018,703	(125,303)
Business license tax	7,796,804	7,796,804	8,734,281	937,477
Total taxes	<u>34,976,234</u>	<u>35,547,420</u>	<u>35,522,028</u>	<u>(25,392)</u>
LICENSES AND PERMITS	<u>182,350</u>	<u>182,350</u>	<u>173,348</u>	<u>(9,002)</u>
INTERGOVERNMENTAL:				
Sales tax	24,577,335	24,577,335	27,061,426	2,484,091
Motor vehicle license fees	10,924,700	10,924,700	10,735,611	(189,089)
State	2,133,670	1,928,214	2,727,421	799,207
County	456,943	466,543	389,961	(76,582)
Federal	417,730	417,730	432,770	15,040
Other intergovernmental	403,480	403,480	455,935	52,455
Total intergovernmental	<u>38,913,858</u>	<u>38,718,002</u>	<u>41,803,124</u>	<u>3,085,122</u>
CHARGES FOR SERVICES:				
General government	2,746,749	2,849,902	2,823,307	(26,595)
Community development	3,284,411	3,284,411	2,851,751	(432,660)
Highways and streets	1,017,215	1,017,215	925,525	(91,690)
Public works	3,485,632	3,485,632	3,246,354	(239,278)
Parks and recreation	1,777,968	1,790,584	1,312,816	(477,768)
Public safety	1,473,679	1,547,679	1,635,691	88,012
Other current charges for services	94,360	94,360	7,180	(87,180)
Indirect cost recovery	2,660,166	2,660,166	2,569,684	(90,482)
Total charges for services	<u>16,540,180</u>	<u>16,729,949</u>	<u>15,372,308</u>	<u>(1,357,641)</u>
SPECIAL ASSESSMENT	<u>168,670</u>	<u>237,132</u>	<u>256,646</u>	<u>19,514</u>
INTEREST AND RENT	<u>1,448,079</u>	<u>1,448,079</u>	<u>1,429,709</u>	<u>(18,370)</u>
NET INCREASE IN FAIR VALUE OF INVESTMENTS			<u>324,154</u>	<u>324,154</u>
FINES AND FORFEITURES	<u>562,030</u>	<u>574,530</u>	<u>546,199</u>	<u>(28,331)</u>
MISCELLANEOUS:				
Mandated cost recovery	165,000	165,000	214,296	49,296
Other	749,691	954,915	861,541	(93,374)
Total miscellaneous	<u>914,691</u>	<u>1,119,915</u>	<u>1,075,837</u>	<u>(44,078)</u>
Total revenues	<u>\$ 93,706,092</u>	<u>\$ 94,557,377</u>	<u>\$ 96,503,353</u>	<u>\$ 1,945,976</u>

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, 2002

	Budget		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
General government:				
City council	\$ 245,210	\$ 239,080	\$ 228,287	\$ 10,793
Personnel/training	1,971,399	1,255,760	1,099,253	156,507
City manager	1,555,563	1,900,727	1,732,352	168,375
City attorney	1,708,366	1,733,892	1,526,664	207,228
City clerk/auditor	743,996	914,948	773,082	141,866
Finance	5,378,311	5,286,249	4,888,249	398,000
Total general government	<u>11,602,845</u>	<u>11,330,656</u>	<u>10,247,887</u>	<u>1,082,769</u>
Community development	<u>4,594,370</u>	<u>4,675,174</u>	<u>4,397,422</u>	<u>277,752</u>
Highways and streets:				
Engineering and Transportation Dept:				
Administration	942,992	955,631	848,848	106,783
Electrical division	1,950,272	2,304,467	2,226,647	77,820
Operations and Maintenance Dept:				
Traffic operations	736,419	720,137	702,255	17,882
Streets division	2,163,868	2,389,892	2,383,778	6,114
Total highways and streets	<u>5,793,551</u>	<u>6,370,127</u>	<u>6,161,528</u>	<u>208,599</u>
Public works:				
Engineering and Transportation Dept:				
Engineering design	1,187,033	1,187,033	1,098,296	88,737
Construction administration/permits	2,142,956	2,110,971	1,786,814	324,157
Engineering administration	636,055	727,156	570,990	156,166
Franchise management	780,769	597,203	473,629	123,574
Operations and Maintenance Dept:				
Administration	901,563	571,548	512,569	58,979
Total public works	<u>5,648,376</u>	<u>5,193,911</u>	<u>4,442,298</u>	<u>751,613</u>
Parks and recreation:				
Operations and Maintenance Dept:				
Service and maintenance	5,256,803	5,317,967	4,960,856	357,111
Community forestry	3,599,864	3,518,805	3,522,218	(3,413)
Community Services & Neighborhood Connection:				
Administration	1,296,227	1,479,654	1,376,444	103,210
Culture	563,375	794,258	628,912	165,346
Recreation division	3,043,859	3,056,914	2,556,018	500,896
Facilities	945,208	999,797	951,014	48,783
Total parks and recreation	<u>14,705,336</u>	<u>15,167,395</u>	<u>13,995,462</u>	<u>1,171,933</u>
Public safety:				
Fire protection	16,160,505	17,533,406	16,997,393	536,013
Police protection	35,379,209	35,023,307	35,008,981	14,326
Total public safety	<u>51,539,714</u>	<u>52,556,713</u>	<u>52,006,374</u>	<u>550,339</u>
Total expenditures by department	<u>93,884,192</u>	<u>95,293,976</u>	<u>91,250,971</u>	<u>4,043,005</u>
Debt service:				
Principal retirement	7,501	7,501	7,501	
Interest	3,477	3,477	3,476	1
Total debt service	<u>10,978</u>	<u>10,978</u>	<u>10,977</u>	<u>1</u>
Total general fund	<u>\$ 93,895,170</u>	<u>\$ 95,304,954</u>	<u>\$ 91,261,948</u>	<u>\$ 4,043,006</u>

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

CITY OF MODESTO
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL - SPECIAL
GAS TAX STREET IMPROVEMENT SPECIAL REVENUE FUND
Year Ended June 30, 2002

	<u>Budget</u>		<u>Actual</u>	Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Intergovernmental:				
State grants	\$ 26,903,906	\$ 36,057,087	\$ 4,023,726	\$ (32,033,361)
Federal grants	11,454,214	11,454,214	2,964,252	(8,489,962)
County grants	935,400	935,400	601,202	(334,198)
Total intergovernmental revenues	<u>39,293,520</u>	<u>48,446,701</u>	<u>7,589,180</u>	<u>(40,857,521)</u>
Charges for services				
Interest and rent - interest			(826)	(826)
Net decrease in fair value of investments			<u>(2,549)</u>	<u>(2,549)</u>
Total revenues	<u>39,293,520</u>	<u>48,446,701</u>	<u>7,585,805</u>	<u>(40,860,896)</u>
EXPENDITURES:				
Highway and streets	<u>36,699,886</u>	<u>45,814,990</u>	<u>4,086,741</u>	<u>41,728,249</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>2,593,634</u>	<u>2,631,711</u>	<u>3,499,064</u>	<u>867,353</u>
OTHER FINANCING SOURCES (USES):				
Operating transfers in	3,660,000	3,660,000	3,660,000	
Operating transfers out	<u>(3,515,174)</u>	<u>(3,553,251)</u>	<u>(2,817,731)</u>	735,520
TOTAL OTHER FINANCING SOURCES (USES)	<u>144,826</u>	<u>106,749</u>	<u>842,269</u>	<u>735,520</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	2,738,460	2,738,460	4,341,333	1,602,873
FUND BALANCES, JULY 1	<u>(2,738,460)</u>	<u>(2,738,460)</u>	<u>(2,738,460)</u>	
FUND BALANCES, JUNE 30	<u>\$ _____</u>	<u>\$ _____</u>	<u>\$ 1,602,873</u>	<u>\$ 1,602,873</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, 2002

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 which 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.

This page is intentionally left blank

**COMBINING AND INDIVIDUAL FUND
STATEMENTS AND SCHEDULES**

Nonmajor Governmental Funds

Nonmajor Special Revenue Funds

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

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

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

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

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

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.

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

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.

STATE PARKS AND RECREATION FUND – To account for monies used for acquisition and development of neighborhood, community, and regional park facilities.

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

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.

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

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

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.

IMPROVEMENT DISTRICTS FUND – To account for payment of bonded debt issued to finance Improvement District capital projects.

COMMUNITY FACILITIES DISTRICTS FUND – To account for payment of bonded debt issued to finance Community Facilities District capital projects.

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, 2002

	Special Revenue					
	Operating Grants	Local Transportation	Traffic Safety	Downtown Improvement District	Housing and Community Development	Strategic Planning and Development
ASSETS						
Cash and cash equivalents	\$ 505,129	\$ 1,027,802	\$ 554,731	\$ 52,964	\$ 1,198,367	\$ 1,321,213
Cash and cash equivalents with fiscal agent					350,514	
Receivables:						
Accounts	14,868				64,743	
Interest	72	14,876		2,205	7,631	857
Taxes						
Special assessments						
Due from governments	321,656	454,932			601,238	
Due from other funds						
Notes receivable, net					11,172,677	
	<u>\$ 841,725</u>	<u>\$ 1,497,610</u>	<u>\$ 554,731</u>	<u>\$ 55,169</u>	<u>\$ 13,395,170</u>	<u>\$ 1,322,070</u>
Total assets						
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	\$ 29,789	\$ 144,290		\$ 727	\$ 66,416	\$ 9,572
Accrued salaries and benefits	12,993				25,331	
Approved loans payable					216,740	
Due to other funds						
Deferred revenues	664,280	1,346,840				
Advances from other funds						
	<u>707,062</u>	<u>1,491,130</u>	<u></u>	<u>727</u>	<u>308,487</u>	<u>9,572</u>
Total liabilities						
Fund balances:						
Reserved for:						
Encumbrances	259,554	109,339			6,747	254,545
Loan programs					10,955,937	
For set-aside requirement						
Debt service						
Unreserved/designated for:						
Pending projects			\$ 554,731	54,442	2,123,999	1,057,953
Unreserved/undesignated	(124,891)	(102,859)				
	<u>134,663</u>	<u>6,480</u>	<u>554,731</u>	<u>54,442</u>	<u>13,086,683</u>	<u>1,312,498</u>
Total fund balances						
Total liabilities and fund balances	<u>\$ 841,725</u>	<u>\$ 1,497,610</u>	<u>\$ 554,731</u>	<u>\$ 55,169</u>	<u>\$ 13,395,170</u>	<u>\$ 1,322,070</u>

