

CITY OF  
**Modesto, California**

**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
**Fiscal Year Ended June 30, 2003**

Prepared by  
Finance Department



**CITY OF MODESTO**  
 June 30, 2003  
**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  
 Management's Discussion and Analysis (Required Supplementary Information) ..... 5 - 15  
 Basic Financial Statements:  
     Government-wide Financial Statements:  
         Statement of Net Assets ..... 19  
         Statement of Activities ..... 20 - 21  
     Fund Financial Statements:  
         Balance Sheet – Governmental Funds ..... 22  
         Reconciliation of the Balance Sheet of Governmental Funds to the  
         Statement of Net Assets – Governmental Activities ..... 23  
         Statement of Revenues, Expenditures, and Changes in Fund Balances -  
         Governmental Funds ..... 24  
         Reconciliation of the Statement of Revenues, Expenditures, and  
         Changes in Fund Balances of Governmental Funds to the Statement of Activities –  
         Governmental Activities ..... 25  
         Statement of Net Assets – Proprietary Funds ..... 26  
         Statement of Revenues, Expenses, and Changes in Fund Net Assets -  
         Proprietary Funds ..... 27  
         Statement of Cash Flows – Proprietary Funds ..... 28 - 29  
         Statement of Fiduciary Net Assets – Fiduciary Funds ..... 30  
         Statement of Changes in Fiduciary Net Assets – Fiduciary Funds ..... 31  
         Notes to Basic Financial Statements ..... 33 - 57  
 Required Supplementary Information:  
     Schedule of Revenues – Budget (GAAP Basis) and Actual – General Fund ..... 60  
     Schedule of Expenditures by Function – Budget (GAAP Basis) and Actual – General Fund ..... 61  
     Schedule of Revenues, Expenditures, and Changes in Fund Balance –  
     Budget (GAAP Basis) and Actual – Special Gas Tax Street Improvement  
     Special Revenue Fund ..... 62  
     Notes to Required Supplementary Information ..... 63  
 Combining and Individual Fund Statements and Schedules:  
     Nonmajor Governmental Funds:  
         Combining Balance Sheet ..... 68 - 70  
         Combining Statement of Revenues, Expenditures, and Changes in  
         Fund Balances ..... 72- 74

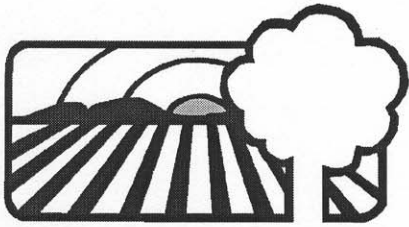
Schedules of Revenues, Expenditures, and Changes in Fund Balances –	
Budget (GAAP Basis) and Actual:	
Operating Grants Special Revenue Fund.....	75
Local Transportation Special Revenue Fund.....	76
Traffic Safety Special Revenue Fund .....	77
Downtown Improvement District Special Revenue Fund.....	78
Housing and Community Development Special Revenue Fund.....	79
Strategic Planning and Development Special Revenue Fund .....	80
Nonmajor Enterprise Funds:	
Combining Statement of Net Assets .....	82 - 83
Combining Statement of Revenues, Expenses, and Changes in	
Fund Net Assets.....	84 - 85
Combining Statement of Cash Flows.....	86 - 89
Internal Service Funds:	
Combining Statement of Net Assets .....	92 - 93
Combining Statement of Revenues, Expenses, and Changes in	
Fund Net Assets.....	94 - 95
Combining Statement of Cash Flows.....	96 - 99
Fiduciary Funds:	
Statement of Changes in Assets and Liabilities – Special Assessments Agency Fund .....	102

## STATISTICAL SECTION

Government-wide information:	
Government-wide Revenues .....	105
Government-wide Expenses by Function .....	106
Fund information:	
General Governmental Expenditures by Function – Last Ten Fiscal Years .....	107
General Revenues by Source – Last Ten Fiscal Years.....	108
Property Tax Levies and Collections – Last Ten Fiscal Years .....	109
Assessed and Estimated Actual Value of Taxable Property – Last Ten Fiscal Years.....	110
Property Tax Rates – All Overlapping Governments – Last Ten Fiscal Years .....	111
Special Assessment Billings and Collections – Last Ten Fiscal Years.....	112
Computation of Legal Debt Margin .....	113
Computation of Direct and Overlapping Debt .....	114
Continuing Disclosure Requirements Information .....	115 - 118
Revenue Bond Coverage – Wastewater Treatment Facility Revenue Bonds –	
Last Ten Fiscal Years .....	119
Property Value, Construction and Bank Deposits – Last Ten Fiscal Years.....	120
Principal Payers of Property Tax .....	121
Schedule of Insurance Policies in Force.....	122
Salaries and Surety Bonds of Principal Officials.....	123
Demographic and Miscellaneous Statistical Data.....	124 - 126

## **INTRODUCTORY SECTION**





## CITY of MODESTO

(209) 577-5369 FAX (209) 571-5880

[www.ci.modesto.ca.us](http://www.ci.modesto.ca.us)

1010 Tenth Street, P.O. Box 642, Modesto, CA 95353

[TDD (209) 526-9211 Hearing and Speech Impaired only]

December 23, 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, 2003, 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 Maze & Associates was selected in 2003 to perform the City's annual financial audits for a period of three years. The independent auditor's report is presented on page 3. In addition to meeting the City Charter audit requirements, the audit was also designed to meet the requirements of the federal Single Audit Act of 1996 and related OMB Circular A-133. The auditor's reports related specifically to the Single Audit will be presented separately at a later date.

### The Financial Reporting Model

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 accounting standard requires a reporting model designed to demonstrate fiscal as well as operational accountability. The reporting 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 GASB 34 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, 2002 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 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, the Modesto Public Financing Authority and the City of Modesto Community Facilities Districts. 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 over 203,000. 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**

As the State's economy continued to decelerate between 2002 and 2003, the City of Modesto's local economy experienced minimal effects from the sluggish times.

Modesto's employment in retail and manufacturing remained strong employing over 35,000 workers while California's nonfarm job losses from March 2001 through August 2003 totaled 328,100 jobs. Manufacturing accounts for about one-fifth of Stanislaus County's wage and salary workers with the retail industry trailing close behind. Agribusiness also remains an important element in the area with an annual County economy of more than \$4 billion.

Overall, the local economy remained strong with a drop in unemployment from 10.2% in 2002 to 8.6% in September 2003. Building permit activity, which had grown for six consecutive years through 2001, experienced a drop from 7,157 total permits to 6,018 total permits in 2002. The Building and Development Services Division expects activity to stabilize throughout the remainder of 2003 and begin to slightly increase in 2004.

Retail sales continued to move upward during the year employing 14% of the area's workforce. Department store and general retail remain the biggest sales tax generators accounting for 62.1% of the City's total revenue. City residents enjoyed modest growth in the industrial sector resulting primarily from expansions of existing businesses.

While the rapid growth of the last several years is not expected to continue, to date, the City has experienced relatively little impact from the economic problems facing the State of California. The City anticipates that current and future State budget problems could have significant impacts to the City beginning in FY 04.

## **State Impacts**

The State of California's growing budget crisis continues to present significant challenges to the financial stability of local governments. In an effort to address a portion of the State's \$38 billion budget deficit, in June, the State finance director reinstated the full vehicle license fee and eliminated the State's backfill funding to local governments. Following a successful gubernatorial recall election, as his first official act, Governor Arnold Schwarzenegger signed Executive Order No. S-1-03 rescinding the reinstatement of the full vehicle license fee. The Governor has called for an extraordinary session of the legislature to authorize backfill payments to local governments from the State's General Fund. For FY 04, the City's VLF backfill revenue is projected at \$8 million. Until a funding source is identified for the backfill funding, local governments will be at risk of losing a significant revenue source.

In anticipation of potential State impacts, in FY 03, the City Council adopted a policy of maintaining at least 8% of General Fund Expenditures in reserve. At the end of FY 03, General Fund Reserves total \$26.4 million representing 27% of General Fund Expenditures.

**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) Mutual funds
- 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 1.13 to 5.15 percent and the amount of interest earned was \$4,961,261. Investments held on June 30, 2003 had maturities ranging from one day to five years, with 33 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-H.

#### Awards and Acknowledgments

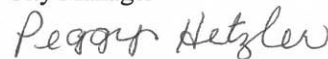
For the nineteenth consecutive year, the Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Modesto for its comprehensive annual financial report for the fiscal year ended June 30, 2002. 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. We wish to convey our appreciation to all members of the Finance Department team who assisted and contributed to its successful completion. In particular, we commend the Accounting Division staff responsible for preparation of the report.

Respectfully submitted,



Jack Crist  
City Manager



Peggy Hetzler  
Director of Finance

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Modesto,  
California

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2002

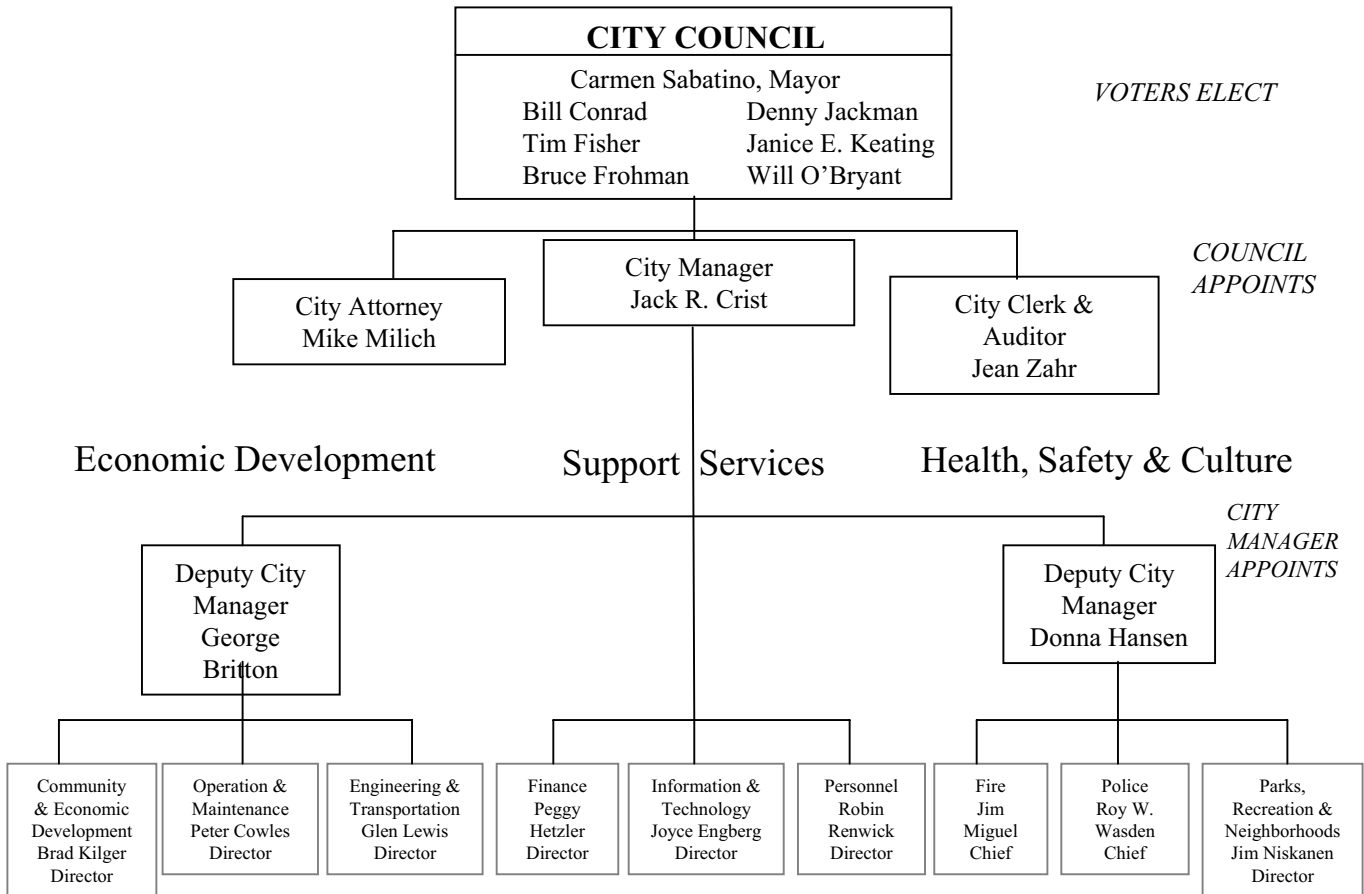
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards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



President

Executive Director

# CITY OF MODESTO



## Citizens 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

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

## **FINANCIAL SECTION**





THIS PAGE IS INTENTIONALLY LEFT BLANK

## 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, 2003. 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 2003 fiscal year by \$563,789,072 (*total net assets*). Of this amount, \$31,316,782 (*unrestricted net assets*) may be used to meet ongoing obligations to citizens and creditors, \$66,522,821 is restricted for specific purpose (*restricted net assets*), and \$465,949,469 is invested in capital assets, net of related debt.
- The City's total net assets increased by \$17,575,795. Approximately seventy-six percent of this increase is attributable to governmental activities.
- As of June 30, 2003, the City's governmental funds reported combined fund balances of \$100,238,546, an increase of \$10,923,100 in comparison with the prior year. Approximately 65% of the combined fund balances, \$64,955,599 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 \$26,402,189, or 27% of total General Fund expenditures. Of this, \$3.4 million is reserved for encumbrances and non-current assets, and \$6.8 million is designated for specific purposes, including \$4.8 million appropriated in the fiscal year 2003-04 budget. The unreserved/undesignated balance of \$16,200,633 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 \$13,169,131 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 19 – 21 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, the Special Gas Tax Street Improvement Special Revenue Fund and the Capital Facilities 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 22 – 25 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 Services functions. Because these services predominantly benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements.

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 26 - 29 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 30 - 31 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 33 – 57 of this report.

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

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

**Required supplementary information can be found on pages 60 - 63 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 68 – 102 of this report.

### GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$563,789,072 at the close of the most recent fiscal year.

#### Net Assets

	Governmental activities		Business-type activities		Total	
	2003	2002	2003	2002	2003	2002
Current and other assets	\$175,496,954	\$149,143,880	\$ 47,513,640	\$ 59,774,360	\$223,010,594	\$208,918,240
Capital assets	324,840,552	332,566,670	272,412,855	253,585,279	597,253,407	586,151,949
Total assets	500,337,506	481,710,550	319,926,495	313,359,639	820,264,001	795,070,189
Current and other liabilities	16,738,347	15,328,656	9,376,314	10,250,989	26,114,661	25,579,645
Long-term liabilities	156,145,232	141,655,291	74,215,036	76,290,846	230,360,268	217,946,137
Total liabilities	172,883,579	156,983,947	83,591,350	86,541,835	256,474,929	243,525,782
Net assets:						
Invested in capital assets, net of related debt	259,156,770	247,734,751	206,792,699	186,018,077	465,949,469	433,752,828
Restricted net assets	65,766,576	64,478,452	756,245	1,202,475	66,522,821	65,680,927
Unrestricted net assets	2,530,581	12,513,400	28,786,201	39,597,252	31,316,782	52,110,652
Total net assets	\$327,453,927	\$324,726,603	\$236,335,145	\$226,817,804	\$563,789,072	\$551,544,407

The largest portion of the City's net assets, \$465,949,469 (83 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 \$31,316,782 (5 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 \$66,522,821 (12 percent) represents resources that are subject to external restrictions on how they may be used.

At the end of the 2003 fiscal year, the City reported positive balances in all three categories of net assets for the City as a whole.

The City's net assets increased by \$17,575,795 during the current fiscal year. Approximately seventy-six 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, as well as comparative data for the prior year. As detailed in Note III-I, the 2003 beginning net assets have been restated. The 2002 data below have not been revised.

### Changes in Net Assets

	Governmental activities		Business-type activities		Total	
	2003	2002	2003	2002	2003	2002
<b>Revenues:</b>						
<b>Program revenues:</b>						
Charges for services	\$35,257,694	\$35,268,849	\$63,067,620	\$60,247,331	\$98,325,314	\$95,516,180
Operating grants and contributions	9,413,521	9,647,912	5,119,474	5,152,493	14,532,995	14,800,405
Capital grants and contributions	23,297,198	12,267,976	13,603,460	4,621,127	36,900,658	16,889,103
<b>General revenues:</b>						
Taxes	41,403,791	37,916,010	187,859	25,548	41,591,650	37,941,558
Grants and contributions not restricted for specific purposes	38,555,584	39,547,348	-	-	38,555,584	39,547,348
Unrestricted investment earnings	3,645,205	5,384,392	2,003,214	2,713,370	5,648,419	8,097,762
Miscellaneous	2,220,976	1,111,982	-	-	2,220,976	1,111,982
<b>Total revenues</b>	<b>153,793,969</b>	<b>141,144,469</b>	<b>83,981,627</b>	<b>72,759,869</b>	<b>237,775,596</b>	<b>213,904,338</b>
<b>Expenses:</b>						
General government	12,557,259	12,084,695	-	-	12,557,259	12,084,695
Community development	13,823,955	7,961,413	-	-	13,823,955	7,961,413
Highways and streets	19,656,219	18,280,988	-	-	19,656,219	18,280,988
Public works	6,843,742	4,645,729	-	-	6,843,742	4,645,729
Parks and recreation	16,723,475	15,439,479	-	-	16,723,475	15,439,479
Public safety	64,410,214	56,563,084	-	-	64,410,214	56,563,084
Interest on long-term debt	4,612,885	4,736,694	-	-	4,612,885	4,736,694
Parking	-	-	1,153,145	696,319	1,153,145	696,319
Water	-	-	30,874,820	27,829,504	30,874,820	27,829,504
Sewer	-	-	23,266,170	23,339,356	23,266,170	23,339,356
Storm drain	-	-	5,940,261	5,571,740	5,940,261	5,571,740
Airport	-	-	971,865	1,129,923	971,865	1,129,923
Bus	-	-	9,745,477	8,629,424	9,745,477	8,629,424
Golf	-	-	2,475,913	2,441,341	2,475,913	2,441,341
Community center	-	-	2,390,517	2,173,392	2,390,517	2,173,392
<b>Total expenses</b>	<b>138,627,749</b>	<b>119,712,082</b>	<b>76,818,168</b>	<b>71,810,999</b>	<b>215,445,917</b>	<b>191,523,081</b>
Increase in net assets before transfers and special item	15,166,220	21,432,387	7,163,459	948,870	22,329,679	22,381,257
Transfers	(1,824,890)	(671,690)	1,824,890	671,690	-	-
Special item	-	-	(4,753,884)	-	(4,753,884)	-
Change in net assets	13,341,330	20,760,697	4,234,465	1,620,560	17,575,795	22,381,257
Net assets - beginning (2003 as restated)	314,112,597	303,965,906	232,100,680	225,197,244	546,213,277	529,163,150
Net assets - ending	<b>\$327,453,927</b>	<b>\$324,726,603</b>	<b>\$236,335,145</b>	<b>\$226,817,804</b>	<b>\$563,789,072</b>	<b>\$551,544,407</b>

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

**Governmental activities.** Governmental activities increased the City's net assets by \$13,341,330, accounting for 76 percent of the total growth in net assets of the City.

**Business-type activities.** Business-type activities increased the City's net assets by \$4,234,465.

As detailed in the schedule on page 12, the Water, Sewer, Storm Drain, Airport, Bus and Golf enterprises posted net incomes during the period. Net losses were experienced by the Parking and Community Center operations. The Parking fund transferred unneeded funds received in 1998 back to the Redevelopment Agency, representing a large part of this loss, along with increased depreciation on the 10<sup>th</sup> Street parking garage. The Community Center receives an annual operating subsidy from the General fund, but this subsidy does not cover depreciation expense, resulting in a net loss overall.

### 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, 2003, the City's governmental funds reported combined fund balances of \$100,238,546, an increase of \$10,923,100 from the prior year. Approximately 65% of the combined fund balances, \$64,955,599, 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 (\$6,387,724); 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 (\$14,466,361); 3) to liquidate contractual commitments of the period (\$12,063,211); 4) to maintain cash-on-hand in various departments (\$8,780); and 5) to meet Redevelopment Agency low and moderate income housing set-aside requirements (\$2,356,871).

The General Fund is the chief operating fund of the City. At June 30, 2003, unreserved fund balance of the General Fund was \$23,008,629 while total fund balance reached \$26,402,189. 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 24 percent of total fund expenditures, while total fund balance represents 27 percent of that same amount. These ratios are comparable to those for the prior year.

Revenues of governmental funds totaled \$148,231,979 in fiscal year 2002-2003, which represents an increase of 4.8% from fiscal year 2001-2002.

Expenditures of governmental funds totaled \$136,661,259 in fiscal year 2002-2003, representing an increase of 7.9% over the prior year.

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

## Management's Discussion and Analysis (continued)

### Revenues Classified by Source – Governmental Funds

Revenues by Source	FY 2003		FY 2002		Increase (decrease)	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent Change
Taxes	\$41,405,014	27.9%	\$37,855,427	26.8%	\$3,549,587	9.4%
Licenses and permits	169,108	.1%	173,348	0.1%	(4,240)	(2.4)%
Intergovernmental	66,228,880	44.6%	62,726,570	44.3%	3,502,310	5.6%
Charges for services	31,789,634	21.5%	33,633,119	23.8%	(1,843,485)	(5.5)%
Special assessments	2,015,090	1.4%	823,091	0.6%	1,191,999	144.8%
Interest and rent	3,712,219	2.5%	3,418,440	2.4%	293,779	8.6%
Net increase (decrease) in fair value	(339,331)	(.2)%	647,793	0.5%	(987,124)	(152.4)%
Fines and forfeits	1,030,389	0.7%	1,055,966	0.7%	(25,577)	(2.4)%
Miscellaneous	2,220,976	1.5%	1,111,982	0.8%	1,108,994	99.7%
<b>Total</b>	<b>\$148,231,979</b>	<b>100.0%</b>	<b>\$141,445,736</b>	<b>100.0%</b>	<b>\$6,786,243</b>	<b>4.8%</b>

- Taxes – Property, Utility Users, and Business License taxes created the increase over the prior year.
- Intergovernmental – State sales taxes and motor vehicle license fees make up about half of these revenues, but the increase over the prior year is largely due to more aggressive grant collections.
- Charges for services – include interfund charges between city operations, as well as fee-based service revenues.
- Special assessments – Approximately \$1.7 million was received this year in the Capital Facilities Fees Debt Service Fund, resulting in the retirement of the related long-term debt.
- Miscellaneous – 2002 included a one-time \$1.1 million settlement from the cable television franchise, while the most significant component in 2003 was a \$500,000 settlement related to the construction of the new police headquarters building.

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

Expenditures by Function	FY 2003		FY 2002		Increase/(Decrease)	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent Change
General government	\$11,352,860	8.3%	\$10,168,110	8.0%	\$1,184,750	11.7%
Community development	13,123,011	9.6%	7,950,839	6.3%	5,172,172	65.1%
Highways and streets	8,559,729	6.3%	7,994,279	6.3%	565,450	7.1%
Public works	5,420,867	4.0%	4,622,232	3.6%	798,635	17.3%
Parks and recreation	14,848,478	10.8%	13,969,712	11.0%	878,766	6.3%
Public safety	56,576,055	41.4%	52,812,553	41.8%	3,763,502	7.1%
Capital outlay	19,031,609	13.9%	23,082,610	18.2%	(4,051,001)	(17.6)%
Debt Service-principal retirement	3,111,203	2.3%	1,422,501	1.1%	1,688,702	118.7%
Debt Service-interest charges	4,580,409	3.4%	4,621,270	3.6%	(40,861)	(.9)%
Debt Service-other	57,038	.0%	29,611	.0%	27,427	92.6%
<b>Total</b>	<b>\$136,661,259</b>	<b>100.0%</b>	<b>\$126,673,717</b>	<b>100.0%</b>	<b>\$9,987,542</b>	<b>7.9%</b>

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

The following provides an explanation of the expenditures by function that changed significantly over 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 3.5% in the General Fund and 3.25% for public safety.
- Capital outlay –Major capital outlays for the current year included increased amounts expended for the remodel of the old police headquarters (\$1.9 million), land acquisition for parks and trailheads (\$1.4 million), and the Kansas/Needham Overpass and other grant funded streets projects (\$7 million).

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

Other Financing Sources (Uses) Governmental Funds				
	FY 2003	FY 2002	Increase/(Decrease)	
			Amount	Percent
Transfers in	\$14,601,556	\$ 18,838,748	\$(4,237,192)	(22.5)%
Transfers out	(15,441,935)	(21,098,333)	5,656,398	26.8%
Proceeds of capital lease transaction	-	2,020,418	(2,020,418)	100.0%
Proceeds of loan payable	192,759	191,835	924	100.0%
Net financing sources (uses)	\$ (647,620)	\$ (47,332)	\$ (600,288)	1,268.2%

- Transfers - 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.

The net transfers *from* governmental funds for 2003 was \$840,379, compared to \$2,259,585 in the prior year. This net transfer is *to* the proprietary funds, and consists mainly of operating subsidies to Community Center and Golf operations, and to the Fleet internal services fund for new vehicles and equipment.

Both transfers in and out were less in 2003 than the prior year, because 2002 included several large, one-time transfers that were not needed or funded in 2003.

- Proceeds of capital lease transaction – 2002 included the acquisition of land for the new Mary Grogan Park that will be paid over a five-year period.
- Proceeds of loan payable –2003 represents the Redevelopment Agency receipt of loan proceeds from the Stanislaus County Economic Development Bank for planning costs associated with a new business park. In 2002, 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 amounts of these loans are reported as a capital expenditure and offset by other financing source in the year received. Future payments are recorded as debt service principal and interest expenditures when they occur.

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

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

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

	Major Funds			Nonmajor Funds			Total
	General	Special	Capital	Special	Capital	Debt	
	Fund	Gas Tax Fund	Facility Fees Fund	Revenue Funds	Projects Funds	Service Funds	
Revenues	\$99,156,038	\$15,424,497	\$9,215,071	\$8,677,378	\$11,808,508	\$3,950,487	\$148,231,979
Expenditures	(96,500,186)	(9,474,363)	(3,240,024)	(5,517,968)	(14,690,597)	(7,238,121)	(136,661,259)
Other financing sources/ (uses), net	(727,637)	(2,524,068)	(529,894)	(2,607,184)	2,481,913	3,259,250	(647,620)
Net change in fund balances	1,928,215	3,426,066	5,445,153	552,226	(400,176)	(28,384)	10,923,100
Fund balance July 1, as restated	24,473,974	1,602,873	18,858,943	15,149,497	22,814,051	6,416,108	89,315,446
Fund balance June 30	\$26,402,189	\$5,028,939	\$24,304,096	\$15,701,723	\$22,413,875	\$6,387,724	\$100,238,546

The fund balance of the City's General Fund increased by \$1,928,215 during the fiscal year. The key factor in this decrease is the overall decrease in net transfers out to other funds.

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 the Capital Facilities Fees Fund was due to the continued accumulation of revenues to finance the planned capital projects on a pay-as-you-go basis.

**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	\$ 28,200,885	\$ 23,556,044	\$ 824,917	\$ 5,169,831	\$ 590,960	\$ 2,137,065	\$ 2,120,689	\$ 467,229	\$ 63,067,620
Operating expenses	(27,815,253)	(20,465,651)	(1,153,145)	(5,301,947)	(959,520)	(9,426,210)	(2,125,140)	(2,225,876)	(69,472,742)
Operating income (loss)	385,632	3,090,393	(328,228)	(132,116)	(368,560)	(7,289,145)	(4,451)	(1,758,647)	(6,405,122)
Non-operating revenues (expenses), net	(621,197)	(629,979)	(80,480)	59,393	314,105	5,410,871	(319,642)	431,580	4,564,651
Income (loss) before capital contributions, transfers and special items	(235,565)	2,460,414	(408,708)	(72,723)	(54,455)	(1,878,274)	(324,093)	(1,327,067)	(1,840,471)
Contributions, transfers and special items	672,721	1,701,727	(500,000)	2,933,795	75,267	4,615,068	436,990	738,898	10,674,466
Net income (loss)	\$ 437,156	\$ 4,162,141	\$ (908,708)	\$ 2,861,072	\$ 20,812	\$ 2,736,794	\$ 112,897	\$ (588,169)	\$ 8,833,995

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

The Water, Sewer, Storm Drain, Airport, Bus and Golf enterprises posted net incomes during the period. Moderate net losses were experienced by the Parking, and Community Center operations. The Parking fund transferred unneeded funds received in 1998 back to the Redevelopment Agency, representing most of this loss. The Community Center receives an annual operating subsidy from the General fund, but this subsidy does not cover depreciation expense, resulting in a net loss overall.

In total, the funds experienced a net loss before contributions and transfers of \$1.8 million. Capital contributions (in the form of connection fees and capital grants) of \$13.6 million, net transfers in of \$1.8 million and special items of \$4.8 million bring the total combined net income to \$8.8 million.

### GENERAL FUND BUDGETARY HIGHLIGHTS

Budget to actual information for the major governmental funds are presented as Required Supplementary Information, beginning on page 60 of this report.

