

February 25, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

This is the sixth year the City of Modesto Community Facilities District No. 1997-1 (North Beyer Park) (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 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 such facilities and maintenance. Additional information on the District can be found below, and in Note 1 to the accompanying financial statements.

BACKGROUND AND MANAGEMENT'S DISCUSSION

On November 26, 1996, the City Council of the City of Modesto approved the North Beyer Park Specific Plan, allowing for a maximum of 1,200 residential units to be developed on 160 acres within the Specific Plan area. In addition, three areas within the Specific Plan were designated "Mixed Use", two of which were expected to develop as neighborhood commercial shopping centers and the third which was expected to develop as office space. At the same meeting at which the Council approved the Specific Plan, a residential subdivision was approved for 263 dwelling units to be built on 55 acres within the Specific Plan. One condition of the tentative map of this subdivision required formation of or annexation into a Mello-Roos Community Facilities District (CFD) to fund maintenance of parkways and open space within the development.

In order to comply with the condition of the tentative map, in June 1997 the District was formed and authorized to levy a special tax to pay for capital improvements (medians on Coffee and Oakdale Roads) and ongoing maintenance costs. Subsequent development has annexed to this CFD.

To date, the CFD has been unable to construct the medians. This is because (1) insufficient tax monies have been collected for the construction projects and (2) the medians cannot be installed until the property owners on both sides of Oakdale and Coffee Roads dedicate the necessary right-of-way to construct the full street width. However, the CFD has levied and collected taxes sufficient for the ongoing maintenance expenses. In fact, the CFD has built sufficient reserves that the levy of the annual maintenance tax ceased as of fiscal year 2003-2004 and is not expected to be reinstated until the authorized improvements have been installed.

FISCAL 2007 FINANCIAL HIGHLIGHTS

Financial highlights of the year include the following:

Government-wide:

- The District's net assets decreased \$2,687 in fiscal year 2007.
- At June 30, 2007, net assets were \$117,541.
- Total District revenues were \$14,680.

Fund Basis:

- Capital Project Fund revenues were \$11,292. This is an increase of \$9,518 over the prior year and is attributed to an annexation that was processed and interest earnings. Expenditures were \$9,500.
- Capital Project Fund ending fund balance increased \$1,792 to \$37,274.
- Special Revenue Fund revenues of \$3,388 were \$2,130 less than last year, attributed to a decrease in interest earnings, while expenditures of \$7,867 were \$1,591 more than the prior year.
- Special Revenue Fund ending fund balance decreased \$4,479 to \$80,267.

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. Formation deposits, special facilities taxes and annual maintenance assessments support these services.

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 \$125,567. The District's net assets from governmental activities decreased \$2,687 to \$117,541 in 2007 from \$120,228 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: \$37,274 for capital expenditures and \$80,267 for district maintenance.

FISCAL YEAR 2007 GOVERNMENTAL ACTIVITIES

The District's fiscal 2007 revenue came from a \$9,500 annexation deposit, interest income with the Capital Project Fund receiving \$1,792 and the Special Revenue Fund receiving \$3,211. In addition, maintenance special taxes revenues generated \$177.

THE DISTRICT'S FUND FINANCIAL STATEMENTS

At June 30, 2007, the District's governmental funds reported combined fund balances of \$117,541, which is a decrease of \$2,687 compared with last year. This decrease represents an excess of expenditures over revenues in the Special Revenue Fund.

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. The district reports no long-term capital assets.

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, CA, 95353.