

February 25, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

This is the sixth year the City of Modesto Community Facilities District No. 1996-1 (Village One) (the District) has issued its financial statements in the format prescribed by the provisions of Government Accounting Standards Board Statement No. 34 (GASB 34), which requires the District to provide this overview of its financial activities for the fiscal year. This change in financial statement format was necessary because the District is a component unit of the City of Modesto (City), which has implemented GASB 34.

Please read this overview in conjunction with your reading of the accompanying basic financial statements.

THE PURPOSE OF THE DISTRICT

The District is a component unit of the City. It is controlled by the City, and the City Council is the District's governing body. City employees perform most all the duties and functions required of the District, but certain tasks are provided by third parties under contract.

The District's purpose under California law is to provide a funding and reimbursement mechanism for public facilities and services authorized by the District. The District is the vehicle that will be used to ensure that all landowners in the Specific Plan area contribute to the cost of public improvements. Additional information on the District can be found

below, and in Note 1 to the accompanying financial statements.

BACKGROUND AND MANAGEMENT'S DISCUSSION

In 1989-1990, the City of Modesto initiated planning of the area now known as Village One. The original Village One plan contemplated a pedestrian oriented, self-contained neighborhood concept that offered housing to accommodate various income levels. In addition, the original plan called for a number of landscaped areas as well as other amenities. Over the years, substantial revisions to the original plan occurred including a reconfiguration of streets, a reduction of landscaped areas, and modification of the financing strategy. At the close of FY 2003-2004, the Village One area was based on the Specific Plan, the Infrastructure Finance Plan and the Facilities Master Plan adopted in April 2003. The 2003 Infrastructure Financing Plan calls for a combination of funding sources including the City's Capital Facilities Fees (CFF*) program and a Mello-Roos Community Facilities District (CFD).

In February 2004, the City Council formed City of Modesto Community Facilities District No. 2004-1 (Village One #2). This CFD, in conjunction with CFD No. 1996-1, will provide the funding needed to complete the CFD-funded core infrastructure needed for the Village One area.

The Floyd Avenue widening project between Oakdale Road and Roselle Avenue was completed this fiscal year. An additional capital project(s) will be budgeted in fiscal year 2008-2009.

FISCAL 2007 FINANCIAL HIGHLIGHTS

Financial highlights of the year include the following:

* The CFF program is a city-wide development impact fee whereas the Village One CFD is a taxing district that is created to provide a funding and reimbursement mechanism for public facilities and services required to serve the Village One area

Government-wide:

- The District's net assets decreased \$1.13 million in fiscal 2007. This decrease is due to the fact that all new developing properties in the Village One area are participating in CFD No. 2004-1 (Village One #2).
- At June 30, 2007, net assets were \$3.69 million.
- Total District revenues were \$300,190.

Fund Basis:

- Capital Project Fund revenues were \$213,927, \$76,101 lower than the prior year. Expenditures of \$1.25 million were \$1.13 million less than the previous year. Capital Project Fund ending fund balance decreased \$1.03 million to \$2.31 million. These decreases are due to the fact that all new developing properties in the Village One area are participating in CFD No. 2004-1 (Village One #2).
- Special Revenue Fund revenues of \$86,263 were \$533,656 lower than the prior year, while expenditures of \$176,198 were \$47,497 less than last year.
- Special Revenue Fund ending fund balance decreased \$89,935 to \$1.39 million as a portion of the reserve funds were used for fiscal year 2006-07 expenditures.

THE BASIC FINANCIAL STATEMENTS

The basic financial statements comprise the government-wide financial statements and the fund financial statements; these two sets of financial statements provide two different views of the District's financial activities and financial position.

The Government-wide Financial Statements

The government-wide financial statements provide a longer-term view of the District's activities as a whole and comprise the statement of net assets and the statement of activities.