While the City Council amended the budget several times, the differences between the original budget and the final amended budget for the General Fund were relatively minor. The estimated revenues remained nearly unchanged, while total appropriations were increased \$3.1 million, or about 3%. 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. The major changes were prior-year encumbrance balances that were rolled-over to 2003, plus an improved benefit package for Modesto police officers approved by the City Council to improve officer retention and recruitment.

### 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, 2003, amounted to \$597,253,407 (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 4.8 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)
	2003	2002	2003	2002	2003	2002	Percent Change
Land	\$22,033,045	\$20,187,861	\$25,605,723	\$24,028,436	\$47,638,768	\$44,216,297	7.7%
Buildings	16,943,855	15,120,227	54,054,360	54,458,042	70,998,215	69,578,269	2.0%
Improvements	14,891,591	13,919,455	69,417,714	73,199,780	84,309,305	87,119,235	(3.2)%
Furnishings and equipment	6,972,532	6,703,469	3,064,435	3,156,300	10,036,967	9,859,769	1.8%
Equipment pool	15,175,698	13,937,493			15,175,698	13,937,493	8.9%
Streets	232,412,834	219,760,103			232,412,834	219,760,103	5.8%
Signalization	6,384,320	6,748,311			6,384,320	6,748,311	(5.4)%
Bridges	3,174,392	3,082,200			3,174,392	3,082,200	3.0%
Buses and fare boxes			6,157,362	4,897,075	6,157,362	4,897,075	25.7%
Pipelines			99,299,532	90,750,681	99,299,532	90,750,681	9.4%
Construction in progress	6,852,285	6,028,705	14,813,729	13,685,868	21,666,014	19,714,573	9.9%
<b>Total</b>	<b>\$324,840,552</b>	<b>\$305,487,824</b>	<b>\$272,412,855</b>	<b>\$264,176,182</b>	<b>\$597,253,407</b>	<b>\$569,664,006</b>	<b>4.8%</b>

## Management's Discussion and Analysis (continued)

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

- Land – the increase in governmental activities land relate primarily to the acquisition of properties for a bike-trailhead (\$1.1 million) and the Roselawn Park site. In Business-type activities, the increase related to the new Bus Maintenance facility site (\$1.7 million).
- Buildings – additions included \$1.9 million for the new Police Headquarters building and a Wastewater Collections Maintenance building (\$1.5 million).

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, 2003, the City had total long-term liabilities outstanding of \$230,360,268, net of unamortized discounts and deferred amounts on refunding, as compared to \$217,191,137 in the prior year. This amount was comprised of \$63,685,000 of lease revenue bonds, \$50,924,345 of certificates of participation, \$42,005,298 of revenue bonds payable, \$53,726,519 of estimated compensated absences, \$12,274,875 of claims liability, \$3,061,339 of loans payable, \$2,507,327 of developer advances, \$1,753,685 of capital leases, and \$241,880 of notes payable. During the year, retirement of debt and other reductions amounted to \$19,183,351, and new debt and other additions totaled \$32,352,482. The largest portion of additions is attributable to compensated absences, \$25,479,536, 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.

### 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-Western Urban was 3.5 %. In June 2003, the CPI-Western Urban was 2%.
- *Taxable Sales* - Taxable sales growth has ranged from 11% to 5.7% during the last couple of years. In future years, annual taxable sales growth is projected at 3%.
- *Building Permit Activity* - Building permit activity, which had grown for six consecutive years through 2001, experienced a drop from 7,157 total permits to 6,018 total permits in 2002. The Building and Development Services Division expects activity to stabilize throughout the remainder of 2003 and begin to slightly increase in 2004.
- *State Economics* - 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; for instance, Modesto has continued to enjoy modest growth while in the San Francisco Bay area, particularly Silicon Valley, resources are drying up and businesses are in trouble. However, the City's revenue is certainly affected by the State budget.
- *State Budget* – The State of California continues to face large deficits, currently projected to be in excess of \$10 billion. The State has a history of taking revenues previously pledged to local governments to address their fiscal problems. Since 1990, a net \$27.6 million has been shifted away from our local control and use. For the fiscal year 2003-2004, the State has withheld over \$2.5 million of vehicle license fees, with promises to repay these funds in 2007. So far, Modesto has met these challenges with belt-tightening strategies and maintaining prudent reserves.
- Major revenue growth is estimated for FY 2004 at 2.3%. Overall revenue growth is estimated at 2.0%.
- Sewer utility rates were increased 4% across the board effective October 1, 2003. Water and Storm Drain rates are also under review.

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

All of these factors were considered in preparing the City's budget for fiscal year 2004.

During the current fiscal year, unreserved fund balance in the General Fund increased by \$495,716, to \$23,008,629. Of this amount, \$6.8 million is designated for specific purposes, including \$4.8 million appropriated in the fiscal year 2003-04 budget. The unreserved/undesignated balance of \$16,200,733 presents 16% of total General Fund outflows, versus the City Council's target of 8%. The budget adopted for fiscal year 2003-2004 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, 2003**

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
<u>ASSETS</u>			
Cash and cash equivalents	\$ 123,757,181	\$ 36,318,410	\$ 160,075,591
Accounts receivable, net	2,715,842	263,148	2,978,990
Interest receivable	378,362	232,458	610,820
Utility billings receivable, net	615,687	6,026,825	6,642,512
Taxes receivable	9,251,795	1,877	9,253,672
Due from governments, net	7,544,441	3,837,374	11,381,815
Notes receivable, net	12,898,243		12,898,243
Prepaid expenses	4,576		4,576
Internal balances	42,538	(42,538)	
Inventories	390,354		390,354
Unamortized costs of debt issuance		876,086	876,086
Investments in joint ventures	17,897,935		17,897,935
Capital assets:			
Land and construction in progress	28,885,330	40,419,452	69,304,782
Other capital assets, net of accumulated depreciation	<u>295,955,222</u>	<u>231,993,403</u>	<u>527,948,625</u>
Total assets	<u>500,337,506</u>	<u>319,926,495</u>	<u>820,264,001</u>
<u>LIABILITIES</u>			
Accounts payable	6,311,721	2,433,414	8,745,135
Accrued salaries and benefits	2,598,057	454,783	3,052,840
Approved loans payable	244,870		244,870
Interest payable	1,305,959	755,498	2,061,457
Deferred revenues	4,709,665	4,945,870	9,655,535
Refundable deposits	1,568,075	786,749	2,354,824
Long-term liabilities:			
Due within one year	7,449,728	2,341,789	9,791,517
Due in more than one year	<u>148,695,504</u>	<u>71,873,247</u>	<u>220,568,751</u>
Total liabilities	<u>172,883,579</u>	<u>83,591,350</u>	<u>256,474,929</u>
<u>NET ASSETS</u>			
Invested in capital assets, net of related debt	259,156,770	206,792,699	465,949,469
Restricted for:			
Capital projects	50,064,853	756,245	50,821,098
Housing and community development	14,039,393		14,039,393
Other purposes	1,662,330		1,662,330
Unrestricted	<u>2,530,581</u>	<u>28,786,201</u>	<u>31,316,782</u>
Total net assets	<u>\$ 327,453,927</u>	<u>\$ 236,335,145</u>	<u>\$ 563,789,072</u>

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

**CITY OF MODESTO**  
**STATEMENT OF ACTIVITIES**  
Year ended June 30, 2003

FUNCTIONS/PROGRAMS:	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities:				
General government	\$ 12,557,259	\$ 3,453,403		
Community development	13,823,955	11,566,306	\$ 4,546,307	
Highways and streets	19,656,219	1,303,305	1,273,359	\$ 22,748,863
Public works	6,843,742	9,173,932	524,345	(184,759)
Parks and recreation	16,723,475	3,835,652	87,582	727,672
Public safety	64,410,214	5,925,096	2,981,928	5,422
Interest on long-term debt	4,612,885			
Total governmental activities	138,627,749	35,257,694	9,413,521	23,297,198
Business-type activities:				
Parking	1,153,145	824,917		
Water	30,874,820	28,200,885	35,930	3,615,537
Sewer	23,266,170	23,556,044		3,497,895
Storm Drain	5,940,261	5,169,831		1,822,581
Airport	971,865	590,960		75,267
Bus	9,745,477	2,137,065	5,083,544	4,571,266
Golf	2,475,913	2,120,689		13,990
Community Center	2,390,517	467,229		6,924
Total business-type activities	76,818,168	63,067,620	5,119,474	13,603,460
Total	\$ 215,445,917	\$ 98,325,314	\$ 14,532,995	\$ 36,900,658

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

Special item

Total general revenues, transfers and special item

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
\$ (9,103,856)		\$ (9,103,856)
2,288,658		2,288,658
5,669,308		5,669,308
2,669,776		2,669,776
(12,072,569)		(12,072,569)
(55,497,768)		(55,497,768)
(4,612,885)		(4,612,885)
<u>(70,659,336)</u>		<u>(70,659,336)</u>
	\$ (328,228)	(328,228)
	977,532	977,532
	3,787,769	3,787,769
	1,052,151	1,052,151
	(305,638)	(305,638)
	2,046,398	2,046,398
	(341,234)	(341,234)
	<u>(1,916,364)</u>	<u>(1,916,364)</u>
	<u>4,972,386</u>	<u>4,972,386</u>
<u>(70,659,336)</u>	<u>4,972,386</u>	<u>(65,686,950)</u>
13,732,571		13,732,571
10,169,004		10,169,004
	166,043	166,043
2,631,695		2,631,695
2,097,901		2,097,901
3,360,976		3,360,976
9,238,797		9,238,797
172,847		172,847
	21,816	21,816
25,887,064		25,887,064
11,746,283		11,746,283
922,237		922,237
3,645,205	2,003,214	5,648,419
2,220,976		2,220,976
(1,824,890)	1,824,890	
	<u>(4,753,884)</u>	<u>(4,753,884)</u>
<u>84,000,666</u>	<u>(737,921)</u>	<u>83,262,745</u>
13,341,330	4,234,465	17,575,795
<u>314,112,597</u>	<u>232,100,680</u>	<u>546,213,277</u>
<u>\$ 327,453,927</u>	<u>\$ 236,335,145</u>	<u>\$ 563,789,072</u>

**CITY OF MODESTO**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**June 30, 2003**

	General	Special Gas Tax Street Improvement	Capital Facility Fees	Other Governmental	Total Governmental
<u>ASSETS</u>					
Cash and cash equivalents	\$ 19,053,785	\$ 3,329,148	\$ 25,247,631	\$ 27,382,276	\$ 75,012,840
Cash and cash equivalents with fiscal agent				10,374,127	10,374,127
Receivables:					
Accounts	371,249	705,830	11,337	161,495	1,249,911
Interest	84,836	18,897	81,807	87,986	273,526
Utilities, net	615,687				615,687
Taxes	9,073,783			178,012	9,251,795
Due from governments	862,689	2,522,226	105,592	4,053,934	7,544,441
Due from other funds	1,210,100			1,570,000	2,780,100
Notes receivable, net	92,283			12,720,669	12,812,952
Prepaid expenses/expenditures	4,576				4,576
Restricted assets:					
Cash and cash equivalents	1,390,184			177,891	1,568,075
Advances to other funds	1,898,279				1,898,279
<b>Total assets</b>	<b>\$ 34,657,451</b>	<b>\$ 6,576,101</b>	<b>\$ 25,446,367</b>	<b>\$ 56,706,390</b>	<b>\$ 123,386,309</b>
<u>LIABILITIES AND FUND BALANCES</u>					
Liabilities:					
Accounts payable	\$ 1,864,757	\$ 859,781	\$ 217,130	\$ 2,747,970	\$ 5,689,638
Accrued salaries and benefits	2,397,879			44,318	2,442,197
Approved loans payable				244,870	244,870
Due to other funds				2,535,100	2,535,100
Deferred revenues	602,442	687,381		5,522,319	6,812,142
Payable from restricted assets:					
Refundable deposits	1,390,184			177,891	1,568,075
Advances from other funds	2,000,000		925,141	930,600	3,855,741
<b>Total liabilities</b>	<b>8,255,262</b>	<b>1,547,162</b>	<b>1,142,271</b>	<b>12,203,068</b>	<b>23,147,763</b>
Fund balances:					
Reserved	3,393,560	6,780,631	1,295,886	23,812,870	35,282,947
Unreserved:					
Designated, reported in:					
General fund	6,807,996				6,807,996
Special revenue funds				3,958,405	3,958,405
Capital projects funds			23,008,210	18,148,676	41,156,886
Undesignated, reported in:					
General fund	16,200,633				16,200,633
Special revenue funds		(1,751,692)		(362,137)	(2,113,829)
Capital projects funds				(1,054,492)	(1,054,492)
<b>Total fund balances</b>	<b>26,402,189</b>	<b>5,028,939</b>	<b>24,304,096</b>	<b>44,503,322</b>	<b>100,238,546</b>
<b>Total liabilities and fund balances</b>	<b>\$ 34,657,451</b>	<b>\$ 6,576,101</b>	<b>\$ 25,446,367</b>	<b>\$ 56,706,390</b>	<b>\$ 123,386,309</b>

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

**CITY OF MODESTO**  
**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS**  
**TO THE STATEMENT OF NET ASSETS - GOVERNMENTAL ACTIVITIES**  
**June 30, 2003**

Total fund balances - total governmental funds \$ 100,238,546

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

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

General capital assets:

Nondepreciable	\$ 28,266,661	
Depreciable	64,005,099	
Accumulated depreciation on general capital assets	(28,997,402)	

Infrastructure:

Depreciable	406,801,019	
Accumulated depreciation on infrastructure	<u>(164,829,473)</u>	305,245,904

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

deferred in the governmental funds, or	\$ 2,102,477	
investments in joint ventures	<u>17,897,935</u>	20,000,412

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.