Capital Projects

Special Fund for Capital Outlays	Capital Facility Fees	Parks	State Parks and Recreation	McHenry Mansion Restoration	Redevelop- ment Agency	Improve- ment Districts	Capital Grants	Community Facilities Districts
\$ 5,524,074	\$ 18,416,957	\$ 1,119,613	\$ 43,259	\$ 5,897	\$ 2,214,955	\$ 27,596	\$ 41,134	\$ 11,727,605
1,660,446					21,611			446,869
	2,335 83,217	2,180	414	169	159 388		13,282	51
	986,327	75,000					255,532	
					1,325,113 1,083,969			
<u>\$ 7,184,520</u>	<u>\$ 19,488,836</u>	<u>\$ 1,196,793</u>	<u>\$ 43,673</u>	<u>\$ 6,066</u>	<u>\$ 4,646,195</u>	<u>\$ 27,596</u>	<u>\$ 309,948</u>	<u>\$ 12,174,525</u>
\$ 685,221	\$ 225,102	\$ 15,809	\$ 51,547		\$ 260,045		\$ 53,968	\$ 1,151,394
	80,090 324,701						460,000 97,281	
<u>685,221</u>	<u>629,893</u>	<u>15,809</u>	<u>51,547</u>		<u>260,045</u>		<u>611,249</u>	<u>1,151,394</u>
1,429,701	1,015,578	127,785			65,091 1,083,969 1,692,362		97,054	8,654
5,069,598	17,843,365	1,053,199		\$ 6,066	1,544,728	\$ 27,596		11,014,477
			(7,874)				(398,355)	
<u>6,499,299</u>	<u>18,858,943</u>	<u>1,180,984</u>	<u>(7,874)</u>	<u>6,066</u>	<u>4,386,150</u>	<u>27,596</u>	<u>(301,301)</u>	<u>11,023,131</u>
<u>\$ 7,184,520</u>	<u>\$ 19,488,836</u>	<u>\$ 1,196,793</u>	<u>\$ 43,673</u>	<u>\$ 6,066</u>	<u>\$ 4,646,195</u>	<u>\$ 27,596</u>	<u>\$ 309,948</u>	<u>\$ 12,174,525</u>

(continued)

CITY OF MODESTO
COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS (Continued)
June 30, 2002

	Debt Service				Total
	Redevelopment Agency	Improvement Districts	Community Facilities Districts	Public Financing Authority	
<u>ASSETS</u>					
Cash and cash equivalents		\$ 339,343	\$ 34,007		\$ 44,154,646
Cash and cash equivalents with fiscal agent	\$ 2,090,731	198,421	165,201	\$ 5,329,500	10,263,293
Receivables:					
Accounts	95,325				179,610
Interest	49,376	1,647			174,185
Taxes	48,960				48,960
Special assessments		626,095			626,095
Due from governments					2,694,685
Due from other funds					1,325,113
Notes receivable, net					12,256,646
Total assets	\$ 2,284,392	\$ 1,165,506	\$ 199,208	\$ 5,329,500	\$ 71,723,233
<u>LIABILITIES AND FUND BALANCES</u>					
Liabilities:					
Accounts payable					\$ 2,693,880
Accrued salaries and benefits					38,324
Approved loans payable					216,740
Due to other funds	\$ 1,325,113				1,785,113
Deferred revenues	71,879	\$ 626,095			2,886,465
Advances from other funds					324,701
Total liabilities	1,396,992	626,095			7,945,223
Fund balances:					
Reserved for:					
Encumbrances					3,374,048
Loan programs					12,039,906
For set-aside requirement					1,692,362
Debt service	887,400	539,411	\$ 199,208	\$ 5,329,500	6,955,519
Unreserved/designated for:					
Pending projects					40,350,154
Unreserved/undesignated					(633,979)
Total fund balances	887,400	539,411	199,208	5,329,500	63,778,010
Total liabilities and fund balances	\$ 2,284,392	\$ 1,165,506	\$ 199,208	\$ 5,329,500	\$ 71,723,233

This page is intentionally left blank

CITY OF MODESTO
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
Year ended June 30, 2002

	Special Revenue					
	Operating Grants	Local Transportation	Traffic Safety	Downtown Improvement District	Housing and Community Development	Strategic Planning and Development
REVENUES:						
Taxes				\$ 166,719		
Intergovernmental	\$ 1,773,314	\$ 5,275,626			\$ 2,274,452	
Charges for services					70,771	
Special assessments levied						\$ 145,845
Interest and rent	40,892	53,732		2,012	279,333	31,388
Net increase (decrease) in fair value of investments	4,004	8,434		587		12,030
Fines and forfeits			\$ 509,767			
Miscellaneous					4,453	
Total revenues	<u>1,818,210</u>	<u>5,337,792</u>	<u>509,767</u>	<u>169,318</u>	<u>2,629,009</u>	<u>189,263</u>
EXPENDITURES:						
Current:						
General government	11,865					
Community development				167,714	2,162,494	151,017
Highways and streets		1,497,625				
Public works	202,868					
Parks and recreation		14,723				
Public safety	911,063					
Capital outlay:						
General government	13,035					
Community development					10,682	
Highways and streets		1,149				
Public works						
Parks and recreation		158,260				
Public safety	676,688					
Debt service:						
Principal retirement						
Interest						
Other						
Total expenditures	<u>1,815,519</u>	<u>1,671,757</u>	<u>509,767</u>	<u>167,714</u>	<u>2,173,176</u>	<u>151,017</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>2,691</u>	<u>3,666,035</u>	<u>509,767</u>	<u>1,604</u>	<u>455,833</u>	<u>38,246</u>
OTHER FINANCING SOURCES (USES):						
Transfers in						940,000
Transfers out		(3,667,185)	(675,000)		(465,151)	
Proceeds of capital lease						
TOTAL OTHER FINANCING SOURCES (USES)		<u>(3,667,185)</u>	<u>(675,000)</u>		<u>(465,151)</u>	<u>940,000</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	2,691	(1,150)	(165,233)	1,604	(9,318)	978,246
FUND BALANCES (DEFICITS), July 1 (as restated)	<u>131,972</u>	<u>7,630</u>	<u>719,964</u>	<u>52,838</u>	<u>13,096,001</u>	<u>334,252</u>
FUND BALANCES (DEFICITS), June 30	<u>\$ 134,663</u>	<u>\$ 6,480</u>	<u>\$ 554,731</u>	<u>\$ 54,442</u>	<u>\$ 13,086,683</u>	<u>\$ 1,312,498</u>

Capital Projects

Special Fund for Capital Outlays	Capital Facility Fees	Parks	State Parks and Recreation	McHenry Mansion Restoration	Redevelop- -ment Agency	Improve- -ments Districts	Capital Grants	Community Facilities Districts
	\$ 906,463	\$ 339,334	\$ 368,708		\$ 666,270		\$ 2,396,369	\$ 9,265,513
	8,892,522	32,005						
\$ 174,006	620,487	84,530	(2,802)	\$ 231	116,118		(38,262)	350,420
18,116	172,480	9,604		56	26,343		(15,018)	104,169
<u>31,500</u>			<u>142</u>		<u>10</u>			
<u>223,622</u>	<u>10,591,952</u>	<u>465,473</u>	<u>366,048</u>	<u>287</u>	<u>808,741</u>		<u>2,343,089</u>	<u>9,720,102</u>
4,379	50,890							528,268
	7,938							
44,636	41,547	324,731					293	
202,622	1,163							
651,133								6,696
75,853	1,126,328				199,080		1,981,107	4,136,676
557	2,075,560						10,263	
19,528	3,257,967	371,689	572,130				417,012	
2,562,011	27,014							
<u>3,560,719</u>	<u>6,588,407</u>	<u>696,420</u>	<u>572,130</u>		<u>785,449</u>		<u>2,408,675</u>	<u>4,671,640</u>
<u>(3,337,097)</u>	<u>4,003,545</u>	<u>(230,947)</u>	<u>(206,082)</u>	<u>287</u>	<u>23,292</u>		<u>(65,586)</u>	<u>5,048,462</u>
3,490,706		577,041	108,185		481,573		403,124	
	(389,464)							
	<u>2,020,418</u>							
<u>3,490,706</u>	<u>1,630,954</u>	<u>577,041</u>	<u>108,185</u>		<u>481,573</u>		<u>403,124</u>	
153,609	5,634,499	346,094	(97,897)	287	504,865		337,538	5,048,462
<u>6,345,690</u>	<u>13,224,444</u>	<u>834,890</u>	<u>90,023</u>	<u>5,779</u>	<u>3,881,285</u>	<u>\$ 27,596</u>	<u>(638,839)</u>	<u>5,974,669</u>
<u>\$ 6,499,299</u>	<u>\$ 18,858,943</u>	<u>\$ 1,180,984</u>	<u>\$ (7,874)</u>	<u>\$ 6,066</u>	<u>\$ 4,386,150</u>	<u>\$ 27,596</u>	<u>\$ (301,301)</u>	<u>\$ 11,023,131</u>

(continued)

CITY OF MODESTO
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS (Continued)
Year ended June 30, 2002

	Debt Service				Total
	Redevelopment Agency	Improvement Districts	Community Facilities Districts	Public Financing Authority	
REVENUES:					
Taxes	\$ 1,500,410				\$ 2,333,399
Intergovernmental					13,334,266
Charges for services					18,260,811
Special assessments levied		\$ 157,070	\$ 263,530		566,445
Interest and rent	80,566	68,427	4,064	\$ 124,415	1,989,557
Net increase (decrease) in fair value of investments	(15,028)	27	384		326,188
Fines and forfeits					509,767
Miscellaneous	40				36,145
Total revenues	<u>1,565,988</u>	<u>225,524</u>	<u>267,978</u>	<u>124,415</u>	<u>37,356,578</u>
EXPENDITURES:					
Current:					
General government					67,134
Community development					3,595,862
Highways and streets					1,497,625
Public works					210,806
Parks and recreation					425,930
Public safety					1,114,848
Capital outlay:					
General government					13,035
Community development					867,591
Highways and streets					7,321,113
Public works					2,086,380
Parks and recreation					4,796,586
Public safety					3,265,713
Debt service:					
Principal retirement	655,000	195,000	200,000	365,000	1,415,000
Interest	1,303,097	58,671	28,235	3,227,791	4,617,794
Other	5,954	10,849	2,626	10,182	29,611
Total expenditures	<u>1,964,051</u>	<u>264,520</u>	<u>230,861</u>	<u>3,602,973</u>	<u>31,325,028</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(398,063)</u>	<u>(38,996)</u>	<u>37,117</u>	<u>(3,478,558)</u>	<u>6,031,550</u>
OTHER FINANCING SOURCES (USES):					
Transfers in	1,245,312			3,295,289	10,541,230
Transfers out	(831,413)				(6,028,213)
Proceeds of capital lease					2,020,418
TOTAL OTHER FINANCING SOURCES (USES)	<u>413,899</u>			<u>3,295,289</u>	<u>6,533,435</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	15,836	(38,996)	37,117	(183,269)	12,564,985
FUND BALANCES (DEFICITS), July 1 (as restated)	<u>871,564</u>	<u>578,407</u>	<u>162,091</u>	<u>5,512,769</u>	<u>51,213,025</u>
FUND BALANCES (DEFICITS), June 30	<u>\$ 887,400</u>	<u>\$ 539,411</u>	<u>\$ 199,208</u>	<u>\$ 5,329,500</u>	<u>\$ 63,778,010</u>