The statement of net assets provides information about the financial position of the District as a whole, including all its capital assets and long-term liabilities. The statement of activities provides information about the District's revenues and all its expenses. The statement of activities explains in detail the change in net assets for the year.

The statement of net assets and the statement of activities present information about the following:

- ***Governmental activities***—All of the District's basic services are considered to be governmental activities, including formation, financing, construction and maintenance activities. These services are supported by formation deposits, special facilities taxes and annual maintenance assessments.

Government-wide financial statements are prepared on the accrual basis, which means they measure the flow of all economic resources of the District as a whole, similar to that used by the private sector.

Fund Financial Statements

The fund financial statements report the District's operations in more detail than the government-wide statements and focus primarily on the short-term activities of the District's two funds. The fund financial statements measure only current revenues and expenditures and fund balances; they exclude capital assets, long-term debt and other long-term amounts.

The fund financial statements provide detailed information about each of the District's most significant funds, called major funds. The concept of major funds, and the determination of which are major funds, was established by GASB 34 and replaces the concept of combining

like funds and presenting them in total. Instead, each major fund is presented individually, with all non-major funds summarized and presented only in a single column. Subordinate schedules present the detail of these non-major funds. Major funds present the major activities of the District for the year, and may change from year to year as a result of changes in the pattern of District's activities. All of the District's funds are presented here as major funds; their purpose is explained in Note 1 to the financial statements.

All the District's funds are governmental funds; financial statements for these funds are prepared on the modified accrual basis, which means they measure only current financial resources and uses.

FINANCIAL ACTIVITIES OF THE DISTRICT AS A WHOLE

This analysis focuses on the net assets and changes in net assets of the District's governmental activities in the government-wide statement of net assets and statement of activities that follow.

As of June 30, 2007, total assets of \$4.04 million were offset by liabilities of \$349,197. The District's net assets from governmental activities decreased to \$3.69 million in 2007 from \$4.82 million in 2006. This decrease is the change in net assets reflected in the statement of activities. All of the District's net assets are restricted, as follows: \$2.30 million for acquisition or construction of infrastructure, and \$1.39 million for maintaining that infrastructure.

FISCAL YEAR 2007 GOVERNMENTAL ACTIVITIES

The District's fiscal 2007 revenue came primarily from annual maintenance special taxes, which amounted to \$16,097, and facilities special taxes of \$83,557. Investment earnings contributed an additional \$200,536 in fiscal 2007.

District expenses of \$1.43 million in fiscal 2007 were principally for capital outlay, which amounted to \$1.23 million, with \$193,188 in annual maintenance expenses.

THE DISTRICT'S FUND FINANCIAL STATEMENTS

At June 30, 2007, the District's governmental funds reported combined fund balances of \$3.69 million, which is a decrease of \$1.13 million compared with last year. The Capital Projects Fund realized a \$1.03 million decrease, due to the fact that all new developing properties in the Village One area are participating in CFD No. 2004-1 (Village One #2), and the Special Revenue Fund realized a \$89,935 decrease. The decrease in the Special Revenue Fund occurred because reserve funds were used for the maintenance expenses.

CAPITAL ASSETS

Under GASB 34, the District is required to record all its capital assets, including infrastructure, at their historical cost, and to depreciate these assets over their estimated useful lives. However, title to all infrastructure assets acquired or constructed by the District is turned over to the City of Modesto upon completion and acceptance. Accordingly, capital outlay expenditures are reported in both the District's fund and government-wide financial statements. Therefore, the District reports no long-term capital assets.

DEBT ADMINISTRATION

There was no long-term debt, representing reimbursements or credits due to developers, by agreement, for infrastructure installed in excess of the developers' special facilities tax obligations, as of June 30, 2007. This District does not have the authority to issue bonded debt.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

These Component Unit Financial Statements are intended to provide citizens, taxpayers, investors, and creditors with a general overview of the District's finances. Questions about this Report should be directed to the City of Modesto, IFP Administrator, P.O. Box 642, Modesto, California 95353.