(6,890,616)

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	\$ (89,834,360)	
Accrued interest	<u>(1,305,959)</u>	<u>(91,140,319)</u>

Net assets of governmental activities \$ 327,453,927

**CITY OF MODESTO**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - GOVERNMENTAL FUNDS**  
**Year ended June 30, 2003**

	General	Special Gas Tax Street Improvement	Capital Facility Fees	Other Governmental	Total Governmental
<b>REVENUES:</b>					
Taxes	\$ 38,600,472			\$ 2,804,542	\$ 41,405,014
Licenses and permits	169,108				169,108
Intergovernmental	40,612,942	\$ 15,368,797	\$ 292,133	9,955,008	66,228,880
Charges for services	16,448,226		8,264,512	7,076,896	31,789,634
Special assessments levied	218,294			1,796,796	2,015,090
Interest and rent	1,301,989	67,999	789,932	1,552,299	3,712,219
Net increase (decrease) in fair fair value of investments	(229,744)	(23,360)	(134,091)	47,864	(339,331)
Fines and forfeits	576,168			454,221	1,030,389
Miscellaneous	1,458,583	11,061	2,585	748,747	2,220,976
Total revenues	<u>99,156,038</u>	<u>15,424,497</u>	<u>9,215,071</u>	<u>24,436,373</u>	<u>148,231,979</u>
<b>EXPENDITURES:</b>					
Current:					
General government	10,938,635		412,095	2,130	11,352,860
Community development	4,277,758			8,845,253	13,123,011
Highways and streets	6,046,662	1,696,684	256,931	559,452	8,559,729
Public works	4,257,233		626,371	537,263	5,420,867
Parks and recreation	13,334,626		173,775	1,340,077	14,848,478
Public safety	55,550,490			1,025,565	56,576,055
Capital outlay	2,083,805	7,736,127	1,312,852	7,898,825	19,031,609
Debt service:					
Principal retirement	8,043	36,321	371,839	2,695,000	3,111,203
Interest	2,934	5,231	86,161	4,486,083	4,580,409
Other				57,038	57,038
Total expenditures	<u>96,500,186</u>	<u>9,474,363</u>	<u>3,240,024</u>	<u>27,446,686</u>	<u>136,661,259</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>2,655,852</u>	<u>5,950,134</u>	<u>5,975,047</u>	<u>(3,010,313)</u>	<u>11,570,720</u>
<b>OTHER FINANCING SOURCES (USES):</b>					
Transfers in	6,388,569	466,400	843	7,745,744	14,601,556
Transfers out	(7,116,206)	(2,990,468)	(530,737)	(4,804,524)	(15,441,935)
Proceeds of loan payable				192,759	192,759
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>(727,637)</u>	<u>(2,524,068)</u>	<u>(529,894)</u>	<u>3,133,979</u>	<u>(647,620)</u>
<b>NET CHANGE IN FUND BALANCES</b>	1,928,215	3,426,066	5,445,153	123,666	10,923,100
<b>FUND BALANCES, July 1 (as restated)</b>	<u>24,473,974</u>	<u>1,602,873</u>	<u>18,858,943</u>	<u>44,379,656</u>	<u>89,315,446</u>
<b>FUND BALANCES, June 30</b>	<u>\$ 26,402,189</u>	<u>\$ 5,028,939</u>	<u>\$ 24,304,096</u>	<u>\$ 44,503,322</u>	<u>\$ 100,238,546</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, 2003**

Net change in fund balances - total governmental funds \$ 10,923,100

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

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

Capital outlay	\$ 19,031,609	
Depreciation expense	<u>(12,705,550)</u>	6,326,059

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. (167,397)

Developer donations of infrastructure assets are not included in the fund statements. Thus, the change in net assets differs from the change in fund balance by the value of these asset donations. 11,790,539

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

Change in deferred revenue	\$ (6,538,660)	
Change in investment in joint venture	<u>(510,539)</u>	(7,049,199)

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

Principal retirement	\$ 3,111,203	
Proceeds of long-term debt	<u>(192,759)</u>	2,918,444

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

Change in accrued interest		47,984
----------------------------	--	--------

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. (11,448,200)

Change in net assets of governmental activities \$ 13,341,330

**CITY OF MODESTO**  
**STATEMENT OF NET ASSETS - PROPRIETARY FUNDS**  
**June 30, 2003**

	Enterprise				Internal Service
	Water	Sewer	Other Enterprise	Total Enterprise	
<b>ASSETS</b>					
Current assets:					
Cash and cash equivalents	\$ 16,448,372	\$ 7,208,793	\$ 8,149,601	\$ 31,806,766	\$ 32,202,609
Cash and cash equivalents with fiscal agent	323,445	6,650,042	594,693	7,568,180	
Receivables:					
Accounts	6,299	68,327	188,522	263,148	1,465,931
Interest	52,601	137,556	42,301	232,458	104,836
Utilities, net	3,227,134	2,256,086	543,605	6,026,825	
Taxes	1,877			1,877	
Due from governments	52,984	127,064	3,657,326	3,837,374	
Inventories					390,354
Advances to other funds					2,000,000
Total current assets	<u>20,112,712</u>	<u>16,447,868</u>	<u>13,176,048</u>	<u>49,736,628</u>	<u>36,163,730</u>
Noncurrent assets:					
Notes receivable, net					85,291
Restricted assets-cash and cash equivalents	502,498	1,040,496		1,542,994	
Unamortized costs of issuance	282,130	593,956		876,086	
Land and construction in progress	2,669,606	22,631,944	15,117,902	40,419,452	618,669
Other capital assets, net of accumulated depreciation	<u>62,795,778</u>	<u>112,934,374</u>	<u>56,263,251</u>	<u>231,993,403</u>	<u>18,975,979</u>
Total assets	<u>86,362,724</u>	<u>153,648,638</u>	<u>84,557,201</u>	<u>324,568,563</u>	<u>55,843,669</u>
<b>LIABILITIES</b>					
Current liabilities:					
Accounts payable	975,197	666,882	791,335	2,433,414	622,083
Accrued salaries and benefits	140,575	198,699	115,509	454,783	155,860
Due to other funds					245,000
Interest payable	304,090	395,750	55,658	755,498	
Current portion - compensated absences					1,526,963
Current portion - claims liability					4,314,894
Current portion - long-term debt	844,686	1,205,000	175,000	2,224,686	44,399
Current portion - developer advances	117,103			117,103	
Deferred revenues			4,945,870	4,945,870	
Total current liabilities	<u>2,381,651</u>	<u>2,466,331</u>	<u>6,083,372</u>	<u>10,931,354</u>	<u>6,909,199</u>
Noncurrent liabilities:					
Payable from restricted assets - refundable deposits	502,498	284,251		786,749	
Advances from other funds			42,538	42,538	
Compensated absences					52,199,556
Claims liability					7,959,981
Long-term debt:					
Revenue bonds payable		40,800,298		40,800,298	
Loan payable	2,533,380			2,533,380	
Notes payable					219,663
Obligations under capital leases					45,416
Certificates of participation	19,914,345		6,235,000	26,149,345	
Developer advances	<u>2,390,224</u>			<u>2,390,224</u>	
Total liabilities	<u>27,722,098</u>	<u>43,550,880</u>	<u>12,360,910</u>	<u>83,633,888</u>	<u>67,333,815</u>
<b>NET ASSETS</b>					
Invested in capital assets, net of related debt	42,493,054	98,739,562	65,560,083	206,792,699	19,285,170
Restricted for capital projects		756,245		756,245	
Unrestricted	<u>16,147,572</u>	<u>10,601,951</u>	<u>6,636,208</u>	<u>33,385,731</u>	<u>(30,775,316)</u>
Total net assets	<u>\$ 58,640,626</u>	<u>\$ 110,097,758</u>	<u>\$ 72,196,291</u>	<u>240,934,675</u>	<u>\$ (11,490,146)</u>

Some amounts reported for *business-type activities* in the Statement of Net Assets are different because certain internal service fund assets and liabilities are included with business-type activities. (4,599,530)

Net assets of business-type activities \$ 236,335,145

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

**CITY OF MODESTO**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES**  
**IN FUND NET ASSETS - PROPRIETARY FUNDS**  
**Year ended June 30, 2003**

	Enterprise				Internal Service
	Water	Sewer	Other Enterprise	Total Enterprise	
<b>OPERATING REVENUES:</b>					
Charges for services	\$ 28,200,885	\$ 23,556,044	\$ 11,189,395	\$ 62,946,324	\$ 51,611,693
Sales					2,795,221
Cost of sales					(2,686,358)
Miscellaneous			121,296	121,296	
Total operating revenues	<u>28,200,885</u>	<u>23,556,044</u>	<u>11,310,691</u>	<u>63,067,620</u>	<u>51,720,556</u>
<b>OPERATING EXPENSES:</b>					
Salaries and wages	3,361,051	4,847,455	2,789,358	10,997,864	3,651,061
Contractual services	1,746,208	2,468,311	9,472,918	13,687,437	1,424,796
Utilities	1,533,845	893,920	458,142	2,885,907	818,071
Maintenance and supplies	3,650,463	3,957,745	2,741,019	10,349,227	3,025,292
Water purchases	11,624,820			11,624,820	
Insurance	130,267	205,513	94,591	430,371	7,552,571
Claims expense					6,680,187
Employee benefits	690,167	1,065,363	585,152	2,340,682	40,683,983
Administration services	2,114,187	1,293,526	999,841	4,407,554	1,010,939
Allocated indirect administrative costs	1,008,736	731,384	657,649	2,397,769	253,758
Other	70,741	114,308	157,172	342,221	155,994
Depreciation	1,884,768	4,888,126	3,235,996	10,008,890	2,643,116
Total operating expenses	<u>27,815,253</u>	<u>20,465,651</u>	<u>21,191,838</u>	<u>69,472,742</u>	<u>67,899,768</u>
<b>OPERATING INCOME (LOSS)</b>	<u>385,632</u>	<u>3,090,393</u>	<u>(9,881,147)</u>	<u>(6,405,122)</u>	<u>(16,179,212)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>					
Operating grants			5,119,474	5,119,474	
Loss on disposition of capital assets	(59,102)	(147,525)	(33,468)	(240,095)	(49,100)
Tax revenue			187,859	187,859	
Tax expense	(77,676)	(87,135)	(4,858)	(169,669)	
Interest income	933,085	308,041	150,875	1,392,001	955,093
Net decrease in fair value of investments	(112,492)	(40,855)	(34,250)	(187,597)	(134,443)
Rental income	31,732	100	766,978	798,810	
Interest expense	(1,322,905)	(610,379)	(336,783)	(2,270,067)	(23,422)
Amortization of costs of issuance	(13,839)	(52,226)		(66,065)	
Total nonoperating revenues (expenses)	<u>(621,197)</u>	<u>(629,979)</u>	<u>5,815,827</u>	<u>4,564,651</u>	<u>748,128</u>
<b>INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS</b>	<u>(235,565)</u>	<u>2,460,414</u>	<u>(4,065,320)</u>	<u>(1,840,471)</u>	<u>(15,431,084)</u>
Capital contributions	3,615,537	3,497,895	6,490,028	13,603,460	367,865
Transfers in	154,000	66,000	2,327,990	2,547,990	85,000
Transfers out	(145,100)	(60,000)	(518,000)	(723,100)	(1,069,511)
Special item	<u>(2,951,716)</u>	<u>(1,802,168)</u>		<u>(4,753,884)</u>	
<b>CHANGE IN NET ASSETS</b>	<u>437,156</u>	<u>4,162,141</u>	<u>4,234,698</u>	<u>8,833,995</u>	<u>(16,047,730)</u>
<b>NET ASSETS, July 1 (as restated)</b>	<u>58,203,470</u>	<u>105,935,617</u>	<u>67,961,593</u>		<u>4,557,584</u>
<b>NET ASSETS, June 30</b>	<u>\$ 58,640,626</u>	<u>\$ 110,097,758</u>	<u>\$ 72,196,291</u>		<u>\$ (11,490,146)</u>

Some amounts reported for *business-type activities* in the Statement of Activities are different because a portion of the net income of certain internal service funds is reported with the business-type activities which those funds service.

(4,599,530)

Change in net assets of business-type activities

\$ 4,234,465

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, 2003

	Enterprise				Internal Service
	Water	Sewer	Other Enterprise	Total Enterprise	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>					
Receipts from customers and users	\$ 27,779,029	\$ 23,569,504	\$ 12,048,151	\$ 63,396,684	\$ 1,355,173
Receipts from interfund services provided	622,669	66,368	21,554	710,591	49,051,597
Payments to suppliers	(16,481,231)	(6,114,866)	(12,258,684)	(34,854,781)	(18,767,988)
Payments to employees	(4,021,536)	(5,892,157)	(3,351,886)	(13,265,579)	(27,214,841)
Payments for interfund services used	(4,948,057)	(4,196,772)	(3,033,644)	(12,178,473)	(1,799,927)
Net cash provided (used) by operating activities	<u>2,950,874</u>	<u>7,432,077</u>	<u>(6,574,509)</u>	<u>3,808,442</u>	<u>2,624,014</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>					
Operating grants received			3,806,757	3,806,757	
Taxes received			187,859	187,859	
Transfers in	154,000	66,000	2,327,990	2,547,990	85,000
Transfers out	(145,100)	(60,000)	(518,000)	(723,100)	(1,069,511)
Special item	(2,951,716)	(1,802,168)			
New advances from other funds					
Repayments of advances from other funds			(294,762)	(294,762)	(2,000,000)
Net cash provided (used) by noncapital financing activities	<u>(2,942,816)</u>	<u>(1,796,168)</u>	<u>5,509,844</u>	<u>5,524,744</u>	<u>(2,984,511)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>					
Acquisition and construction of capital assets	(1,841,427)	(3,295,229)	(4,611,828)	(9,748,484)	(3,903,832)
Proceeds from sale of capital assets					175,954
Principal repayments	(6,241,067)	(1,150,000)	(170,000)	(7,561,067)	(40,710)
Interest paid	(1,234,470)	(2,401,958)	(338,200)	(3,974,628)	(23,422)
Capital grants received			5,051,187	5,051,187	
Connection fees for capital purposes	1,169,995	759,601		1,929,596	
Net cash used by capital and related financing activities	<u>(8,146,969)</u>	<u>(6,087,586)</u>	<u>(68,841)</u>	<u>(14,303,396)</u>	<u>(3,792,010)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>					
Interest received	904,956	463,916	149,767	1,518,639	943,930
Net increase in the fair value of investments	(112,492)	(40,855)	(34,250)	(187,597)	(134,443)
Net cash provided by investing activities	<u>792,464</u>	<u>423,061</u>	<u>115,517</u>	<u>1,331,042</u>	<u>809,487</u>
Net increase (decrease) in cash and cash equivalents	(7,346,447)	(28,616)	(1,017,989)	(8,393,052)	(3,182,020)
CASH AND CASH EQUIVALENTS, JULY 1	<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>
CASH AND CASH EQUIVALENTS, JUNE 30	<u>\$ 17,274,315</u>	<u>\$ 14,899,331</u>	<u>\$ 8,744,294</u>	<u>\$ 40,917,940</u>	<u>\$ 32,202,609</u>
<b>RECONCILIATION TO STATEMENT OF NET ASSETS:</b>					
Cash and cash equivalents	\$ 16,448,372	\$ 7,208,793	\$ 8,149,601	\$ 31,806,766	\$ 32,202,609
Cash and cash equivalents with fiscal agent	323,445	6,650,042	594,693	7,568,180	
Restricted assets-cash and cash equivalents	502,498	1,040,496		1,542,994	
TOTAL CASH AND CASH EQUIVALENTS	<u>\$ 17,274,315</u>	<u>\$ 14,899,331</u>	<u>\$ 8,744,294</u>	<u>\$ 40,917,940</u>	<u>\$ 32,202,609</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, 2003**