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, 2002

	Budget		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Intergovernmental	\$ 424,840	\$ 1,667,036	\$ 1,773,314	\$ 106,278
Interest and rent - interest		38,399	40,892	2,493
Net increase in fair value of investments			4,004	4,004
Total revenues	<u>424,840</u>	<u>1,705,435</u>	<u>1,818,210</u>	<u>112,775</u>
EXPENDITURES:				
General government		24,900	24,900	
Public works		638,323	202,868	435,455
Public safety	424,840	1,682,535	1,587,751	94,784
Total expenditures	<u>424,840</u>	<u>2,345,758</u>	<u>1,815,519</u>	<u>530,239</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER)				
EXPENDITURES		<u>(640,323)</u>	2,691	<u>(417,464)</u>
FUND BALANCES, JULY 1	<u>131,972</u>	<u>131,972</u>	<u>131,972</u>	
FUND BALANCES (DEFICIT), JUNE 30	<u>\$ 131,972</u>	<u>\$ (508,351)</u>	<u>\$ 134,663</u>	<u>\$ (417,464)</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, 2002

	Budget		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Intergovernmental	\$ 4,859,160	\$ 7,129,128	\$ 5,275,626	\$ (1,853,502)
Interest and rent - interest	599	599	53,732	53,133
Net increase in fair value of investments			8,434	8,434
Total revenues	<u>4,859,759</u>	<u>7,129,727</u>	<u>5,337,792</u>	<u>(1,791,935)</u>
EXPENDITURES:				
Highways and streets	164,582	1,784,459	1,498,774	285,685
Parks and recreation	956,875	1,406,552	172,983	1,233,569
Total expenditures	<u>1,121,457</u>	<u>3,191,011</u>	<u>1,671,757</u>	<u>1,519,254</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>3,738,302</u>	<u>3,938,716</u>	<u>3,666,035</u>	<u>(272,681)</u>
OTHER FINANCING SOURCES (USES):				
Transfers in		26,077		(26,077)
Transfers out	(3,500,000)	(3,806,764)	(3,667,185)	139,579
TOTAL OTHER FINANCING SOURCES (USES)	<u>(3,500,000)</u>	<u>(3,780,687)</u>	<u>(3,667,185)</u>	<u>113,502</u>
DEFICIENCY OF REVENUES AND OTHER SOURCES UNDER EXPENDITURES AND OTHER USES	238,302	158,029	(1,150)	(159,179)
FUND BALANCES, JULY 1	<u>7,630</u>	<u>7,630</u>	<u>7,630</u>	
FUND BALANCE (DEFICITS), JUNE 30	<u>\$ 245,932</u>	<u>\$ 165,659</u>	<u>\$ 6,480</u>	<u>\$ (159,179)</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, 2002

	Budget		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES - fines and forfeits:				
Motor vehicle fines	\$ 677,500	\$ 677,500	\$ 509,767	\$ (167,733)
OTHER FINANCING USES:				
Transfers out	<u>(675,000)</u>	<u>(675,000)</u>	<u>(675,000)</u>	
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER)				
OTHER USES	2,500	2,500	(165,233)	(167,733)
FUND BALANCES, JULY 1	<u>719,964</u>	<u>719,964</u>	<u>719,964</u>	
FUND BALANCES, JUNE 30	<u>\$ 722,464</u>	<u>\$ 722,464</u>	<u>\$ 554,731</u>	<u>\$ (167,733)</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, 2002

	<u>Budget</u>		<u>Actual</u>	Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Taxes - business license tax	\$ 212,000	\$ 212,000	\$ 166,719	\$ (45,281)
Interest and rent - interest	3,440	3,440	2,012	(1,428)
Net increase in fair value of investments			587	587
Total revenues	<u>215,440</u>	<u>215,440</u>	<u>169,318</u>	<u>(46,122)</u>
EXPENDITURES - community development				
Downtown improvement district administration:				
Professional and contractual services	155,255	155,255	139,368	15,887
Materials and supplies	4,460	4,460	4,385	75
Other	26,800	26,800	22,296	4,504
Downtown improvements	25,300	25,300	1,665	23,635
Total expenditures	<u>211,815</u>	<u>211,815</u>	<u>167,714</u>	<u>44,101</u>
EXCESS OF REVENUES OVER EXPENDITURES	3,625	3,625	1,604	(2,021)
FUND BALANCES, JULY 1	<u>52,838</u>	<u>52,838</u>	<u>52,838</u>	
FUND BALANCES, JUNE 30	<u>\$ 56,463</u>	<u>\$ 56,463</u>	<u>\$ 54,442</u>	<u>\$ (2,021)</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, 2002

	<u>Budget</u>		<u>Actual</u>	Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Intergovernmental - federal grants	\$ 5,328,769	\$ 5,940,918	\$ 2,274,452	\$ (3,666,466)
Charges for services	196,022	196,022	70,771	(125,251)
Interest and rent - interest	215,000	215,000	279,333	64,333
Miscellaneous			4,453	4,453
Total revenues	<u>5,739,791</u>	<u>6,351,940</u>	<u>2,629,009</u>	<u>(3,722,931)</u>
EXPENDITURES - community development				
Housing program	2,842,782	2,852,950	2,162,493	690,457
Removal of architectural barriers	554,553	430,648	8,895	421,753
Miscellaneous improvements	67,303	67,303	1,788	65,515
Total expenditures	<u>3,464,638</u>	<u>3,350,901</u>	<u>2,173,176</u>	<u>1,177,725</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>2,275,153</u>	<u>3,001,039</u>	<u>455,833</u>	<u>(2,545,206)</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	50,000			
Transfers out	(1,155,681)	(1,155,681)	(465,151)	(690,530)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(1,105,681)</u>	<u>(1,155,681)</u>	<u>(465,151)</u>	<u>(690,530)</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	1,169,472	1,845,358	(9,318)	(3,235,736)
FUND BALANCES, JULY 1	<u>13,096,001</u>	<u>13,096,001</u>	<u>13,096,001</u>	
FUND BALANCES, JUNE 30	<u>\$ 14,265,473</u>	<u>\$ 14,941,359</u>	<u>\$ 13,086,683</u>	<u>\$ (3,235,736)</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, 2002

	Budget		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Charges for services	\$ 50,000	\$ 50,000		\$ (50,000)
Special assessments levied		20,000	\$ 145,845	125,845
Interest and rent - interest			31,388	31,388
Net increase in fair value of investments			12,030	12,030
Total revenues	<u>50,000</u>	<u>70,000</u>	<u>189,263</u>	<u>119,263</u>
EXPENDITURES - community development				
Professional and contractual services	<u>949,971</u>	<u>1,105,460</u>	<u>151,017</u>	<u>954,443</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(899,971)	(1,035,460)	38,246	1,073,706
OTHER FINANCING SOURCES:				
Transfers in	<u>940,000</u>	<u>940,000</u>	<u>940,000</u>	
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES	40,029	(95,460)	978,246	1,073,706
FUND BALANCES, JULY 1	<u>334,252</u>	<u>334,252</u>	<u>334,252</u>	
FUND BALANCES, JUNE 30	<u>\$ 374,281</u>	<u>\$ 238,792</u>	<u>\$ 1,312,498</u>	<u>\$ 1,073,706</u>

Nonmajor Enterprise Funds

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

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

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

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.

BUS FUND – Pursuant to the terms of a Federal grant agreement, the City has agreed to provide mass transportation service. All operating, maintenance, and capital expenditures are appropriated in this fund. Buses are operated by a private contractor under the terms of a supervisory agreement with the City. A separate contract agreement provides Dial-a-Ride service for the elderly and handicapped.

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 - NONMAJOR ENTERPRISE FUNDS
June 30, 2002

	Parking	Storm Drain	Airport
<u>ASSETS</u>			
Current assets:			
Cash and cash equivalents	\$ 1,125,666	\$ 773,739	\$ 607,762
Cash and cash equivalents with fiscal agent			
Receivables:			
Accounts	11,066	15,281	34,354
Interest		38,155	
Utilities, net		515,609	
Due from governments		4,538	496,331
Total current assets	1,136,732	1,347,322	1,138,447
Capital assets:			
Land and construction in progress	1,277,703	763,188	1,719,426
Other capital assets, net of accumulated depreciation	838,255	9,878,782	5,853,492
Total assets	3,252,690	11,989,292	8,711,365
<u>LIABILITIES</u>			
Current liabilities:			
Accounts payable	19,014	205,807	111,877
Accrued salaries and benefits	3,313	36,030	8,940
Interest payable			
Current portion - long-term debt			
Deferred revenues			
Total current liabilities	22,327	241,837	120,817
Noncurrent liabilities:			
Advances from other funds		250,000	87,300
Long-term debt:			
Certificates of participation			
Total liabilities	22,327	491,837	208,117
<u>NET ASSETS</u>			
Invested in capital assets, net of related debt	2,115,958	10,641,970	7,572,918
Restricted for debt service			
Unrestricted	1,114,405	855,485	930,330
Total net assets	\$ 3,230,363	\$ 11,497,455	\$ 8,503,248

<u>Bus</u>	<u>Golf</u>	<u>Community Center</u>	<u>Total</u>
\$ 5,874,487	\$ 411	\$ 773,815	\$ 9,155,880
	606,403		606,403
57,313	34,905	41,470	194,389
	2,910	128	41,193
			515,609
<u>2,433,118</u>	<u>31,853</u>		<u>2,965,840</u>
<u>8,364,918</u>	<u>676,482</u>	<u>815,413</u>	<u>13,479,314</u>
2,990,702	454,705	3,691,465	10,897,189
<u>11,748,326</u>	<u>4,542,201</u>	<u>13,846,144</u>	<u>46,707,200</u>
<u>23,103,946</u>	<u>5,673,388</u>	<u>18,353,022</u>	<u>71,083,703</u>
992,093	32,698	135,984	1,497,473
24,039		20,563	92,885
	57,075		57,075
	170,000		170,000
<u>5,016,950</u>	<u>131,330</u>		<u>5,148,280</u>
<u>6,033,082</u>	<u>391,103</u>	<u>156,547</u>	<u>6,965,713</u>
			337,300
	<u>6,410,000</u>		<u>6,410,000</u>
<u>6,033,082</u>	<u>6,801,103</u>	<u>156,547</u>	<u>13,713,013</u>
14,739,028	(994,164)	17,537,609	51,613,319
<u>2,331,836</u>	<u>(133,551)</u>	<u>658,866</u>	<u>5,757,371</u>
<u>\$ 17,070,864</u>	<u>\$ (1,127,715)</u>	<u>\$ 18,196,475</u>	<u>\$ 57,370,690</u>

CITY OF MODESTO
COMBINING STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET ASSETS - NONMAJOR ENTERPRISE FUNDS
Year ended June 30, 2002

