

February 25, 2008

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

This is the sixth year the City of Modesto Community Facilities District No. 1998-2 (Carver-Bangs/Pelandale-Snyder) (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**

The Carver-Bangs Specific Plan (Resolution No. 97-161) was adopted by the City Council on April 1, 1997 and was subsequently amended by on November 4, 1997 (Resolution No. 97-633). The Carver-Bangs Specific Plan has been developed under the City's Village Residential guidelines and should yield approximately 800 single-family residential units. On January 16, 1996 the City Council approved the Pelandale-Snyder Specific Plan (Resolution No. 95-16) and amended the Pelandale-Snyder Specific Plan on March 18, 1997 (Resolutions 97-136 and 97-139). The Pelandale-Snyder Specific Plan area contains approximately 227 acres designated as single-family residential and approximately 57 acres are designated multi-family residential.

In December 1998 the City of Modesto formed the District to provide a funding and reimbursement mechanism for public facilities and services required to serve the Carver-Bangs and Pelandale-Snyder Specific Plan areas in the City of Modesto and to fund ongoing maintenance costs. Portions of both Specific Plan areas were included within the initial boundaries of the District and the remainder of the property within both Specific Plan areas, excluding a remainder parcel, have annexed to the District.

As a condition of development, developers are required to install various public improvements that will serve the increased population generated from the projects. Many of these improvements must be provided in the early stages of development and, therefore, the first developer(s) to build within the Specific Plan areas must install the improvements. The District was established as a funding/reimbursement for many of the improvements. To date, developers have installed most of the improvements. The developers received a cash reimbursement or tax credit equal to the cost of that improvement(s) as set forth in the Public Report adopted in connection with the formation of the District.

Construction of the storm drain pump stations located at the East and West Basins on

Prescott Road between Pelandale and Snyder was completed in the summer of 2007. The design of the Snyder Avenue widening project between Prescott Road and Carver Road is nearly complete; construction is expected to begin in the Spring of 2008.

## **FISCAL 2007 FINANCIAL HIGHLIGHTS**

Financial highlights of the year include the following:

### *Government-wide:*

- The District's net assets decreased to \$2.08 million for fiscal year 2007.
- Total District revenues were \$380,534.

### *Fund Basis:*

- Capital Project Fund revenues of \$116,061 were \$174,742 lower than the prior year. Expenditures of \$1,707,292 million were \$1.44 million greater than the previous year. The Capital Project Fund ending fund balance decreased \$1.59 million to \$1.36 million. This decrease occurred because projects were concluded during fiscal year 2006-07.
- Special Revenue Fund revenues of \$264,473 were \$7,958 lower than the prior year and expenditures of \$133,244 were \$52,273 more than last year. The Special Revenue Fund increased by \$131,229 with an ending fund balance of \$723,755. This increase occurred because revenues exceeded 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 \$2.24 million were offset by liabilities of \$159,477. The District's net assets from governmental activities increased to \$2.08 million in 2007, from \$3.54 million in 2006. This increase is the change in net assets reflected in the statement of

activities. All of the District's net assets are restricted as follows: \$1.36 million for acquisition or construction of infrastructure and \$723,755 for maintaining that infrastructure.

## **FISCAL YEAR 2007 GOVERNMENTAL ACTIVITIES**

The District's fiscal 2007 revenue came primarily from facilities special taxes, which amounted to \$46,164, and annual maintenance special taxes of \$230,191. Investment earnings contributed \$61,933 while an increase in stated fair value of investments contributed \$42,247 in additional revenue.

District expenses of \$1.84 million in fiscal year 2007 were \$1.71 million in capital project expenses and \$133,244 in maintenance expenses. .

## **THE DISTRICT'S FUND FINANCIAL STATEMENTS**

At June 30, 2007, the District's governmental funds reported combined fund balances of \$2.08 million, which was a \$1.46 million decrease from fiscal year 2006. The Capital Projects Fund realized a \$1.59 million decrease, due to construction activity, while the Special Revenue Fund realized a \$131,229 increase because revenues exceeded expenditures

## **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.

## **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.