	Enterprise				Internal Service
	Water	Sewer	Other Enterprise	Total Enterprise	
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</b>					
Operating income (loss)	\$ 385,632	\$ 3,090,393	\$ (9,881,147)	\$ (6,405,122)	\$ (16,179,212)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation	1,884,768	4,888,126	3,235,996	10,008,890	2,643,116
Rental income	31,732	100	766,978	798,810	
Taxes paid	(77,676)	(87,135)	(4,858)	(169,669)	
Change in assets and liabilities:					
(Increase) in accounts receivable	(2,957)	48,090	5,865	50,998	(1,313,786)
(Increase) in utilities receivable	239,091	5,361	(27,996)	216,456	
Decrease in taxes receivable	115			115	
(Increase) in notes receivable					1,850
(Increase) decrease in due from governments	(52,984)			(52,984)	
Decrease in inventories					(50,488)
Increase (decrease) in accounts payable and accrued expenses	527,655	(559,796)	(706,138)	(738,279)	(708,217)
Increase (decrease) in accrued salaries and benefits	29,682	20,661	22,624	72,967	26,656
Increase in compensated absences					17,091,697
Increase in claims liability					1,112,398
Increase in deferred revenues			14,167	14,167	
Increase (decrease) in refundable deposits	(14,184)	26,277		12,093	
Total adjustments	<u>2,565,242</u>	<u>4,341,684</u>	<u>3,306,638</u>	<u>10,213,564</u>	<u>18,803,226</u>
Net cash provided (used) by operating activities	<u>\$ 2,950,874</u>	<u>\$ 7,432,077</u>	<u>\$ (6,574,509)</u>	<u>\$ 3,808,442</u>	<u>\$ 2,624,014</u>

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

Capital asset additions accrued at year end	\$ 33,624	\$ 103,127	\$ 38,602	\$ 175,353	
Capital assets transferred in		19,430	20,914	40,344	\$ 367,865
Developer infrastructure contributions	2,445,542	2,718,864	1,822,581	6,986,987	
Capitalized interest expense on revenue bonds accrued at year end		310,431		310,431	

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, 2003**

	Special Assessments Agency	Investment Trust
<u>ASSETS</u>		
Cash and cash equivalents	\$ 368,103	\$ 641,083
Cash and cash equivalents held with fiscal agent	116,931	
	485,034	641,083
<u>LIABILITIES</u>		
Due to special assessment bondholders	485,034	
Net Assets held in trust for external pool participant	\$	\$ 641,083

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, 2003**

	<u>Investment Trust</u>
Additions:	
Principal contributions from external pool participant	\$ 572,176
Interest earnings	17,397
Net decrease in fair value of investments	<u>(3,753)</u>
Total additions	<u>585,820</u>
Deductions:	
Withdrawals by external pool participant	<u>427,961</u>
Change in net assets of external pool participant	157,859
Net assets held in trust for external pool participant July 1	<u>483,224</u>
Net assets held in trust for external pool participant June 30	<u>\$ 641,083</u>

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, 2003**

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. THE FINANCIAL REPORTING ENTITY**

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

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

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

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

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

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

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that

are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund 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 Capital Facility Fees Fund accounts for special fees collected on new building permits to be used for construction of growth related projects, including police department expansion, fire department expansion, expressway loop, street lights, parks, new traffic signals, city hall expansion, wastewater treatment, streets, public transportation, and air quality improvements.

The 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 Special Assessments Agency Fund accounts for collection of special assessments from property owners and forwarding of these collections to trustees for payment to bondholders.

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 and the Community Facilities Districts Capital Projects 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, 2003 is \$11,381,815, net of \$13,498 allowance for doubtful collections.

Utility service accounts receivable are reported net of \$190,984 allowance for doubtful collections and include unbilled receivables using actual amounts billed in July for June services. Accounts receivable are reported net of \$925,770, and are based on miscellaneous receivables from the City's invoice system as well as other receivables accrued at year end.

## 4. Inventories

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

## 5. Capital Assets

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

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. \$1,709,841 of net interest expense on tax-exempt debt was capitalized in the enterprise funds during the fiscal year ended June 30, 2003.

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, 2003, the total estimated liability for all compensated absences, including sick leave, is \$53,726,519. The current portion of \$1,526,963 is funded by charges to all operating funds. The estimated long-term portion is \$52,199,556.

## 7. Fund Equity

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

## E. OTHER SIGNIFICANT ACCOUNTING POLICIES

### 1. Employee Benefits

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

## 2. Interfund Transactions

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

## II. DETAILED NOTES

### A. CASH AND INVESTMENTS

The City maintains a cash and investment pool that is used by all funds. Each fund's portion of the City's cash and investment pool is displayed on the balance sheet and proprietary and fiduciary fund statements of net assets as "cash and cash equivalents." Each fund is allocated interest on average monthly cash balances held by the funds throughout the year. A majority of the interest from the Fleet Management Internal Service Fund is credited to the General Fund in accordance with the City's policy. Certain deposits held in trust 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 \$(1,566,432), the bank balance was \$5,458,453, and the difference is due to outstanding checks and deposits in transit. Of the bank balance, \$200,000 was covered by federal depository insurance and \$5,258,453 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 \$47,398,374. 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 \$55,587,336,494. 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 City has no Category three investments. 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				\$ (1,566,432)	\$ (1,566,432)
U. S. Government securities	\$ 8,987,130				8,987,130
U.S. Government agencies	88,791,044				88,791,044
LAIF				47,398,374	47,398,374
Total investments and cash controlled by City Treasurer	97,778,174			45,831,942	143,610,116
Amounts invested with fiscal agents:					
Money market mutual funds				5,648,569	5,648,569
Repurchase agreements		\$1,977,050			1,977,050
U.S. Government agencies	8,051,096				8,051,096
CAMP money market				1,158,632	1,158,632
Total investments controlled by fiscal agents	8,051,096	1,977,050		6,807,201	16,835,347
Other pooled investments:					
California Asset Management Program				756,245	756,245
Total cash and investments	\$105,829,270	\$1,977,050		\$53,395,388	161,201,708
Presented in the statement of fiduciary net assets:					
Special Assessments Agency Fund:					
Cash and cash equivalents					368,103
Cash and cash equivalents with fiscal agent					116,931
Investment Trust Fund					641,083
Presented in the government-wide statement of net assets					\$160,075,591

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

Investments	Fair Value	Principal	Interest Rates	Maturity Dates
U.S. Government securities	\$ 8,987,130	\$ 8,982,868	1.15% - 1.18%	7/17/03-10/23/03
U.S. Government agencies	88,791,044	88,351,257	2.00% - 5.15%	2/28/05-6/30/08
LAIF	47,398,374	47,263,847	1.70%	NA
	\$145,176,548	\$144,597,972		

State 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. Trustees under bond indentures may also invest in repurchase agreements; however, the securities underlying these repurchase agreements must have a fair value of at least 103 percent of the cost of the repurchase agreement. The securities underlying repurchase agreements met the required fair value level and were allowable securities under current statutes, the City's investment policy, and bond indentures.

The following are condensed statements of net assets, and changes in net assets, for the City Treasurer's investment pool as of June 30, 2003:

<u>Statement of Net Assets</u>	
Net assets held for pool participants	\$143,610,116
Equity of internal pool participant	\$142,483,999
Equity of external pool participants	1,126,117
Total equity	\$143,610,116
<u>Statement of Changes in Net Assets</u>	
Net assets, July 1, 2002	\$139,868,125
Net change in investments by pool participants	3,741,991
Net assets, June 30, 2003	\$143,610,116

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 external participants in the City's pool are the Tuolumne River Regional Park (see III-E) and the Special Assessment Agency Fund, which are involuntary participants.

The City has not provided nor obtained any legally binding guarantees during the fiscal year ended June 30, 2003 to support the value of shares in the Treasurer's investment pool.

## B. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2003 was as follows:

	Beginning Balance, as restated	Additions	Deletions	Ending Balance
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Land	\$20,187,861	\$1,845,184		\$ 22,033,045
Construction in progress	6,028,705	2,360,835	\$ (1,537,255)	6,852,285
Total capital assets, not being depreciated	<u>26,216,566</u>	<u>4,206,019</u>	<u>(1,537,255)</u>	<u>28,885,330</u>
Capital assets, being depreciated:				
Buildings	22,110,417	2,708,472	(262,323)	24,556,566
Improvements other than buildings	29,991,770	2,039,766	(36,243)	31,995,293
Furnishings and equipment	13,825,421	1,417,062	(253,898)	14,988,585
Equipment pool	25,167,641	3,885,026	(3,912,098)	25,140,569
Streets	369,323,572	22,374,208		391,697,780
Signalization	11,229,377	303,813		11,533,190
Bridges	3,438,313	131,736		3,570,049
Total capital assets, being depreciated	<u>475,086,511</u>	<u>32,860,083</u>	<u>(4,464,562)</u>	<u>503,482,032</u>
Less accumulated depreciation for:				
Buildings	(6,990,190)	(622,521)		(7,612,711)
Improvements other than buildings	(16,072,315)	(1,031,387)		(17,103,702)
Furnishings and equipment	(7,121,952)	(1,010,568)	116,467	(8,016,053)
Equipment pool	(11,230,148)	(2,255,365)	3,520,642	(9,964,871)
Streets	(149,563,469)	(9,721,477)		(159,284,946)
Signalization	(4,481,066)	(667,804)		(5,148,870)
Bridges	(356,113)	(39,544)		(395,657)
Total accumulated depreciation	<u>(195,815,253)</u>	<u>(15,348,666)</u>	<u>3,637,109</u>	<u>(207,526,810)</u>
Total capital assets, being depreciated, net	<u>279,271,258</u>	<u>17,511,417</u>	<u>(827,453)</u>	<u>295,955,222</u>
Governmental activities capital assets, net	<u>\$305,487,824</u>	<u>\$21,717,436</u>	<u>\$(2,364,708)</u>	<u>\$324,840,552</u>

	Beginning Balance, as restated	Additions	Deletions	Ending Balance
<b>Business-type activities:</b>				
Capital assets, not being depreciated:				
Land	\$24,028,436	\$1,577,287		\$25,605,723
Construction in progress	13,685,868	3,861,270	\$(2,733,409)	14,813,729
Total capital assets, not being depreciated	<u>37,714,304</u>	<u>5,438,557</u>	<u>(2,733,409)</u>	<u>40,419,452</u>
Capital assets, being depreciated:				
Buildings	79,022,549	2,462,801	(461,340)	81,024,010
Improvements other than buildings	128,778,789	1,392,184		130,170,973
Furnishings and equipment	5,142,835	385,390	(60,811)	5,467,414
Buses and fareboxes	9,981,049	1,926,360		11,907,409
Pipelines	106,351,481	9,850,482		116,201,963
Total capital assets, being depreciated	<u>329,276,703</u>	<u>16,017,217</u>	<u>(522,151)</u>	<u>344,771,769</u>
Less accumulated depreciation for:				
Buildings	(24,564,507)	(2,405,143)		(26,969,650)
Improvements other than buildings	(55,579,009)	(5,174,250)		(60,753,259)
Furnishings and equipment	(1,986,535)	(461,793)	45,349	(2,402,979)
Buses and fareboxes	(5,083,974)	(666,073)		(5,750,047)
Pipelines	(15,600,800)	(1,301,631)		(16,902,431)
Total accumulated depreciation	<u>(102,814,825)</u>	<u>(10,008,890)</u>	<u>45,349</u>	<u>(112,778,366)</u>
Total capital assets, being depreciated, net	<u>226,461,878</u>	<u>6,008,327</u>	<u>(476,802)</u>	<u>231,993,403</u>
Business-type activities capital assets, net	<u>\$264,176,182</u>	<u>\$11,446,884</u>	<u>\$(3,210,211)</u>	<u>\$272,412,855</u>

Depreciation expense was charged to functions/programs as follows:

<b>Governmental activities:</b>	
General government	\$ 85,375
Community development	66,526
Highways and streets, including depreciation of general infrastructure assets	10,462,072
Public works	947,062
Parks and recreation	130,348
Public safety	1,014,167
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	<u>2,643,116</u>
Total depreciation expense – governmental activities	<u>\$15,348,666</u>
<b>Business-type activities:</b>	
Parking	\$ 391,464
Water	1,884,768
Sewer	4,888,126
Storm Drain	462,662
Airport	372,921
Bus	960,996
Golf	315,107
Community center	<u>732,846</u>
Total depreciation expense – business-type activities	<u>\$10,008,890</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.

\$ 155,514

No-interest loan payable to the Stanislaus County Economic Development Bank loan program, to pay master plan costs incurred by the City's Redevelopment Agency for the Kansas Avenue Business Park Project; no obligation to begin repayments until project is complete and revenue stream begins; authorized loan amount up to \$405,000; current balance is the total amount of eligible expenses incurred through June 30, 2003; outstanding amount will increase as more eligible costs are incurred and more loan proceeds are borrowed; final payment due in 2015 if not repaid sooner.

192,759

Total governmental activities loans payable

\$ 348,273

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.

\$ 2,713,066

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>
2004	\$ 37,151	\$ 4,401	\$ 179,686	\$ 84,968
2005	38,286	3,267	185,778	78,876
2006	39,443	2,110	191,562	73,091
2007	40,634	917	197,698	66,956
2008			203,908	60,745
2009-2013			1,122,533	200,734
2014-2016	<u>192,759</u>		<u>631,901</u>	<u>30,469</u>
Total	<u>\$348,273</u>	<u>\$10,695</u>	<u>\$2,713,066</u>	<u>\$595,839</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 \$720,000 to \$1,040,000; interest rates from 5.1% - 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.

\$ 23,935,000

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 \$175,000 to \$235,000; interest rates from 5.1% 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.

\$ 6,410,000

Water Enterprise Fund:

1997 Refunding Certificates of Participation (Water Utility System Project); serial certificates with annual maturities on October 1, in amounts from \$665,000 to \$1,050,000; interest rates from 4.4% 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.