	<u>Parking</u>	<u>Storm Drain</u>	<u>Airport</u>
OPERATING REVENUES:			
Charges for services	\$ 647,064	\$ 4,920,128	\$ 1,333,977
Total operating revenues	<u>647,064</u>	<u>4,920,128</u>	<u>1,333,977</u>
OPERATING EXPENSES:			
Salaries and wages	130,421	954,092	255,262
Contractual services	87,021	2,015,591	37,845
Utilities	32	103,574	64,864
Maintenance and supplies	266,548	910,956	195,187
Insurance	37,929	15,897	32,768
Employee benefits	90,647	217,345	55,438
Administration services	5,885	635,581	14,790
Allocated indirect administrative costs		175,854	40,820
Other	2,471	2,954	8,516
Depreciation	<u>68,473</u>	<u>522,068</u>	<u>420,908</u>
Total operating expenses	<u>689,427</u>	<u>5,553,912</u>	<u>1,126,398</u>
OPERATING INCOME (LOSS)	<u>(42,363)</u>	<u>(633,784)</u>	<u>207,579</u>
NONOPERATING REVENUES (EXPENSES)			
Operating grants			
Loss on disposition of capital assets	(5,692)	(17,828)	(3,252)
Tax revenue			25,548
Tax expense	(1,200)		(273)
Interest income	44,204	26,759	(1,779)
Net increase (decrease) in fair value of investments	10,619	6,815	4,094
Rental income			109,628
Interest expense			
Total nonoperating revenues (expenses)	<u>47,931</u>	<u>15,746</u>	<u>133,966</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	5,568	(618,038)	341,545
Capital contributions			611,783
Transfers in	34,500	64,000	
Transfers out			
CHANGE IN NET ASSETS	<u>40,068</u>	<u>(554,038)</u>	<u>953,328</u>
NET ASSETS (DEFICIT), July 1 (as restated)	<u>3,190,295</u>	<u>12,051,493</u>	<u>7,549,920</u>
NET ASSETS (DEFICIT), June 30	<u>\$ 3,230,363</u>	<u>\$ 11,497,455</u>	<u>\$ 8,503,248</u>

Bus	Golf	Community Center	Total
\$ 2,304,332	\$ 2,097,479	\$ 436,251	\$ 11,739,231
<u>2,304,332</u>	<u>2,097,479</u>	<u>436,251</u>	<u>11,739,231</u>
622,537		678,734	2,641,046
5,349,227	1,536,082	66,145	9,091,911
47,561	112,532	140,857	469,420
1,036,655	346	305,893	2,715,585
11,112	5,220	27,323	130,249
135,225		125,478	624,133
269,911	30,863	34,253	991,283
219,376	74,231		510,281
53,779	7,685	24,878	100,283
784,408	323,811	733,328	2,852,996
<u>8,529,791</u>	<u>2,090,770</u>	<u>2,136,889</u>	<u>20,127,187</u>
(6,225,459)	6,709	(1,700,638)	(8,387,956)
5,152,493			5,152,493
(99,633)	(5,508)	(32,392)	(164,305)
			25,548
		(4,111)	(5,584)
235,031	9,432	27,798	341,445
56,884	(1,581)	7,258	84,089
162,460	28,500	376,800	677,388
	(345,063)		(345,063)
<u>5,507,235</u>	<u>(314,220)</u>	<u>375,353</u>	<u>5,766,011</u>
(718,224)	(307,511)	(1,325,285)	(2,621,945)
1,762,607			2,374,390
11,085	220,000	693,105	1,022,690
(18,000)			(18,000)
1,037,468	(87,511)	(632,180)	757,135
<u>16,033,396</u>	<u>(1,040,204)</u>	<u>18,828,655</u>	<u>56,613,555</u>
\$ <u>17,070,864</u>	\$ <u>(1,127,715)</u>	\$ <u>18,196,475</u>	\$ <u>57,370,690</u>

CITY OF MODESTO
COMBINING STATEMENT OF CASH FLOWS - NONMAJOR ENTERPRISE FUNDS
Year ended June 30, 2002

	<u>Parking</u>	<u>Storm Drain</u>	<u>Airport</u>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers and users	\$ 649,701	\$ 4,869,991	\$ 1,421,749
Receipts from interfund services provided		14,463	
Payments to suppliers	(349,951)	(2,430,260)	(266,003)
Payments to employees	(130,221)	(950,306)	(256,518)
Payments for interfund services used	(144,144)	(1,557,975)	(155,687)
Net cash provided (used) by operating activities	<u>25,385</u>	<u>(54,087)</u>	<u>743,541</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Operating grants received			
Taxes received			25,548
Transfers in	34,500	64,000	
Transfers out			
New advances from other funds		250,000	
Repayments of advances from other funds			(50,000)
Net cash provided (used) by noncapital financing activities	<u>34,500</u>	<u>314,000</u>	<u>(24,452)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Acquisition and construction of capital assets	(16,636)	(12,175)	(719,747)
Principal repayments			
Interest paid			
Capital grants received			469,099
Net cash used by capital and related financing activities	<u>(16,636)</u>	<u>(12,175)</u>	<u>(250,648)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest received	45,196	28,882	(1,728)
Net increase (decrease) in the fair value of investments	10,619	6,815	4,094
Net cash provided by investing activities	<u>55,815</u>	<u>35,697</u>	<u>2,366</u>
Net increase (decrease) in cash and cash equivalents	99,064	283,435	470,807
CASH AND CASH EQUIVALENTS, JULY 1	<u>1,026,602</u>	<u>490,304</u>	<u>136,955</u>
CASH AND CASH EQUIVALENTS, JUNE 30	<u>\$ 1,125,666</u>	<u>\$ 773,739</u>	<u>\$ 607,762</u>
RECONCILIATION TO STATEMENT OF NET ASSETS:			
Cash and cash equivalents	\$ 1,125,666	\$ 773,739	\$ 607,762
Cash and cash equivalents with fiscal agent			
TOTAL CASH AND CASH EQUIVALENTS	<u>\$ 1,125,666</u>	<u>\$ 773,739</u>	<u>\$ 607,762</u>

	Bus	Golf	Community Center	Total
\$	3,041,134	\$ 2,192,567	\$ 819,081	\$ 12,994,223
				14,463
	(5,940,926)	(1,511,127)	(477,126)	(10,975,393)
	(621,112)		(673,852)	(2,632,009)
	(671,881)	(230,321)	(138,149)	(2,898,157)
	<u>(4,192,785)</u>	<u>451,119</u>	<u>(470,046)</u>	<u>(3,496,873)</u>
	5,152,493			5,152,493
				25,548
	11,085	220,000	693,105	1,022,690
	(18,000)			(18,000)
				250,000
				<u>(50,000)</u>
	<u>5,145,578</u>	<u>220,000</u>	<u>693,105</u>	<u>6,382,731</u>
	(1,766,662)	(177,331)	(243,457)	(2,936,008)
		(160,000)		(160,000)
		(346,370)		(346,370)
	<u>1,762,607</u>			<u>2,231,706</u>
	<u>(4,055)</u>	<u>(683,701)</u>	<u>(243,457)</u>	<u>(1,210,672)</u>
	235,031	5,046	27,884	340,311
	56,884	(1,581)	7,258	84,089
	<u>291,915</u>	<u>3,465</u>	<u>35,142</u>	<u>424,400</u>
	1,240,653	(9,117)	14,744	2,099,586
	<u>4,633,834</u>	<u>615,931</u>	<u>759,071</u>	<u>7,662,697</u>
\$	<u>5,874,487</u>	<u>\$ 606,814</u>	<u>\$ 773,815</u>	<u>\$ 9,762,283</u>
\$	5,874,487	\$ 411	\$ 773,815	\$ 9,155,880
		606,403		606,403
\$	<u>5,874,487</u>	<u>\$ 606,814</u>	<u>\$ 773,815</u>	<u>\$ 9,762,283</u>

(continued)

CITY OF MODESTO
COMBINING STATEMENT OF CASH FLOWS - NONMAJOR ENTERPRISE FUNDS (Continued)
Year ended June 30, 2002

	Parking	Storm Drain	Airport
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
Operating income (loss)	\$ (42,363)	\$ (633,784)	\$ 207,579
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	68,473	522,068	420,908
Rental income			109,628
Taxes paid	(1,200)		(273)
Change in assets and liabilities:			
(Increase) decrease in accounts receivable	(11,066)	(35,674)	(21,856)
(Increase) decrease in due from governments	13,703		
Increase (decrease) in accounts payable and accrued expenses	(2,162)	93,303	27,555
Increase in deferred revenues			
Total adjustments	67,748	579,697	535,962
Net cash provided (used) by operating activities	\$ 25,385	\$ (54,087)	\$ 743,541

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

Capital asset additions accrued at year end	\$	51,062	\$ 38,602
---	----	--------	-----------

This page is intentionally left blank

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, 2002

	Fleet Management	Central Services	Information & Technology Services	Insurance
<u>ASSETS</u>				
Current assets:				
Cash and cash equivalents	\$ 8,878,933	\$ 288,781	\$ 1,028,431	\$ 9,515,586
Receivables:				
Accounts receivable	9,520	25	1,661	90,969
Interest	11,593			81,768
Inventories		339,866		
Total current assets	8,900,046	628,672	1,030,092	9,688,323
Noncurrent assets:				
Notes receivable, net				
Land and construction in progress	755,278			
Other capital assets, net of accumulated depreciation	14,906,430	115,287	2,070,857	64,002
Total assets	24,561,754	743,959	3,100,949	9,752,325
<u>LIABILITIES</u>				
Current liabilities:				
Accounts payable	162,341	150,768	180,822	543,801
Accrued salaries and benefits	33,193	7,742	40,363	9,198
Due to other funds				
Current portion - compensated absences				
Current portion - claims liability				4,142,117
Current portion - long-term debt	20,927		19,783	
Total current liabilities	216,461	158,510	240,968	4,695,116
Noncurrent liabilities:				
Compensated absences				
Claims liability				7,020,360
Long-term debt:				
Notes payable	241,880			
Obligations under capital leases			67,598	
Total liabilities	458,341	158,510	308,566	11,715,476
<u>NET ASSETS</u>				
Invested in capital assets, net of related debt	15,398,901	115,287	1,983,476	64,002
Unrestricted	8,704,512	470,162	808,907	(2,027,153)
Total net assets	\$ 24,103,413	\$ 585,449	\$ 2,792,383	\$ (1,963,151)

<u>Employee Benefits Management</u>	<u>Building Services</u>	<u>Total</u>
\$ 15,672,867	\$ 31	\$ 35,384,629
	49,970	152,145
	312	93,673
		<u>339,866</u>
<u>15,672,867</u>	<u>50,313</u>	<u>35,970,313</u>
87,141		87,141
		755,278
<u>13,982</u>	<u>265,285</u>	<u>17,435,843</u>
<u>15,773,990</u>	<u>315,598</u>	<u>54,248,575</u>
174,586	117,982	1,330,300
1,913	36,795	129,204
	84,000	84,000
6,538,782		6,538,782
		4,142,117
		<u>40,710</u>
<u>6,715,281</u>	<u>238,777</u>	<u>12,265,113</u>
30,096,040		30,096,040
		7,020,360
		241,880
		<u>67,598</u>
<u>36,811,321</u>	<u>238,777</u>	<u>49,690,991</u>
13,982	265,285	17,840,933
<u>(21,051,313)</u>	<u>(188,464)</u>	<u>(13,283,349)</u>
<u>\$ (21,037,331)</u>	<u>\$ 76,821</u>	<u>\$ 4,557,584</u>

CITY OF MODESTO
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET ASSETS - INTERNAL SERVICE FUNDS
Year ended June 30, 2002

	<u>Fleet Management</u>	<u>Central Services</u>	<u>Information & Technology Services</u>	<u>Insurance</u>
OPERATING REVENUES:				
Charges for services	\$ 7,047,841	\$ 332,466	\$ 3,299,585	\$ 12,522,276
Sales		3,000,193		
Cost of sales		(2,863,952)		
Total operating revenues	<u>7,047,841</u>	<u>468,707</u>	<u>3,299,585</u>	<u>12,522,276</u>
OPERATING EXPENSES:				
Salaries and wages	898,775	201,775	841,580	221,364
Contractual services	314,588	69,947	307,889	117,919
Utilities	5,536	1,455	323,232	525
Maintenance and supplies	1,618,587	67,742	1,070,485	14,535
Insurance	34,074	3,386	9,338	6,936,044
Claims expense				5,890,806
Employee benefits	226,562	49,957	168,925	58,799
Administration services	51,359	14,861		819,860
Allocated indirect administrative costs	178,478			
Other	10,951	322	51,616	31,511
Depreciation	<u>2,049,264</u>	<u>16,239</u>	<u>359,104</u>	<u>9,438</u>
Total operating expenses	<u>5,388,174</u>	<u>425,684</u>	<u>3,132,169</u>	<u>14,100,801</u>
OPERATING INCOME (LOSS)	<u>1,659,667</u>	<u>43,023</u>	<u>167,416</u>	<u>(1,578,525)</u>
NONOPERATING REVENUES (EXPENSES)				
Loss on disposition of capital assets	(97,359)	(14,138)	(443,672)	(21,130)
Interest income		8,689	38,369	397,906
Net increase (decrease) in fair value of investments		2,858	10,472	93,833
Interest expense	(6,696)	(183)	(13,004)	
Total nonoperating revenues (expenses)	<u>(104,055)</u>	<u>(2,774)</u>	<u>(407,835)</u>	<u>470,609</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	1,555,612	40,249	(240,419)	(1,107,916)
Capital contributions	359,452		32,251	
Transfers in	1,598,530			
Transfers out	<u>(10,635)</u>			
CHANGE IN NET ASSETS	3,502,959	40,249	(208,168)	(1,107,916)
NET ASSETS (DEFICITS), July 1	<u>20,600,454</u>	<u>545,200</u>	<u>3,000,551</u>	<u>(855,235)</u>
NET ASSETS (DEFICITS), June 30	<u>\$ 24,103,413</u>	<u>\$ 585,449</u>	<u>\$ 2,792,383</u>	<u>\$ (1,963,151)</u>

<u>Employee Benefits Management</u>	<u>Building Services</u>	<u>Total</u>
\$ 18,709,160	\$ 2,233,897	\$ 44,145,225
		3,000,193
		(2,863,952)
<u>18,709,160</u>	<u>2,233,897</u>	<u>44,281,466</u>
43,440	858,507	3,065,441
57,180	506,936	1,374,459
	334,598	665,346
40,605	515,979	3,327,933
500	33,748	7,017,090
		5,890,806
21,243,765	227,373	21,975,381
32,493	48,301	966,874
		178,478
9,910	8,944	113,254
2,657	30,497	2,467,199
<u>21,430,550</u>	<u>2,564,883</u>	<u>47,042,261</u>
<u>(2,721,390)</u>	<u>(330,986)</u>	<u>(2,760,795)</u>
(2,792)	(26,931)	(606,022)
529,368	403	974,735
145,591	(468)	252,286
		(19,883)
<u>672,167</u>	<u>(26,996)</u>	<u>601,116</u>
(2,049,223)	(357,982)	(2,159,679)
		391,703
		1,598,530
		(10,635)
(2,049,223)	(357,982)	(180,081)
<u>(18,988,108)</u>	<u>434,803</u>	<u>4,737,665</u>
\$ <u><u>(21,037,331)</u></u>	\$ <u><u>76,821</u></u>	\$ <u><u>4,557,584</u></u>

CITY OF MODESTO
COMBINING STATEMENT OF CASH FLOWS - INTERNAL SERVICE FUNDS
Year ended June 30, 2002

	<u>Fleet Management</u>	<u>Central Services</u>	<u>Information & Technology Services</u>	<u>Insurance</u>
CASH FLOWS FROM OPERATING ACTIVITIES:				
Receipts from customers and users	\$ 279,303	\$ 34,117	\$ 1,528	\$ 13,465
Receipts from interfund services provided	6,803,333	543,047	3,298,785	12,517,586
Payments to suppliers	(2,002,461)	(54,164)	(1,783,436)	(12,069,489)
Payments to employees	(900,557)	(202,870)	(828,594)	(221,403)
Payments for interfund services used	(371,271)	(85,512)	(49,072)	(871,062)
Net cash provided (used) by operating activities	<u>3,808,347</u>	<u>234,618</u>	<u>639,211</u>	<u>(630,903)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Transfers in	1,598,530			
Transfers out	(10,635)			
Repayments of advances from other funds		(150,000)		
Net cash provided (used) by noncapital financing activities	<u>1,587,895</u>	<u>(150,000)</u>		
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Acquisition and construction of capital assets	(5,850,141)	(9,549)	(418,494)	
Proceeds from sale of capital assets	14,620			
Principal repayments	(8,356)	(11,118)	(178,043)	
Interest paid	(6,696)	(653)	(19,778)	
Net cash used by capital and related financing activities	<u>(5,850,573)</u>	<u>(21,320)</u>	<u>(616,315)</u>	
CASH FLOWS FROM INVESTING ACTIVITIES:				
Interest received	3,358	8,689	38,369	438,938
Net (decrease) in the fair value of investments		2,858	10,472	93,833
Net cash provided by investing activities	<u>3,358</u>	<u>11,547</u>	<u>48,841</u>	<u>532,771</u>
Net increase (decrease) in cash and cash equivalents	(450,973)	74,845	71,737	(98,132)
CASH AND CASH EQUIVALENTS, JULY 1	<u>9,329,906</u>	<u>213,936</u>	<u>956,694</u>	<u>9,613,718</u>
CASH AND CASH EQUIVALENTS, JUNE 30	<u>\$ 8,878,933</u>	<u>\$ 288,781</u>	<u>\$ 1,028,431</u>	<u>\$ 9,515,586</u>

<u>Employee Benefits Management</u>	<u>Building Services</u>	<u>Total</u>
\$ (5,652)	\$ 63,397	\$ 386,158
18,709,160	2,315,122	44,187,033
(14,197,532)	(1,597,590)	(31,704,672)
(43,361)	(853,246)	(3,050,031)
(37,987)	(159,248)	(1,574,152)
<u>4,424,628</u>	<u>(231,565)</u>	<u>8,244,336</u>
		1,598,530
		(10,635)
		<u>(150,000)</u>
		<u>1,437,895</u>
		(6,278,184)
		14,620
		(197,517)
		<u>(27,127)</u>
		<u>(6,488,208)</u>
554,371	1,249	1,044,974
<u>145,591</u>	<u>(468)</u>	<u>252,286</u>
<u>699,962</u>	<u>781</u>	<u>1,297,260</u>
5,124,590	(230,784)	4,491,283
<u>10,548,277</u>	<u>230,815</u>	<u>30,893,346</u>
\$ <u>15,672,867</u>	\$ <u>31</u>	\$ <u>35,384,629</u>

(continued)

CITY OF MODESTO
COMBINING STATEMENT OF CASH FLOWS - INTERNAL SERVICE FUNDS (Continued)
Year ended June 30, 2002

	<u>Fleet Management</u>	<u>Central Services</u>	<u>Information & Technology Services</u>	<u>Insurance</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:				
Operating income (loss)	\$ 1,659,667	\$ 43,023	\$ 167,416	\$ (1,578,525)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation	2,049,264	16,239	359,106	9,438
Change in assets and liabilities:				
(Increase) decrease in accounts receivable	34,795	675	(933)	(90,968)
(Increase) in notes receivable				
Decrease in due from governments				8,775
Decrease in inventories		107,782		
Increase (decrease) in accounts payable and accrued expenses	64,621	66,899	113,622	18,769
Increase in due to other funds				
Increase in compensated absences				
Increase in claims liability				1,001,608
Total adjustments	<u>2,148,680</u>	<u>191,595</u>	<u>471,795</u>	<u>947,622</u>
Net cash provided (used) by operating activities	<u>\$ 3,808,347</u>	<u>\$ 234,618</u>	<u>\$ 639,211</u>	<u>\$ (630,903)</u>
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:				
Capital assets transferred in	\$ 359,452		\$ 32,251	

<u>Employee Benefits Management</u>	<u>Building Services</u>	<u>Total</u>
\$ <u>(2,721,390)</u>	\$ <u>(330,986)</u>	\$ <u>(2,760,795)</u>
2,657	30,497	2,467,201
25	(49,971)	(106,377)
(5,677)		(5,677)
	61,980	70,755
		107,782
162,057	(27,085)	398,883
	84,000	84,000
6,986,956		6,986,956
		1,001,608
<u>7,146,018</u>	<u>99,421</u>	<u>11,005,131</u>
\$ <u><u>4,424,628</u></u>	\$ <u><u>(231,565)</u></u>	\$ <u><u>8,244,336</u></u>
		\$ 391,703

This page is intentionally left blank

**CAPITAL ASSETS USED IN THE OPERATION
OF GOVERNMENTAL FUNDS**

CITY OF MODESTO
CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
SCHEDULE BY FUNCTION AND ACTIVITY
June 30, 2002

	<u>Total</u>	<u>Land</u>	<u>Buildings</u>	<u>Improvements Other Than Buildings</u>	<u>Furnishings and Equipment</u>	<u>Equipment Pool</u>	<u>Infrastructure</u>
General government:							
City council							
City manager	\$ 56,107			\$ 15,666	\$ 40,441		
Personnel	19,053			13,518	5,535		
City attorney	45,261				45,261		
City clerk/auditor	8,358				8,358		
Finance	847,001			56,973	780,796	\$ 9,232	
Parking and traffic	986,697	\$ 424,038	\$ 325,000	3,961	233,698		
	<u>1,962,477</u>	<u>424,038</u>	<u>325,000</u>	<u>90,118</u>	<u>1,114,089</u>	<u>9,232</u>	
Total general government							
Community development	<u>910,010</u>	<u>666,847</u>	<u>39,231</u>	<u>25,613</u>	<u>178,319</u>		
Public safety:							
Fire	8,208,899	197,063	2,460,083	640,112	4,911,641		
Police	17,121,960	1,154,902	12,100,525	616,183	3,250,350		
Total public safety	<u>25,330,859</u>	<u>1,351,965</u>	<u>14,560,608</u>	<u>1,256,295</u>	<u>8,161,991</u>		
Public works	<u>2,987,079</u>	<u>2,409,180</u>	<u>63,913</u>	<u>147,567</u>	<u>366,419</u>		
Highways and streets	<u>383,991,262</u>						<u>\$ 383,991,262</u>
Parks and recreation	<u>46,170,054</u>	<u>15,065,139</u>	<u>4,678,755</u>	<u>26,084,303</u>	<u>341,857</u>		
Total capital assets allocated to functions	461,351,741	<u>\$ 19,917,169</u>	<u>\$ 19,667,507</u>	<u>\$ 27,603,896</u>	<u>\$ 10,162,675</u>	<u>\$ 9,232</u>	<u>\$ 383,991,262</u>
Construction in progress	<u>18,704,716</u>						
Total capital assets	<u>\$ 480,056,457</u>						

This schedule presents only the capital asset balances related to governmental funds. Accordingly, the capital assets reported in internal service funds are excluded from the above amounts. Generally, the capital assets of internal service funds are included as governmental activities in the statement of net assets.