22,555,000

Total principal balances – business-type activities

28,965,000

Less:

Unamortized bond discount – Water Enterprise Fund

(452,076)

Deferred amount on refunding – Water Enterprise Fund

(1,523,579)

Total business-type activities certificates of participation

\$ 26,989,345

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
2004	\$ 720,000	\$ 1,234,190	\$ 840,000	\$ 1,444,775
2005	760,000	1,196,070	885,000	1,405,123
2006	800,000	1,155,110	935,000	1,360,896
2007	835,000	1,111,365	985,000	1,313,655
2008	885,000	1,064,925	1,030,000	1,265,125
2009-2013	5,200,000	4,514,765	5,995,000	5,476,925
2014-2018	6,170,000	2,918,210	7,765,000	3,716,311
2019-2023	6,955,000	1,306,125	10,050,000	1,453,939
2024	1,610,000	40,250	480,000	12,000
Total	<u>\$23,935,000</u>	<u>\$14,541,010</u>	<u>\$28,965,000</u>	<u>\$17,448,749</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 \$135,000 to \$305,000 on November 1. \$ 2,935,000

1998 Lease Revenue Bonds (Capital Improvements and Refinancing Project); serial certificates totaling \$5,625,000 with annual maturities on September 1, in amounts from \$275,000 to \$910,000; interest payments 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. 60,930,000

Total lease revenue bonds \$ 63,865,000

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2004	\$ 410,000	\$ 3,191,420
2005	455,000	3,171,145
2006	495,000	3,148,788
2007	545,000	3,124,228
2008	580,000	3,097,520
2009-2013	4,055,000	14,972,604
2014-2018	6,925,000	13,565,617
2019-2023	9,755,000	11,483,834
2024-2028	14,925,000	8,514,761
2029-2033	20,865,000	4,016,828
2034	4,855,000	124,409
Total	<u>\$63,865,000</u>	<u>\$68,411,154</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, in amounts from \$5,000 to \$1,335,000, with interest rates from 4.9% 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. \$ 32,380,000

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 \$750,000 to \$815,000, with interest rates from 5.1% 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. 4,275,000

Wastewater Revenue Bonds, Series 1993; interest rates from 4.4% to 5.1% payable semi-annually on May 1 and November 1; principal amounts from \$385,000 to \$660,000, final payment on November 1, 2013; bonds maturing on or after November 1, 2004 are subject to call. 5,835,000

Total principal balances – business-type activities 42,490,000

Less:

Unamortized bond discount	1997 Bonds	\$(197,294)	
	1996 Bonds	<u>(15,459)</u>	(212,753)

Deferred amount on refunding	1996 Bonds	\$(271,949)	<u>(271,949)</u>
------------------------------	------------	-------------	------------------

Total business-type activities revenue bonds \$ 42,005,298

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2004	\$ 1,205,000	\$ 2,345,121
2005	1,265,000	2,284,633
2006	1,330,000	2,220,145
2007	1,400,000	2,150,097
2008	1,475,000	2,074,539
2009-2013	8,765,000	8,240,758
2014-2018	11,615,000	6,894,178
2019-2023	<u>15,435,000</u>	<u>2,320,269</u>
Total	<u>\$42,490,000</u>	<u>\$28,529,740</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% and a maximum of 9%; monthly payments of \$3,010, including interest, through February 2012. \$ 241,880

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>
2004	\$ 22,217	\$ 13,907
2005	23,587	12,537
2006	25,042	11,083
2007	26,588	9,540
2008	28,226	7,898
2009-2012	<u>116,220</u>	<u>13,232</u>
<b>Total</b>	<b><u>\$241,880</u></b>	<b><u>\$68,198</u></b>

Long-term liability activity for the year ended June 30, 2003, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b>Governmental activities:</b>					
Loans payable	\$ 191,835	\$ 192,759	\$ 36,321	\$ 348,273	\$ 37,151
Certificates of participation	24,625,000		690,000	23,935,000	720,000
Lease revenue bonds	64,250,000		385,000	63,865,000	410,000
Community facility district bonds	1,620,000		1,620,000		
Note payable	262,807		20,927	241,880	22,217
Obligations under capital leases	2,153,350		399,665	1,753,685	418,503
Compensated absences	36,634,822	25,479,536	8,387,839	53,726,519	1,526,963
Claims liability	<u>11,162,477</u>	<u>6,680,187</u>	<u>5,567,789</u>	<u>12,274,875</u>	<u>4,314,894</u>
Governmental activities long-term liabilities	<u>\$140,900,291</u>	<u>\$32,352,482</u>	<u>\$17,107,541</u>	<u>\$156,145,232</u>	<u>\$7,449,728</u>
<b>Business-type activities:</b>					
Loan payable	\$ 2,887,342		\$ 174,276	\$ 2,713,066	\$ 179,686
Certificates of participation	29,765,000		800,000	28,965,000	840,000
Unamortized discounts	(474,251)		(22,175)	(452,076)	
Deferred amount on refunding	(1,598,315)		(74,736)	(1,523,579)	
Revenue bonds	43,640,000		1,150,000	42,490,000	1,205,000
Unamortized discounts	(226,721)		(13,968)	(212,753)	
Deferred amount on refunding	(338,300)		(66,351)	(271,949)	
Developer advances	<u>2,636,091</u>		<u>128,764</u>	<u>2,507,327</u>	<u>117,103</u>
Business-type activities long-term liabilities	<u>\$76,290,846</u>		<u>\$2,075,810</u>	<u>\$74,215,036</u>	<u>\$2,341,789</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 \$309,478 of internal service funds obligations under notes payable and 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, 2004:

<u>Year Ending June 30,</u>	
2004	\$ 468,977
2005	468,977
2006	468,977
2007	<u>463,803</u>
Total minimum lease payments	\$1,870,734
Less: amount representing interest	<u>(184,647)</u>
Present value of minimum lease payments	<u><u>\$1,686,087</u></u>

Assets subject to the above capital leases valued at \$2,074,566, net of \$23,183 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 \$159,141, net of accumulated depreciation of \$72,301, 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, 2003:

<u>Year Ending June 30,</u>	
2004	\$28,006
2005	28,005
2006	<u>21,003</u>
Total minimum lease payments	77,014
Less: amount representing interest	<u>(9,416)</u>
Present value of minimum lease payments	<u><u>\$ 67,598</u></u>

E. DEVELOPER ADVANCES

The Del Este Water Company (Del Este) entered into various agreements with developers under which infrastructure components were either constructed on behalf of Del Este or cash was advanced to the company to construct the infrastructure. Agreements in existence at the time of the City's acquisition of Del Este were assumed by the City. The terms of repayment call for no interest, with principal paid over a 40-year period. As of June 30, 2003, the total outstanding balance due under the agreements is \$2,507,327. The total annual payments fluctuate depending on the ending date of each agreement. At June 30, 2003, the amount of \$117,103, due during fiscal year 2004, has been reported as "current portion-developer advances" on the Proprietary Funds statement of net assets. The remaining \$2,390,224 of outstanding principal has been reported under noncurrent liabilities, as "developer advances."

F. INTERFUND BALANCES

Interfund balances as of June 30, 2003 consist of the following:

<u>Due to General Fund from:</u>	
Other governmental funds	\$965,100
Internal service funds	245,000
Total due to General Fund	<u>1,210,100</u>
Due to other governmental funds from other governmental funds	<u>1,570,000</u>
Total due to/due from	<u><u>\$2,780,100</u></u>
 <u>Advances from General Fund to:</u>	
Capital Facility Fees Fund	\$925,141
Other governmental funds	930,600
Other enterprise funds	42,538
Total advances from General Fund	<u>1,898,279</u>
Advances from internal service funds to General Fund	<u>2,000,000</u>
Total advances from/advances to	<u><u>\$3,898,279</u></u>

All balances reported as "due to/due from" are short-term loans to cover temporary fund cash shortages as of June 30, 2003, and will be repaid early in fiscal year 2004. Balances reported as "advance to/advance from" were for capital projects expenditures and are either in the process of being repaid or have scheduled repayments in future years. \$3,403,936 of advances are not currently scheduled for repayment during 2004.

G. RESERVES AND DESIGNATIONS OF FUND BALANCES

The City's reserves and designations at June 30, 2003 are comprised of the following:

	<u>General</u>	<u>Special Gas Tax Street Improvement</u>	<u>Capital Facility Fees</u>	<u>Other Governmental</u>
<u>Reserved for:</u>				
Encumbrances	\$1,394,218	\$6,780,631	\$1,295,886	\$ 2,592,476
Petty cash	8,780			
Loan programs	92,283			12,475,799
Interfund advances	1,898,279			
Set-aside requirement				2,356,871
Debt service				6,387,724
 Total reserved	 <u>\$3,393,560</u>	 <u>\$6,780,631</u>	 <u>\$1,295,886</u>	 <u>\$23,812,870</u>
 <u>Designated for:</u>				
Pending projects	\$ 730,000		\$23,008,210	\$22,107,081
Subsequent year expenditures	4,839,586			
Departmental savings	1,238,410			
 Total designated	 <u>\$6,807,996</u>		 <u>\$23,008,210</u>	 <u>\$22,107,081</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 2003/04.
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 \$8,145 as of June 30, 2003. All projects in this fund have been completed, and this fund is slated to be closed in fiscal year 2004. The deficit will be cured with a transfer in from a related Parks fund.

The Capital Grants Capital Projects Fund has a deficit fund balance of \$383,154 due to grant revenues not received close enough to the fiscal year end to be accrued as revenue. Deferred revenues of \$713,911, when received in subsequent periods, will have a positive effect on fund balance.

The Golf Enterprise Fund has a net assets deficit of \$1,014,818, due to a change in accounting policy two years ago. 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 \$2,063,525. Despite increased charges to departments, insurance and claims expenses continued to outpace revenues during 2003. This situation will be addressed during the next budget formation.

The Employee Benefits Management Internal Service Fund has a net assets deficit of \$39,553,214. It exists partially because the total compensated absences balance previously classified as debt of the governmental funds was included in this fund at its inception ten years ago, and has never been fully funded. In addition, the City contracts for an actuarial valuation of the sick leave liability on an annual basis. Due to several changes in employee agreements related to sick leave conversion at retirement to cover future health premium costs, the actuarial value of the sick leave liability increased by almost \$17 million during 2003. The City is planning to reduce the 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	Capital Facility Fees	Other Govern-mental	Water	Sewer	Other Enterprise	Internal Service	
General Fund		\$2,693,160	\$326,500	\$2,223,100	\$60,100	\$60,000	\$18,000	\$1,007,709	\$ 6,388,569
Special Gas Tax Street Improvement	\$466,400								466,400
Capital Facility Fees				843					843
Other Governmental	5,042,820	78,594	204,237	1,920,093			500,000		7,745,744
Water	154,000								154,000
Sewer	66,000								66,000
Other Enterprise	1,386,986	218,714		660,488				61,802	2,327,990
Internal Service					85,000				85,000
<b>Total</b>	<b>\$7,116,206</b>	<b>\$2,990,468</b>	<b>\$530,737</b>	<b>\$4,804,524</b>	<b>\$145,100</b>	<b>\$60,000</b>	<b>\$518,000</b>	<b>\$1,069,511</b>	<b>\$17,234,546</b>

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

J. NOTES RECEIVABLE

The notes receivable in the Other Governmental Funds of \$12,720,669, net of \$115,647 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 \$85,291 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 \$244,870 consist of amounts being held for rehabilitation of properties using funds provided by federal grants. The liability is expected to be liquidated within one year.

L. SPECIAL ITEMS

These expenses in the Water and Sewer Enterprise funds represent legal costs incurred in pursuit of mitigating damages from the manufacturers of perchlorethylene, or PCE, a common chemical used in the dry cleaning industry. This chemical has seeped into the groundwater through sewer lines when improperly disposed, and threatens the City’s groundwater supplies. Modesto has been proactive in attempting to recover damages and future cleanup costs from the dry cleaners and their insurers, and has also instituted litigation with the manufacturers.

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 \$1,198,000; 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, 2003 is \$12,274,875 consisting of \$9,315,645 workers' compensation, \$2,599,176 general liability, \$271,919 dental, \$36,069 disability, and \$52,066 vision. The current portion of the total claims liability is estimated to be \$4,314,894 and the balance of \$7,959,981 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, 2003. Changes in the Insurance Fund claims liability during the fiscal years ended June 30, 2002 and June 30, 2003 were:

	Claims Liability July 1	Current-Year Claims and Changes in Estimates	Current-Year Claim Payments	Claims Liability June 30
2001-02	\$10,160,869	\$5,890,806	\$(4,889,198)	\$11,162,477
2002-03	11,162,477	6,680,187	(5,567,789)	12,274,875

**B. SPECIAL ASSESSMENT DEBT WITHOUT CITY COMMITMENT**

Special assessment districts have been established in various areas of the City to provide improvements to properties located in those districts. Properties are assessed for the cost of the improvements; these assessments are payable solely by the property owners over the term of the debt issued to finance the improvements. The City is not legally obligated to pay these debts or be the purchaser of last resort of foreclosed properties in the special assessment districts, nor is it obligated to advance City funds to repay this debt in the event of default by any property owners. The City functions as an agent for the property owners by collecting assessments and forwarding collections to trustees for payment to bond holders. At June 30, 2003, the balance of these districts' outstanding debt was as follows:

<u>Issue</u>	<u>Outstanding Amount</u>
Improvement District #28 - Sewer Improvements	\$120,000
Improvement District #29 - Street and Water System Improvements	340,000
Public Facilities District #6 - Street and Water System Improvements	<u>80,000</u>
	<u>\$540,000</u>

**C. CONDUIT DEBT OBLIGATIONS**

From time to time, the City has issued revenue bonds to provide financial assistance to private-sector entities for the acquisition and construction of industrial, commercial, health care, and multiple-family housing facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from developer payments on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private-sector entity served by the bond issuance. Neither the City, the State, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are considered conduit debt obligations and are not reported as liabilities in the accompanying financial statements.

As of June 30, 2003 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 2002 was \$63,360,000.

**D. COMMITMENTS AND CONTINGENCIES**

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

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 \$24,895,890 as of June 30, 2003 for contracts awarded but not completed and other outstanding purchase orders. This amount consists of \$1,394,218 in the General Fund, \$6,780,631 in the Special Gas Tax Street Improvement Fund, \$1,295,886 in the Capital Facility Fees Fund, \$2,592,476 in other governmental funds, \$9,603,020 in the enterprise funds, and \$1,515,059 in the internal service funds. Commitments of the governmental funds are recorded as fund balance reserve for encumbrances on the balance sheet. As of June 30, 2003, there are major contracts and other purchase orders outstanding for expansion of the automatic traffic management system, the Kansas-Needham Ninth Street overcrossing, new neighborhood parks construction and landscaping, street slurry sealing, installation of new water wells, replacement and upgrade of existing water lines, 9<sup>th</sup> Street storm drain, new bus purchases, and purchase of police patrol vehicles.

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. During the fiscal year ended June 30, 2003, 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.