CITY OF MODESTO
CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
SCHEDULE OF CHANGES BY FUNCTION
Year ended June 30, 2002

	General Fixed Assets July 1, 2001	Additions	Deductions	General Fixed Assets June 30, 2002
General government	\$ 2,482,731	\$ 141,560	\$ 661,814	\$ 1,962,477
Community development	1,311,125	59,823	460,938	910,010
Public safety	24,152,734	3,271,647	2,093,522	25,330,859
Public works	2,792,474	2,118,397	1,923,792	2,987,079
Highways and streets	370,713,732	13,409,183	131,653	383,991,262
Parks and recreation	41,936,414	4,965,957	732,317	46,170,054
Construction in progress	18,593,599	4,989,707	4,878,590	18,704,716
	<u>\$ 461,982,809</u>	<u>\$ 28,956,274</u>	<u>\$ 10,882,626</u>	<u>\$ 480,056,457</u>

This schedule presents only the capital asset balances related to governmental funds. Accordingly, the capital assets reported in internal service funds are excluded from the above amounts. Generally, the capital assets of internal service funds are included as governmental activities in the statement of net assets.

CITY OF MODESTO
CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
SCHEDULE BY SOURCE
June 30, 2002

GENERAL FIXED ASSETS:

Land	\$ 19,917,169
Buildings	19,667,507
Improvements	27,603,896
Furnishing and equipment	10,162,675
Equipment pool	9,232
Infrastructure	383,991,262
Construction in progress	18,704,716
	<u>\$ 480,056,457</u>
Total general fixed assets	<u>\$ 480,056,457</u>

INVESTMENT IN GENERAL FIXED ASSETS FROM:

Infrastructure	\$ 383,991,262
City funding	84,972,997
State grants	2,218,440
Federal grants	5,546,099
Contributions/donations	3,327,659
	<u>\$ 480,056,457</u>
Total investment in general fixed assets	<u>\$ 480,056,457</u>

This schedule presents only the capital asset balances related to governmental funds. Accordingly, the capital assets reported in internal service funds are excluded from the above amounts. Generally, the capital assets of internal service funds are included as governmental activities in the statement of net assets.

STATISTICAL SECTION

CITY OF MODESTO
GOVERNMENT-WIDE REVENUES
Last Ten Fiscal Years
(amounts expressed in thousands)

Fiscal Year	PROGRAM REVENUES			GENERAL REVENUES				Total
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Taxes	Grants and Contributions Not Restricted to Specific Programs	Unrestricted Investment Earnings	Miscellaneous	
2002	\$95,516	\$14,800	\$16,889	\$37,942	\$39,547	\$8,098	\$1,112	\$213,904

NOTE: The above information is not available for the last ten years as the government-wide financial statements were not a required part of the financial statements until 2002. As such, the above information will not be available for the last ten years until 2011.

CITY OF MODESTO
GOVERNMENT-WIDE EXPENSES BY FUNCTION
Last Ten Fiscal Years
(amounts expressed in thousands)

<u>Fiscal Year</u>	<u>General Government</u>	<u>Community Development</u>	<u>Highways and Streets</u>	<u>Public Works</u>	<u>Parks and Recreation</u>	<u>Public Safety</u>	<u>Interest on Long-term Debt</u>	<u>Parking</u>	<u>Water</u>	<u>Sewer</u>	<u>Storm Drain</u>	<u>Airport</u>	<u>Bus</u>	<u>Golf</u>	<u>Community Center</u>	<u>Total</u>
2002	\$12,085	\$7,961	\$18,281	\$4,646	\$15,440	\$56,563	\$4,737	\$696	\$27,830	\$23,339	\$5,572	\$1,130	\$8,629	\$2,441	\$2,173	\$191,523

NOTE: The above information is not available for the last ten years as the government-wide financial statements were not a required part of the financial statements until 2002. As such, the above information will not be available for the last ten years until 2011.

CITY OF MODESTO
GENERAL GOVERNMENTAL EXPENDITURES BY FUNCTION (1)
Last Ten Fiscal Years

Year Ended June 30	General Government	Community Development	Highways and Streets	Public Works	Parks and Recreation	Public Safety	Capital Outlay	Debt Service	Total
1993	\$ 7,271,082		\$ 6,572,923	\$ 4,325,616	\$ 8,888,326	\$ 35,622,785		\$ 7,429,553	\$ 70,110,285
1994	7,934,854		6,796,845	2,371,923	9,868,996	35,466,318		3,809,045	66,247,981
1995	8,869,195		7,894,106	3,066,056	9,172,517	37,028,679		3,967,695	69,998,248
1996	9,471,466		9,519,874	3,414,399	8,713,861	38,886,484		3,783,059	73,789,143
1997	9,229,119		10,756,336	3,658,718	9,269,256	41,269,058		3,804,752	77,987,239
1998	9,959,685		7,522,651	3,583,622	9,783,260	45,377,215		4,871,263	81,097,696
1999	10,601,869		12,288,853	4,915,685	10,001,917	46,470,551		7,075,155	91,354,030
2000	10,808,432		14,150,611	4,444,216	10,661,706	45,912,600		7,055,948	93,033,513
2001	11,283,157		10,244,794	4,513,156	11,691,094	49,888,819		5,875,943	93,496,963
2002	10,112,841	\$ 6,836,202	7,961,328	4,614,294	13,558,505	52,608,768	\$ 5,592,006	6,073,382	107,357,326

NOTE: (1) Includes General, Special Revenue, and Debt Service Funds.

**CITY OF MODESTO
GENERAL REVENUES BY SOURCE (1)
Last Ten Fiscal Years**

Year Ended June 30	Taxes (2)	Licenses and Permits	Inter- governmental	Charges for Services	Special Assess- ments	Interest and Rent	Fines and Forfeits	Miscel- laneous	Total
1993	41,481,499	\$ 232,184	\$ 10,878,298	\$ 2,465,147	\$ 296,426	\$ 2,451,516	\$ 559,142	\$ 2,532,316	\$ 60,896,528
1994	43,555,431	287,596	14,181,288	2,421,953	285,538	2,276,970	594,274	771,841	64,374,891
1995	42,731,968	216,368	16,026,019	2,091,784	127,623	2,018,667	780,576	460,046	64,453,051
1996	44,607,144	207,969	18,837,062	4,291,429	251,880	2,126,551	661,675	2,349,333	73,333,043
1997	44,796,523	178,291	20,842,290	5,852,125	285,408	1,987,852	761,451	1,482,358	76,186,298
1998	47,574,649	132,659	19,405,954	6,660,069	235,558	2,205,536	965,941	1,102,410	78,282,776
1999	51,775,542	127,182	24,112,359	6,977,522	180,314	1,961,020	1,329,768	874,868	87,338,575
2000	55,897,017	122,669	25,250,266	7,605,327	284,317	2,053,260	1,280,123	1,247,889	93,740,868
2001	61,810,784	183,226	25,373,037	8,642,823	309,649	2,738,665	1,278,945	2,921,497	103,258,626
2002	37,189,157	173,348	58,715,696	15,410,128	823,091	2,113,712	1,055,966	1,412,373	116,893,471

NOTE: (1) Includes General, Special Revenue, and Debt Service Funds.
(2) Includes the following taxes (with percent of total taxes for 2002):

Sales Tax -	37%
Utility Users Tax -	21%
Property Tax -	14%
Business License Tax -	12%
Other -	16%
	100%

CITY OF MODESTO
PROPERTY TAX LEVIES AND COLLECTIONS
Last Ten Fiscal Years

<u>Year Ended June 30,</u>	<u>Total Tax Levy (1)</u>	<u>Current Tax Collections</u>	<u>Percent of Levy Collected</u>	<u>Delinquent Tax Collections</u>	<u>Total Tax Collections</u>	<u>Total Collections As Percent of Current Levy (2)</u>	<u>Delinquent Taxes</u>	<u>Outstanding Delinquent Taxes as Percent of Current Levy</u>
1993	\$ 7,490,321	\$ 7,206,490	\$ 96.21	\$ 338,930	\$ 7,545,420	100.74%	\$ 163,416	2.18%
1994	6,790,666	6,693,479	98.57		6,693,479	98.57		
1995	6,839,476	6,781,170	99.15		6,781,170	99.15		
1996	6,860,591	6,830,585	99.56		6,830,585	99.56		
1997	6,874,632	6,805,779	99.00	(9,055)	6,796,724	98.87		
1998	6,802,072	6,761,188	99.40	22,718	6,783,906	99.73		
1999	6,901,321	6,822,805	98.86	60,368	6,883,173	99.74		
2000	7,185,664	7,192,544	100.09	13,267	7,205,811	100.28		
2001	7,576,428	7,536,691	99.48	13,269	7,549,960	99.65		
2002	7,913,027	7,790,802	98.46		7,790,802	98.46		

- NOTES: (1) Source of Data: Stanislaus County Assessor, includes exempt organizations.
(2) Total collections include taxes resulting from "escape assessments". These are comprised of assessments to property not known to exist when the original roll was compiled and other adjustments to the roll.

CITY OF MODESTO
ASSESSED AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY (1)
Last Ten Fiscal Years

Year Ended June 30	Real Property		Personal Property		Total		Ratio of Total Assessed to Total Estimated Actual Value
	Assessed Value	Estimated Actual Value	Assessed Value	Estimated Actual Value	Assessed Value	Estimated Actual Value	
1993	\$ 6,392,682,769	\$ 6,392,682,769	\$ 297,641,740	\$ 297,641,740	\$ 6,690,324,509	\$ 6,690,324,509	\$ 100
1994	6,572,565,297	6,572,565,297	303,066,969	303,066,969	6,875,632,266	6,875,632,266	100
1995	6,636,430,713	6,636,430,713	303,108,156	303,108,156	6,939,538,869	6,939,538,869	100
1996	6,658,660,668	6,658,660,668	312,116,805	312,116,805	6,970,777,473	6,970,777,473	100
1997	6,696,422,127	6,696,422,127	301,314,838	301,314,838	6,997,736,965	6,997,736,965	100
1998	6,733,847,244	6,733,847,244	314,105,845	314,105,845	7,047,953,089	7,047,953,089	100
1999	6,814,118,056	6,814,118,056	364,091,322	364,091,322	7,178,209,378	7,178,209,378	100
2000	7,113,017,315	7,113,017,315	374,764,312	374,764,312	7,487,781,627	7,487,781,627	100
2001	8,284,751,572	8,284,751,572	465,640,345	465,640,345	8,750,391,917	8,750,391,917	100
2002	9,240,625,466	9,240,625,466	400,351,138	400,351,138	9,640,976,604	9,640,976,604	100

NOTES: (1) Source of Information: Stanislaus County Auditor (AC 4001), Assessor - Last Equalized Roll.

CITY OF MODESTO
PROPERTY TAX RATES - ALL OVERLAPPING GOVERNMENTS
(PER \$100 OF ASSESSED VALUE)
Last Ten Fiscal Years

<u>Year Ended June 30</u>	<u>Stanislaus County</u>	<u>School Bonds (1)</u>	<u>Total</u>
1993	1.00	.1058	1.1058
1994	1.00	.1212	1.1212
1995	1.00	.0729	1.0729
1996	1.00	.0964	1.0964
1997	1.00	.1009	1.1009
1998	1.00	.1044	1.1044
1999	1.00	.0581	1.0581
2000	1.00	.0920	1.0920
2001	1.00	.0930	1.0930
2002	1.00	.0824	1.0824

Source of Data: Stanislaus County Auditor - Tax Rates 2002-2003.
(1) Modesto School Districts Only

CITY OF MODESTO
SPECIAL ASSESSMENT BILLINGS AND COLLECTIONS
Last Ten Fiscal Years

<u>Year Ended June 30,</u>	<u>Current Assessments Billed</u>	<u>Current Assessments Collected</u>	<u>Ratio of Collections to Amount Due</u>	<u>Outstanding Assessments</u>
1993	\$ 204,871	\$ 196,501	96	\$ 2,806,517
1994	213,842	211,765	99	2,567,978
1995	220,959	220,585	99	2,330,764
1996	234,634	227,308	97	2,092,386
1997	256,195	251,065	98	1,868,041
1998	195,534	190,925	98	1,621,381
1999	190,789	190,789	100	1,309,337
2000	169,936	168,438	99	1,104,311
2001	165,123	150,614	91	893,551
2002	132,168	129,352	98	626,095
	(1)	(2)		(3)

- (1) Principal levied on prior year tax roll in 2001/02
- (2) Total received on current year tax roll
- (3) Total of Assessment Receivable

CITY OF MODESTO
COMPUTATION OF LEGAL DEBT MARGIN
June 30, 2002

Net assessed value (1)		\$ 9,400,985,446
Plus homeowners' exemption (1)		<u>239,991,158</u>
Gross assessed value (1)		\$ 9,640,976,604
Debt limit - 15% of gross assessed value (2)		\$ 1,446,146,491
Amount of debt applicable to debt limit:		
Total general bonded debt, including special assessment debt	\$ 2,375,000	
Less: Assets in debt service funds available for payment of principal		
Other deductions: Special assessment debt	<u>2,375,000</u>	
Total deductions		3,113,619
Total amount of debt applicable to debt limit		<u>0</u>
Legal debt margin		<u><u>\$ 1,446,146,491</u></u>

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

CITY OF MODESTO
COMPUTATION OF DIRECT AND OVERLAPPING DEBT
June 30, 2002

<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>1,636,381</u>	100%	\$ <u>1,636,381</u>
Overlapping debt - school districts:			
Ceres Unified District		10.0	
Empire Union School District		35.0	
Modesto Elementary School District	15,260,000	72.5	11,063,500
Modesto High School District	22,970,000	68.5	15,734,450
Sylvan School District	11,610,000	85.0	9,868,500
Salida Union Elementary District	2,230,000	27.0	602,100
Stanislaus Union School District	<u>5,175,000</u>	33.0	<u>1,707,750</u>
Total overlapping debt	<u>57,245,000</u>		<u>38,976,300</u>
Total direct and overlapping debt	\$ <u>58,881,381</u>		\$ <u>40,612,681</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
CONTINUING DISCLOSURE REQUIREMENTS INFORMATION
Year Ended June 30, 2002

Wastewater Treatment Facility Refunding Revenue Bonds Series 1996 and Revenue Bonds Series 1997

Connection charge information:

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

Connection charge:	\$500 per Equivalent Dwelling Unit for residential units \$2,000 per acre for commercial and industrial property
Sub-trunk sewer charge:	\$645 per acre
Connection (lateral) charge:	\$33 per linear foot of lot frontage adjacent to the sewer line.

Customer Base of the Enterprise, Year Ended 6/30/02

<u>Category</u>	<u>Number of Accounts</u>	<u>% of Total Accounts</u>	<u>% of Customer Revenues</u>
Residential	57,174	95.83	48.5
Commercial	2,439	4.09	19
Industrial	52	0.08	32.5

Ten Largest Users of Sewer Facilities, Year Ended 6/30/02

<u>User</u>	<u>% of Sewer Operating Revenue</u>
1) Stanislaus Foods	6.11
2) Signature Fruit	5.99
3) Del Monte	6.23
4) Frito-Lay, Inc.	2.22
5) E & J Gallo Winery	2.06
6) City of Ceres	2.05
7) Foster Farms	1.85
8) Modesto Tallow	1.29
9) Nestle Food Company	0.56
10) Kraft/General Foods Corp.	0.42

There was a 5% sewer rate increase on October 1, 2001.

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	
General Fund Revenues, Expenditures and Changes in Fund Balance	Page 22	
Principal Amount of Bonds and Other Parity Debt	Page 43	(Note III-C)
Historical Debt Service Coverage	Page 117	
Property Tax Levies and Collections	Page 109	
Assessed Value of Taxable Property, Last 5 Fiscal Years	Page 108	
Property Value and Construction Activity, Last 5 Fiscal Years	Page 118	

(continued)

CITY OF MODESTO
CONTINUING DISCLOSURE REQUIREMENTS INFORMATION (continued)
Year Ended June 30, 2002

Modesto Public Financing Authority Lease Revenue Bonds, Series 1997
John Thurman Field Renovation Project

Update of Stadium and Insurance Information

In connection with its agreement with the Modesto A's minor league professional baseball team to continue playing baseball in Modesto, the City renovated and improved the John Thurman Field stadium. This Project was partially funded by the Series 1997 Lease Revenue Bonds. The improvements meet or exceed the requirements of the Professional Baseball Agreement between Major League Baseball and the National Association of Professional Baseball Leagues, which governs minor league baseball. Stadium improvements included expansion of seating from 2,500 to 4,000; expanded parking capacity, with improved lighting and security; renovation to the club house for both the Modesto A's and visiting teams; expansion of outfield dimensions; and addition of a state-of-the-art public address and speaker system. The Modesto A's began playing their home games in the renovated stadium on May 7, 1997.

All insurance required by the Lease Revenue Bond legal documents is currently in full effect. Coverage includes public liability, property damage, fire and extended coverage, and rental interruption insurance.

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

(continued)

CITY OF MODESTO
CONTINUING DISCLOSURE REQUIREMENTS INFORMATION (continued)
Year Ended June 30, 2002

1997 Water Utility System Refinancing Project, Refunding Revenue Certificates of Participation, and
Modesto Irrigation District Financing Authority Domestic Water Project Refunding Revenue Bonds, Series 1998D

Reserve Fund Requirement as of 6/30/02	\$0 (covered by surety bond, issued by Federal Guaranty Insurance Company)
Balance in Parity Reserve Fund as of 6/30/02	\$0
Balance in Rate Stabilization Fund as of 6/30/02	\$3,000,000

Ten Largest Customers of Water Utility System, Year Ended 6/30/02

<u>Customer</u>	<u>Business Type</u>	<u>% of Total Water Sales Revenue</u>
1) Signature Fruit	Cannery	1.95
2) E & J Gallo Winery	Winery	1.34
3) Stanislaus Foods	Cannery	1.14
4) Del Monte Foods	Cannery	0.64
5) Foster Farms	Dairy Processor	0.60
6) Doctors Hospital	Hospital	0.60
7) Memorial Hospital	Hospital	0.59
8) Nestle Food Company	Food Processor	0.50
9) Stanislaus Co. Housing Auth.	Housing Authority	0.30
10) General Foods Corp.	Food Processor	0.19

Water Sales Revenue, Year Ended 6/30/02

Residential - flat rates	\$16,419,292
Commercial, industrial and municipal - metered rates	10,233,059
Total Water Sales	<u><u>\$26,652,351</u></u>

Average Monthly Water Service Charges as of 6/30/02 - Residential Accounts

Zone 1	\$20.60
Zone 2	28.58
Zone 3	18.20

Current Water Rates and Charges as of 6/30/02 - Commercial Accounts

<u>Meter Size</u>	<u>Zone 1</u>	<u>Zone 2</u>	<u>Zone 3</u>
3/4"	\$13.63	\$8.12	\$11.12
1"	18.14	10.17	13.94
1 1/2"	22.54	15.53	21.09
2"	27.20	21.09	28.54
3"	36.27	33.73	45.61
4"	47.16	51.58	69.22
6"	70.90	83.08	111.29
8"	90.55	119.27	159.36
10"	109.16	180.55	241.79
12"	127.83	219.36	293.88

Meter rates shown are for the first 1,680 cubic feet per month. Additional volume charges also apply, as follows:
Zone 1 - \$.82 for each 100 cubic feet over 1,680. Zone 2- \$1.005 for the first 100 cubic feet, and \$.971 for each additional 100 cubic feet. Zone 3 - \$601 for the first 100 cubic feet, and \$552 for each additional 100 cubic feet.

(1) Water Fund parity debt obligation, 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. Balance of these bonds as of 6/30/02 is \$87,070,000. (continued)

CITY OF MODESTO
CONTINUING DISCLOSURE REQUIREMENTS INFORMATION (continued)
Year Ended June 30, 2002

1997 Water Utility System Refinancing Project, Refunding Revenue Certificates of Participation, and
Modesto Irrigation District Financing Authority Domestic Water Project Refunding Revenue Bonds, Series 1998D

Water Utility System - Debt Service Coverage
Fiscal Year 2002

Gross Operating Revenues:	
Charges for services	\$27,376,240
DBCP settlement	230,241
Connection charges	1,248,689
Interest and rental income	929,353
Total Gross Operating Revenues	<u>29,784,523</u>
Operating Expenses:	
Total operating expenses	25,968,732
Less: Depreciation	(2,297,851)
T&DA debt service component paid to MID	(6,714,332)
Plus: property taxes	71,579
Total Operating Expenses	<u>17,028,128</u>
Net Operating Revenues	<u><u>\$12,756,395</u></u>
Total Debt Service:	
1997 Refunding Certificates of Participation	1,771,768
Treatment & Delivery Agreement	6,714,332
CDWR Loan	264,654
Total Debt Service	<u><u>\$8,750,754</u></u>
Debt Service Coverage (Net Operating Revenues/Total Debt Service)	1.46

Updates of 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 41	(Note III-C)

CITY OF MODESTO
REVENUE BOND COVERAGE
WASTEWATER TREATMENT FACILITY REVENUE BONDS
Last Ten Fiscal Years

Year Ended June 30,	Gross Revenue (1)	Operating Expenses (2)	Net Revenue Available for Debt Service	Total Debt Service (3)	Coverage (4)
1993	\$ 15,429,482	\$ 7,281,669	\$ 8,147,813	\$ 1,146,945	\$ 7.10
1994	16,411,093	7,480,437	8,930,656	1,729,435	5.16
1995	17,396,410	8,349,453	9,046,957	1,793,798	5.04
1996	18,753,549	9,615,007	9,138,542	1,793,798	5.09
1997	19,239,545	11,068,264	8,171,281	1,721,999	4.75
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

Notes: (1) Gross revenue consists of charges for services, interest and rental income, and connection fees of the Sewer Fund.