#### E. JOINT VENTURES AND JOINTLY GOVERNED ORGANIZATION

##### Tuolumne River Regional Park

The City participates with Stanislaus County and the City of Ceres in the operation and development of the Tuolumne River Regional Park (TRRP). The governing body consists of 2 members from the County Board of Supervisors, 2 members from the Modesto City Council, and 1 member from the Ceres City Council. The TRRP board prepares the annual budget, which must be approved by both cities' councils and the board of supervisors. Each participant has an equity interest in the capital assets of TRRP based on the percentage of cumulative contributions paid. The City's contribution to TRRP was \$175,152 for the fiscal year ended June 30, 2003. As of June 30, 2003 the City's investment in this joint venture was \$1,418,452, 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, 2003 was \$597,690, consisting of a \$183,272 cash contribution and in-kind services valued at \$414,418. The City's investment in this joint venture was estimated to be \$778,825 as of June 30, 2003, based on the most recent available information. 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 \$69,039 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 and County occupied the administration center in 1999. The City's equity interest in the Agency is \$15,700,658, equal to its contributions to date net of depreciation, and is reported in governmental activities as investments in joint ventures in the Statement of Net Assets.

### 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, 2003, 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 2003, 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, 2003, the City has no equity interest. Financial statements of the Agency are available from Stanislaus County.

## F. TREATMENT AND DELIVERY AGREEMENT

In 1992, the City entered into a treatment and delivery agreement with the Modesto Irrigation District (MID) and the Del Este Water Company (Del Este). The City assumed Del Este's interest and obligations under the agreement when it acquired Del Este in July 1995. Under the agreement, MID built and operates a surface water treatment plant on the Tuolumne River for the purpose of providing a long-term source of domestic treated water for the City. MID is the sole owner of the project, and has all management and operations responsibility. In exchange for the treated water, the City has agreed to pay: all debt service on bonds issued by MID for the construction of the project; a raw water charge as set forth in the agreement; project operation, administration, and maintenance

costs; and insurance on the project. Gross revenues of the City's Water Fund are irrevocably pledged for the punctual payment of the MID debt service and all obligations of the City under any parity debt. Current parity debt of the City consists of the 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 \$7,729,135. 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, 2003 was \$16,932,847, including \$11,624,820 reported as "water purchases" expense on the proprietary funds statement of revenues, expenses and changes in net assets, and a prior period adjustment of \$5,308,027 for the balance of a debt service balloon payment. The total outstanding on the MID bonds is \$84,660,000.

#### G. POST-RETIREMENT HEALTH CARE BENEFITS

In addition to the pension benefits described below in Note III-H, the City provides health care benefits to employees who retire from the City, under contractual agreements with all employee groups. All full-time employees, except firefighters who receive a cash payout, are eligible to set aside a percentage of accumulated sick leave upon retirement, to be used for payment of future health care premiums to a choice of four insurance plans. The City has no obligation to pay premiums for retirees with no accumulated sick leave. The actuarial liability for current retirees' future premiums is \$9,687,147 as of June 30, 2003. The current portion of \$999,495 is fully funded. The long-term portion of \$8,687,652 is partially funded, with the balance being funded over time by charges to the City's operating funds. The current and long-term portions are reported in the Employee Benefits Management Fund as part of the compensated absences liability balances.

#### H. DEFINED BENEFIT PENSION PLAN

##### Plan Description

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

##### Funding Policy

Participants are required to contribute 7% (9% for safety employees) of their annual covered salary, of which the City pays the majority on behalf of the employees. The City is required to contribute at an actuarially determined rate; the current rate is 0% of annual covered payroll for non-safety employees and 14.869% for safety employees. The contribution requirements of plan members and the City are established and may be amended by CalPERS.

##### Annual Pension Cost

For 2003, the City's annual pension cost of \$3,713,757 for CalPERS was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 2000 actuarial valuation using the entry age normal actuarial cost method, with a later amendment due to plan changes related to safety employees. 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, 2002 was 14 years for the miscellaneous plan, and 27 years for the safety plan.

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

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/01	\$1,225,521	100%	\$ -
6/30/02	-	-	-
6/30/03	\$3,713,757	100%	-

**SCHEDULE OF FUNDING PROGRESS FOR PERS**

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (A)</u>	<u>Entry Age Actuarial Accrued Liability (B)</u>	<u>Overfunded (Underfunded) Actuarial Accrued Liability (A – B)</u>	<u>Funded Ratio (A/B)</u>	<u>Covered Payroll (C)</u>	<u>Overfunded (Underfunded) Actuarial Liability as Percentage of Covered Payroll [(A – B)/C]</u>
<b>6/30/00:</b>						
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	128.5%
<b>Total</b>	<u>\$415,735,075</u>	<u>\$327,830,029</u>	<u>\$87,905,046</u>	126.8%	<u>\$53,003,526</u>	165.6%
<b>6/30/01:</b>						
Misc.	\$206,211,311	\$159,669,273	\$46,542,038	129.1%	\$33,588,996	138.6%
Safety	219,451,614	205,351,451	14,100,163	106.9%	23,191,287	60.8%
<b>Total</b>	<u>\$425,662,925</u>	<u>\$365,020,724</u>	<u>\$60,642,201</u>	116.6%	<u>\$56,780,283</u>	106.8%
<b>6/30/02:</b>						
Misc.	\$191,091,770	\$172,691,324	\$18,400,446	110.7%	\$36,758,914	50.1%
Safety	203,690,944	217,632,177	(13,941,233)	93.6%	23,772,877	(58.6)%
<b>Total</b>	<u>\$394,782,714</u>	<u>\$390,323,501</u>	<u>\$ 4,459,213</u>	101.1%	<u>\$60,531,791</u>	7.4%

**I. PRIOR PERIOD ADJUSTMENTS**

1. During the 2002-03 fiscal year, the City's responsibilities with respect to the various Improvement District special assessment bonds were reviewed. This review determined that the City has no legal or moral liability for the special assessment debt issued by the districts; this debt is payable solely out of the special assessments on property owners in the districts. Accordingly, the City no longer reflects the special assessment debt, which totaled \$2,375,000 at June 30, 2002, in its financial statements. The Improvement Districts are now reported in an Agency Fund. As a result of this change, the beginning fund balance of Other Governmental Funds has been reduced by \$539,411.

2. During fiscal year 2002-03, a balloon payment in the amount of \$5,897,808 was paid to Modesto Irrigation District for one series of the water treatment plant bonds. It was determined that this amount should have been amortized over a 10 year period. Accordingly, only \$589,781 is included in the current year "water purchases" expense of the Water Fund, while \$5,308,027 has been recorded as a prior period adjustment.

3. A review of the lease-sublease agreements related to a parking garage constructed by the Redevelopment Agency in prior years determined that the asset should have been transferred to the City's Parking Fund at that time. In addition, further research determined that the total cost had been understated and not depreciated since 1999. Accordingly, the cost of the garage, \$11,560,472, net of accumulated depreciation of \$969,569, has been added to beginning net assets of the Other Enterprise Funds.

4. The City reports its investments in Joint Ventures in the Government-wide Statement of Net Assets. The majority of this is the City's contributions to the City-County JPA for its share of the construction of a joint administration building. It was determined that depreciation should be provided on this asset, since it represents the City's costs in its building. Also, in reviewing the costs to depreciate, it was discovered the total cost had been understated in the prior year. Accordingly, the Investment in Joint Ventures as of July 1, 2002 have been increased by \$1,912,454, which is offset by depreciation to fiscal year 2000 of \$1,097,186. The net prior year adjustment is an increase of \$815,268.

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

	Other Governmental Funds
Fund balances, July 1, 2002, as originally reported	\$44,919,067
1. Prior period adjustment- special assessments	(539,411)
Fund balances, July 1, 2002 as restated	<u>\$44,379,656</u>

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

	Water Enterprise Fund	Other Enterprise Funds
Net assets, July 1, 2002, as originally reported	\$63,511,497	\$57,370,690
2. Prior period adjustment-Water Fund balloon payment	(5,308,027)	
3. Prior period adjustment-parking garage		10,590,903
Net assets, July 1, 2002 as restated	<u>\$58,203,470</u>	<u>\$67,961,593</u>

The net effect on the beginning balance of the *Government-wide* Net Assets for all of these changes, is as follows:

	Governmental Activities	Business-type Activities
Net assets, July 1, 2002, as originally reported	\$324,726,603	\$226,817,804
Prior period adjustments, net	(10,614,006)	5,282,876
Net assets, July 1, 2002 as restated	<u>\$314,112,597</u>	<u>\$232,100,680</u>

THIS PAGE IS INTENTIONALLY LEFT BLANK

## **REQUIRED SUPPLEMENTARY INFORMATION**

**CITY OF MODESTO**  
**SCHEDULE OF REVENUES - BUDGET (GAAP BASIS)**  
**AND ACTUAL - GENERAL FUND**  
**Year ended June 30, 2003**

	Budget		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>TAXES:</b>				
Utility users tax	\$ 12,734,000	\$ 12,734,000	\$ 13,732,571	\$ 998,571
Property tax	9,250,000	9,250,000	10,169,004	919,004
Transient occupancy tax	2,292,000	2,292,000	2,097,901	(194,099)
Franchise tax	3,213,325	3,213,325	3,362,199	148,874
Business license tax	9,018,000	9,018,000	9,238,797	220,797
<b>Total taxes</b>	<b>36,507,325</b>	<b>36,507,325</b>	<b>38,600,472</b>	<b>2,093,147</b>
<b>LICENSES AND PERMITS</b>	<b>136,350</b>	<b>136,350</b>	<b>169,108</b>	<b>32,758</b>
<b>INTERGOVERNMENTAL:</b>				
Sales tax	26,522,000	26,522,000	25,887,064	(634,936)
Motor vehicle license fees	11,583,000	11,583,000	11,746,283	163,283
State	2,251,696	2,251,696	1,802,356	(449,340)
County	356,006	375,006	265,243	(109,763)
Federal	402,840	347,840	256,460	(91,380)
Other intergovernmental	407,485	403,423	655,536	252,113
<b>Total intergovernmental</b>	<b>41,523,027</b>	<b>41,482,965</b>	<b>40,612,942</b>	<b>(870,023)</b>
<b>CHARGES FOR SERVICES:</b>				
General government	2,886,384	2,874,384	2,576,991	(297,393)
Community development	3,325,314	3,325,314	2,712,626	(612,688)
Highways and streets	1,134,215	1,139,475	1,155,248	15,773
Public works	3,628,852	3,566,499	3,706,976	140,477
Parks and recreation	1,788,429	1,821,199	1,481,331	(339,868)
Public safety	1,711,704	1,711,704	1,833,801	122,097
Other current charges for services	272,354	272,354	196,000	(76,354)
Indirect cost recovery	2,827,403	2,827,403	2,785,253	(42,150)
<b>Total charges for services</b>	<b>17,574,655</b>	<b>17,538,332</b>	<b>16,448,226</b>	<b>(1,090,106)</b>
<b>SPECIAL ASSESSMENT</b>	<b>256,306</b>	<b>32,000</b>	<b>218,294</b>	<b>186,294</b>
<b>INTEREST AND RENT</b>	<b>810,867</b>	<b>810,867</b>	<b>1,301,989</b>	<b>491,122</b>
<b>NET INCREASE (DECREASE) IN FAIR VALUE OF INVESTMENTS</b>	<b>2,000</b>		<b>(229,744)</b>	<b>(229,744)</b>
<b>FINES AND FORFEITURES</b>	<b>536,751</b>	<b>576,636</b>	<b>576,168</b>	<b>(468)</b>
<b>MISCELLANEOUS:</b>				
Mandated cost recovery	133,500	133,500	18,267	(115,233)
Other	664,356	957,399	1,440,316	482,917
<b>Total miscellaneous</b>	<b>797,856</b>	<b>1,090,899</b>	<b>1,458,583</b>	<b>367,684</b>
<b>Total revenues</b>	<b>\$ 98,145,137</b>	<b>\$ 98,175,374</b>	<b>\$ 99,156,038</b>	<b>\$ 980,664</b>

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

**CITY OF MODESTO**  
**SCHEDULE OF EXPENDITURES BY FUNCTION - BUDGET**  
**(GAAP BASIS) AND ACTUAL - GENERAL FUND**  
**Year ended June 30, 2003**

	Budget		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
General government:				
City council	\$ 234,316	\$ 242,068	\$ 239,378	\$ 2,690
Personnel/training	1,230,878	1,282,054	1,168,492	113,562
City manager	2,165,918	2,428,138	2,021,035	407,103
City attorney	1,766,744	2,068,244	1,817,692	250,552
City clerk/auditor	550,106	577,511	508,340	69,171
Finance	5,649,778	6,043,425	5,328,795	714,630
Total general government	<u>11,597,740</u>	<u>12,641,440</u>	<u>11,083,732</u>	<u>1,557,708</u>
Community development	<u>4,753,206</u>	<u>4,937,944</u>	<u>4,305,628</u>	<u>632,316</u>
Highways and streets:				
Engineering and Transportation Dept:				
Administration	988,028	992,106	830,512	161,594
Electrical division	2,082,768	2,158,162	1,910,492	247,670
Operations and Maintenance Dept:				
Traffic operations	705,884	750,245	719,371	30,874
Streets division	2,317,167	2,689,014	2,615,082	73,932
Total highways and streets	<u>6,093,847</u>	<u>6,589,527</u>	<u>6,075,457</u>	<u>514,070</u>
Public works:				
Engineering and Transportation Dept:				
Engineering design	1,265,007	1,265,007	1,100,626	164,381
Construction administration/permits	1,976,375	2,040,745	1,670,418	370,327
Engineering administration	681,177	712,298	519,935	192,363
Franchise management	498,001	521,638	507,261	14,377
Operations and Maintenance Dept:				
Administration	515,495	612,794	515,336	97,458
Total public works	<u>4,936,055</u>	<u>5,152,482</u>	<u>4,313,576</u>	<u>838,906</u>
Parks and recreation:				
Operations and Maintenance Dept:				
Service and maintenance	5,270,756	5,369,791	4,743,490	626,301
Community forestry	3,568,321	3,594,963	3,640,952	(45,989)
Community Services & Neighborhood Connection:				
Administration	941,596	1,126,321	1,069,662	56,659
Culture	1,303,319	1,558,503	1,443,866	114,637
Recreation division	2,816,650	2,851,738	2,665,282	186,456
Facilities	1,006,393	982,067	968,589	13,478
Total parks and recreation	<u>14,907,035</u>	<u>15,483,383</u>	<u>14,531,841</u>	<u>951,542</u>
Public safety:				
Fire protection	19,792,407	20,000,419	18,784,941	1,215,478
Police protection	37,204,078	37,538,449	37,394,034	144,415
Total public safety	<u>56,996,485</u>	<u>57,538,868</u>	<u>56,178,975</u>	<u>1,359,893</u>
Total expenditures by department	<u>99,284,368</u>	<u>102,343,644</u>	<u>96,489,209</u>	<u>5,854,435</u>
Debt service:				
Principal retirement	8,044	8,044	8,043	1
Interest	2,934	2,934	2,934	
Total debt service	<u>10,978</u>	<u>10,978</u>	<u>10,977</u>	<u>1</u>
Total general fund	<u>\$ 99,295,346</u>	<u>\$ 102,354,622</u>	<u>\$ 96,500,186</u>	<u>\$ 5,854,436</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, 2003**