(2) Total Sewer Fund operating expenses exclusive of depreciation. Beginning with fiscal year 1996 this figure also includes allocated indirect costs and property taxes.

(3) Includes total principal and interest of Wastewater Treatment Facility Revenue Bonds, Series 1993 and 1997, and Refunding Revenue Bonds, Series 1987 and 1996. The 1987 Refunding Bonds were refunded and called on November 1, 1996.

(4) Calculation of debt service coverage beginning with fiscal year 1996 is based on the calculation method recommended for continuing disclosure under the Series 1996 Refunding Revenue Bonds and the Series 1997 Revenue Bonds. Previous years have not been changed to agree with new calculation method.

CITY OF MODESTO
PROPERTY VALUE, CONSTRUCTION AND BANK DEPOSITS
Last Ten Fiscal Years

Year Ended June 30,	Construction		Residential Construction		Property Value (2)		Bank Deposits (3)
	# Units (1)	Value	# Units (1)	Value	Total	Nontaxable	
1993	25	\$ 14,098,213	573	\$ 48,157,880	\$ 6,690,324,509	\$ 386,169,908	\$ 1,894,814,000
1994	37	12,630,070	371	28,438,513	7,061,439,622	409,747,488	1,339,853,000
1995	24	10,875,094	262	23,249,474	7,146,448,918	434,451,094	1,342,070,000
1996	32	6,724,177	380	30,083,213	7,187,220,462	445,585,075	1,383,751,000
1997	45	10,535,229	342	33,969,698	7,220,036,341	450,211,445	1,629,186,000
1998	50	24,797,092	709	75,798,048	7,296,729,257	477,617,315	1,367,241,000
1999	75	58,547,153	841	97,787,802	7,462,151,063	519,931,885	1,451,027,000
2000	77	73,649,309	1558	206,898,633	7,799,561,770	548,087,273	1,533,773,000
2001	68	71,621,454	1,649	296,190,623	8,316,911,484	579,400,459	1,692,629,000
2002	72	38,753,224	1,147	223,302,334	9,105,226,864	594,428,278	N/A

Source of Data: (1) City of Modesto, Building Inspection Division, Community Development Department.
(2) Stanislaus County Assessor.
(3) Source-Findley Reports, Inc., Anaheim, CA. Latest information available is for 2001.

CITY OF MODESTO
PRINCIPAL PAYERS OF PROPERTY TAX
Year Ended June 30, 2002

<u>Taxpayer</u>	<u>Type of Business</u>	<u>Assessed Value</u>	<u>Percent of Total</u>
National Medical Hospitals	Medical	\$ 119,347,348	1.57 %
Macerich Vintage Faire Associates	Shopping Center	76,452,010	1.02
Foster Farms Dairy	Food Processing	56,258,269	0.35
Phenix Management Corp.	Food Processing	53,365,344	0.71
Liljenquist Modesto	Real Estate	37,525,537	0.50
Hamilton Meredith	Real Estate	29,821,054	0.40
McClatchy Newspapers	Publishing	22,447,413	0.28
Gallo Glass	Manufacturing	18,778,968	0.14
DJD Partners	Real Estate	17,977,150	0.24
Stanislaus Partners	Real Estate	10,201,807	0.07
All others			94.72
			<u>100.00</u> %

Source of Data: Stanislaus County Auditor (AC3801)

CITY OF MODESTO
SCHEDULE OF INSURANCE POLICIES IN FORCE
June 30, 2002

Coverage	Company	Policy Number(s)	Limits of Liability	Term	Premium	Retention or Deductible
Airport Comprehensive Gen. Liability Hangerkeepers Legal Liability Contractual Liability	Ace Property & Casualty Insurance Company	AAPN00034642	\$30,000,000	6/30/02 - 6/30/03	\$ 13,126	\$0
Gen. Liability Auto Liability Errors & Omissions (excludes Airport)	ACCEL	ACC 0203	\$19,000,000	7/1/02 - 6/30/03	\$355,867	\$1,000,000 (SIR)
City Property (buildings & contents) Fire Trucks-(Collison) All vehicles Flood (\$1 million)	PEPIP (various carriers)	BIND721115	\$1,000,000,000 per occurrence w/ various sub-limits per occurrence	5/15/02 - 5/15/03	\$233,427	\$5,000 \$25,000 Flood
Boiler & Machinery	CNA INSURANCE	BM1098569140 BIND720935	\$ 50,000,000	5/15/02- 5/15/03	Included in PEPIP Premium \$9,940	\$5,000 all objects except: \$50,000 all objects over 350 hp or 2500 kw/kva/amps or 10,000 sq. ft. \$250,000 all objects over 750 hp or 10,000 kw/kva/amps or 75,000 sq. ft. \$375,000 all objects over 25,000 hp or 25,000 hp or 25,000 kw/kva/amps or 250,000 sq. ft.
Tuolumne River Regional Park Errors and Omissions	EVANSTON INSURANCE CO.	TBD	\$ 5,000,000	7/1/02- 7/1/03	\$3,887	\$ 0
Workers' Compensation	CSAC-EIA	6890-0005-02A	\$ 5,000,000	7/1/02- 6/30/03	\$70,329	\$ 400,000 (SIR)
Faithful Performance and Crime Bond (All Officers & Employees)	Great American Insurance Co.	GVT124-37-03-03	\$ 1,000,000	4/1/00 - 4/1/03	\$ 13,119 3-Yr Prepaid Net Premium	\$ 5,000
Sabotage & Terrorism	JLT Risk Solutions LTD	LUO231680		7/15/02 - 5/15/03	\$18,459.07 (\$21,453.64 for 12-month policy)	
City/County Capital Improvements - JPA	Various	BIND720889	\$500,000,000 loss limit per occurrence w/various sublimits	5/15/02 - 5/15/03	\$41,395	\$5,000

Source of data: City of Modesto Risk Manager

CITY OF MODESTO
SALARIES AND SURETY BONDS OF PRINCIPAL OFFICIALS
June 30, 2002

<u>Name and Title of Official</u>	<u>Annual Salary</u>	<u>Amount of Surety Bond</u>
Jack Crist, City Manager	\$ 151,261	\$ 25,000
Jean Zahr, City Clerk/Auditor	75,986	50,000
Marilyn Romey, Assistant City Clerk/Auditor	49,110	50,000
Director of Finance (Vacant)	103,908	500,000
All Other Employees		25,000

Source of data: City of Modesto City Clerk/Auditor

CITY OF MODESTO
DEMOGRAPHIC AND MISCELLANEOUS STATISTICAL DATA
June 30, 2002

Date of incorporation	August 6, 1884
Date of adoption of present City charter	January 14, 1963
Form of government (March 12, 1951)	Council-Manager
Elevation	91 feet
Area in square miles	36.07

Demographic statistics:

Population (1):

1910	4,034
1920	9,241
1930	13,842
1940	16,379
1950	17,389
1960	36,585
1970	61,712
1980	106,963
1990	164,730
2000	188,286
01/01/02	198,600

Housing units:

1980 (2)	42,570
1990 (3)	60,878
2000 (4)	67,683
2002 (4)	60,878

Median housing unit value (4)	\$126,000.00
Median monthly rent (4)	\$639.00
Median age (4)	32.7
Median family income (4)	\$45,681.00

Education level of population 25 or older (4):

Elementary	24.9%
High School	50.7%
College	16.5%

Election Information:

Registered voters, last general municipal election	90,095
Votes cast, last municipal election	27,209
Percentage of voter balloting	30.20

(Continued)

Sources of data: (1) State of California Department of Finance

(2) 1980 U.S. Census.

(3) 1990 U.S. Census.

(4) 2000 U.S. Census.

CITY OF MODESTO
DEMOGRAPHIC AND MISCELLANEOUS STATISTICAL DATA (continued)
June 30, 2002

Permanent employees authorized	1,265
Fire Protection: Underwriter's Classification - Class 2	
Fire Stations	10
Positions authorized	159
Number of fire hydrants	6,500
Police Protection:	
Police Station	1
Area command offices	4
Positions authorized	367
Number of vehicles	214
Recreational Areas (acres):	
Developed Parks	
56 fully or partially developed	425.41
1 Regional Park (TRRP developed)	74.00
Undeveloped Parks	
7 Neighborhood	37.74
2 Community	62.00
2 Area	450.30
Total: 12 Undeveloped Parks	550.04
Special Facilities	
1 Baseball stadium	20.00
3 Golf courses	363.29
Total: 4 Special Facilities	383.29
Total Recreational Areas	1,432.74
Building Permits:	
Permits issued in 2001-2002	5,853
Estimated cost of construction	\$343,631,567
Streets:	
Streets (miles)	577
Street lights	12,450
Traffic signals	196
Parking Facilities:	
Number of parking lots (incl. garages)	15
Number of off-street parking spaces	2,503

(Continued)

CITY OF MODESTO
DEMOGRAPHIC AND MISCELLANEOUS STATISTICAL DATA (continued)
June 30, 2002

Elderly and handicapped van service:

Number of vehicles	11
Seating capacity vans	12
Average daily number of passengers	350
Average miles per month	43,120

Airport:

For year ended June 30, 2002

Number of passengers enplaned	18,854
Number of passengers deplaned	18,480
Total aircraft movements	89,104
Annual fuel consumption in gallons	900,724
Total number of tenant aircraft	182
Total acreage	450
Parking apron acreage	9
Aircraft tie down acreage	26
Automobile parking acreage	10
Length of longest runway in feet	5,911
Number of hangars	27
Number of air carriers scheduled per day	4
Number of runways	2

Bus Service:

Number of buses	36
Number of routes	17
Miles of routes	232
Seating capacity per bus	36
Average daily number of passengers	11,107
Average miles per month	118,564
Frequency of service	30 min. & 60 min.

Sewer Service:

Miles of storm sewers	112.8
Miles of sanitary laterals	455.07
Miles of sanitary trunks and industrial	80.68

Water Service:

Average daily consumption in gallons	100,552,964
Number of wells	118
Miles of water mains	1,352

Sources of data: Various City departments