	<u>Budget</u>		<u>Actual</u>	Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>		
<b>REVENUES:</b>				
Intergovernmental:				
State grants	\$ 17,847,000	\$ 17,847,000	\$ 13,889,033	\$ (3,957,967)
Federal grants	11,443,201	11,443,201	1,372,480	(10,070,721)
County grants	70,000	70,000	107,284	37,284
Total intergovernmental revenues	<u>29,360,201</u>	<u>29,360,201</u>	<u>15,368,797</u>	<u>(13,991,404)</u>
Charges for services				
Interest and rent - interest			67,999	67,999
Miscellaneous			11,061	11,061
Net decrease in fair value of investments			(23,360)	(23,360)
Total revenues	<u>29,360,201</u>	<u>29,360,201</u>	<u>15,424,497</u>	<u>(13,935,704)</u>
<b>EXPENDITURES:</b>				
Current:				
Highway and streets	27,583,467	29,438,746	9,432,811	20,005,935
Debt service:				
Principal retirement		36,321	36,321	
Interest		5,232	5,231	1
Total expenditures	<u>27,583,467</u>	<u>29,480,299</u>	<u>9,474,363</u>	<u>20,005,936</u>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	<u>1,776,734</u>	<u>(120,098)</u>	<u>5,950,134</u>	<u>6,070,232</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	1,317,000	1,783,400	466,400	(1,317,000)
Transfers out	(6,027,004)	(5,871,194)	(2,990,468)	2,880,726
TOTAL OTHER FINANCING SOURCES (USES)	<u>(4,710,004)</u>	<u>(4,087,794)</u>	<u>(2,524,068)</u>	<u>1,563,726</u>
<b>NET CHANGE IN FUNDS BALANCE</b>	<u>(2,933,270)</u>	<u>(4,207,892)</u>	<u>3,426,066</u>	<u>7,633,958</u>
<b>FUND BALANCES, JULY 1</b>	<u>1,602,873</u>	<u>1,602,873</u>	<u>1,602,873</u>	
<b>FUND BALANCES, JUNE 30</b>	<u>\$ (1,330,397)</u>	<u>\$ (2,605,019)</u>	<u>\$ 5,028,939</u>	<u>\$ 7,633,958</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, 2003**

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

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

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

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.

**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.

**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, 2003**

	Special Revenue					
	Operating Grants	Local Transportation	Traffic Safety	Downtown Improvement District	Housing and Community Development	Strategic Planning and Development
<b>ASSETS</b>						
Cash and cash equivalents	\$ 503,250	\$ 3,417,147	\$ 416,662	\$ 35,290	\$ 593,575	\$ 1,119,137
Cash and cash equivalents with fiscal agent					1,223,890	
Receivables:						
Accounts					123,107	
Interest	3,450	11,997		2,224		2,899
Taxes						
Due from governments	273,083	718,120			811,762	
Due from other funds						
Notes receivable, net					11,674,305	
Restricted assets:						
Cash and cash equivalents						
<b>Total assets</b>	<b>\$ 779,783</b>	<b>\$ 4,147,264</b>	<b>\$ 416,662</b>	<b>\$ 37,514</b>	<b>\$ 14,426,639</b>	<b>\$ 1,122,036</b>
<b>LIABILITIES AND FUND BALANCES</b>						
Liabilities:						
Accounts payable	\$ 19,028	\$ 43,368		\$ 4,601	\$ 115,548	\$ 22,309
Accrued salaries and benefits	17,490				26,828	
Approved loans payable					244,870	
Due to other funds						
Deferred revenues	630,238	4,103,895				
Payable from restricted assets:						
Refundable deposits						
Advances from other funds						
<b>Total liabilities</b>	<b>666,756</b>	<b>4,147,263</b>	<b></b>	<b>4,601</b>	<b>387,246</b>	<b>22,309</b>
Fund balances:						
Reserved for:						
Encumbrances	464,790	10,375			2,883	197,972
Loan programs					11,429,435	
Set-aside requirement						
Debt service						
Unreserved/designated for:						
Pending projects			\$ 416,662	32,913	2,607,075	901,755
Unreserved/undesignated	(351,763)	(10,374)				
<b>Total fund balances</b>	<b>113,027</b>	<b>1</b>	<b>416,662</b>	<b>32,913</b>	<b>14,039,393</b>	<b>1,099,727</b>
<b>Total liabilities and fund balances</b>	<b>\$ 779,783</b>	<b>\$ 4,147,264</b>	<b>\$ 416,662</b>	<b>\$ 37,514</b>	<b>\$ 14,426,639</b>	<b>\$ 1,122,036</b>

Capital Projects

Special Fund for Capital Outlays	Parks	State Parks and Recreation	McHenry Mansion Restoration	Redevelop- ment Agency	Improvem- ment Districts	Capital Grants	Community Facilities Districts
\$ 2,841,773	\$ 933,384	\$ 41	\$ 6,080	\$ 3,818,736	\$ 27,596	\$ 1,169	\$ 13,337,359
1,686,196				21,946			
623	300 4,208	414	171	3,213 708		6,250	8,158 40,344
	197,000			192,759 1,570,000 1,046,364		1,861,210	
							177,891
<u>\$ 4,528,592</u>	<u>\$ 1,134,892</u>	<u>\$ 455</u>	<u>\$ 6,251</u>	<u>\$ 6,653,726</u>	<u>\$ 27,596</u>	<u>\$ 1,868,629</u>	<u>\$ 13,563,752</u>
\$ 210,849	\$ 157,057			\$ 284,837		\$ 581,372	\$ 1,309,001
	39,400	\$ 8,600				956,500 713,911	
	895,600						177,891 35,000
<u>210,849</u>	<u>1,092,057</u>	<u>8,600</u>		<u>284,837</u>		<u>2,251,783</u>	<u>1,521,892</u>
187,889	29,248			101,931 1,046,364 2,356,871		663,193	934,195
4,129,854	13,587	\$ (8,145)	\$ 6,251	2,863,723	\$ 27,596	(1,046,347)	11,107,665
<u>4,317,743</u>	<u>42,835</u>	<u>(8,145)</u>	<u>6,251</u>	<u>6,368,889</u>	<u>27,596</u>	<u>(383,154)</u>	<u>12,041,860</u>
<u>\$ 4,528,592</u>	<u>\$ 1,134,892</u>	<u>\$ 455</u>	<u>\$ 6,251</u>	<u>\$ 6,653,726</u>	<u>\$ 27,596</u>	<u>\$ 1,868,629</u>	<u>\$ 13,563,752</u>

(continued)

**CITY OF MODESTO**  
**COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS (Continued)**  
**June 30, 2003**

	Debt Service			Total
	Redevelopment Agency	Community Facilities Districts	Public Financing Authority	
<u>ASSETS</u>				
Cash and cash equivalents	\$ 107	\$ 255,453	\$ 75,517	\$ 27,382,276
Cash and cash equivalents with fiscal agent	2,205,051		5,237,044	10,374,127
Receivables:				
Accounts	34,875			161,495
Interest	46,884			87,986
Taxes	137,668			178,012
Due from governments				4,053,934
Due from other funds				1,570,000
Notes receivable, net				12,720,669
Restricted assets:				
Cash and cash equivalents				177,891
 Total assets	 <u>\$ 2,424,585</u>	 <u>\$ 255,453</u>	 <u>\$ 5,312,561</u>	 <u>\$ 56,706,390</u>
<u>LIABILITIES AND FUND BALANCES</u>				
Liabilities:				
Accounts payable			\$	2,747,970
Accrued salaries and benefits				44,318
Approved loans payable				244,870
Due to other funds	\$ 1,570,000			2,535,100
Deferred revenues	34,875			5,522,319
Payable from restricted assets:				
Refundable deposits				177,891
Advances from other funds				930,600
 Total liabilities	 <u>1,604,875</u>			 <u>12,203,068</u>
Fund balances:				
Reserved for:				
Encumbrances				2,592,476
Loan programs				12,475,799
Set-aside requirement				2,356,871
Debt service	819,710	\$ 255,453	\$ 5,312,561	6,387,724
Unreserved/designated for:				
Pending projects				22,107,081
Unreserved/undesignated				(1,416,629)
 Total fund balances	 <u>819,710</u>	 <u>255,453</u>	 <u>5,312,561</u>	 <u>44,503,322</u>
 Total liabilities and fund balances	 <u>\$ 2,424,585</u>	 <u>\$ 255,453</u>	 <u>\$ 5,312,561</u>	 <u>\$ 56,706,390</u>

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, 2003**

	Special Revenue					
	Operating Grants	Local Transportation	Traffic Safety	Downtown Improvement District	Housing and Community Development	Strategic Planning and Development
REVENUES:						
Taxes				\$ 172,847		
Intergovernmental	\$ 1,541,919	\$ 1,291,652			\$ 4,546,307	
Charges for services					56,221	\$ 3,000
Special assessments levied						125,061
Interest and rent	31,846	55,082		2,092	198,075	43,651
Net increase (decrease) in fair value of investments	(3,079)	(15,065)		(251)		(4,972)
Fines and forfeits			\$ 454,221			
Miscellaneous					12,280	166,491
Total revenues	<u>1,570,686</u>	<u>1,331,669</u>	<u>454,221</u>	<u>174,688</u>	<u>4,812,883</u>	<u>333,231</u>
EXPENDITURES:						
Current:						
General government						
Community development				196,217	2,167,718	575,245
Highways and streets						
Public works	433,274	83,232				20,757
Parks and recreation	31,503	36,581				
Public safety	1,021,277					
Capital outlay:						
General government						
Community development					680,094	
Highways and streets		15,822				
Public works		6,374				
Parks and recreation		88,329				
Public safety	161,545					
Debt service:						
Principal retirement						
Interest						
Other						
Total expenditures	<u>1,647,599</u>	<u>230,338</u>	<u>          </u>	<u>196,217</u>	<u>2,847,812</u>	<u>596,002</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(76,913)</u>	<u>1,101,331</u>	<u>454,221</u>	<u>(21,529)</u>	<u>1,965,071</u>	<u>(262,771)</u>
OTHER FINANCING SOURCES (USES):						
Transfers in	55,277	11,000			50,000	50,000
Transfers out		(1,118,810)	(592,290)		(1,062,361)	
Proceeds of loan payable						
TOTAL OTHER FINANCING SOURCES (USES)	<u>55,277</u>	<u>(1,107,810)</u>	<u>(592,290)</u>	<u>          </u>	<u>(1,012,361)</u>	<u>50,000</u>
NET CHANGE IN FUND BALANCES	(21,636)	(6,479)	(138,069)	(21,529)	952,710	(212,771)
FUND BALANCES (DEFICITS), July 1 (as restated)	<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>
FUND BALANCES (DEFICITS), June 30	<u>\$ 113,027</u>	<u>\$ 1</u>	<u>\$ 416,662</u>	<u>\$ 32,913</u>	<u>\$ 14,039,393</u>	<u>\$ 1,099,727</u>

Capital Projects

Special Fund for Capital Outlays	Parks	State Parks and Recreation	McHenry Mansion Restoration	Redevelop- ment Agency	Improve- ment Districts	Capital Grants	Community Facilities Districts
				\$ 823,770			
\$ 153	\$ 262,451 29,570	\$ 2,525				\$ 2,310,154	\$ 6,987,952
161,307	83,424		\$ 217	87,504		(35,400)	453,745
(14,817)	(1,525)		(32)	127,549		32,810	(72,825)
<u>531,500</u>				<u>38,476</u>			
<u>678,143</u>	<u>373,920</u>	<u>2,525</u>	<u>185</u>	<u>1,077,299</u>		<u>2,307,564</u>	<u>7,368,872</u>
2,130							
2,500				888,271			5,015,302
11,439						548,013	
78,576	1,171,481					21,936	
4,288							
7,500							
				50,000			699,841
						2,524,918	
99,074	749,929	2,796				486,802	
2,325,801							
<u>2,531,308</u>	<u>1,921,410</u>	<u>2,796</u>		<u>938,271</u>		<u>3,581,669</u>	<u>5,715,143</u>
<u>(1,853,165)</u>	<u>(1,547,490)</u>	<u>(271)</u>	<u>185</u>	<u>139,028</u>		<u>(1,274,105)</u>	<u>1,653,729</u>
33,609	559,341			1,650,952		1,192,252	
(362,000)	(150,000)						(635,000)
				<u>192,759</u>			
<u>(328,391)</u>	<u>409,341</u>			<u>1,843,711</u>		<u>1,192,252</u>	<u>(635,000)</u>
(2,181,556)	(1,138,149)	(271)	185	1,982,739		(81,853)	1,018,729
<u>6,499,299</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>\$ 4,317,743</u>	<u>\$ 42,835</u>	<u>\$ (8,145)</u>	<u>\$ 6,251</u>	<u>\$ 6,368,889</u>	<u>\$ 27,596</u>	<u>\$ (383,154)</u>	<u>\$ 12,041,860</u>

(continued)

**CITY OF MODESTO**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS (Continued)**  
**Year ended June 30, 2003**

	Debt Service			Total
	Redevelopment Agency	Community Facilities Districts	Public Financing Authority	
<b>REVENUES:</b>				
Taxes	\$ 1,807,925			\$ 2,804,542
Intergovernmental				9,955,008
Charges for services				7,076,896
Special assessments levied		\$ 1,671,735		1,796,796
Interest and rent	177,524	14,592	\$ 278,640	1,552,299
Net increase (decrease) in fair value of investments	1,445	(1,374)		47,864
Fines and forfeits				454,221
Miscellaneous				748,747
Total revenues	<u>1,986,894</u>	<u>1,684,953</u>	<u>278,640</u>	<u>24,436,373</u>
<b>EXPENDITURES:</b>				
Current:				
General government				2,130
Community development				8,845,253
Highways and streets				559,452
Public works				537,263
Parks and recreation				1,340,077
Public safety				1,025,565
Capital outlay:				
General government				7,500
Community development				1,429,935
Highways and streets				2,540,740
Public works				6,374
Parks and recreation				1,426,930
Public safety				2,487,346
Debt service:				
Principal retirement	690,000	1,620,000	385,000	2,695,000
Interest	1,269,800	6,148	3,210,135	4,486,083
Other	48,062	2,560	6,416	57,038
Total expenditures	<u>2,007,862</u>	<u>1,628,708</u>	<u>3,601,551</u>	<u>27,446,686</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(20,968)</u>	<u>56,245</u>	<u>(3,322,911)</u>	<u>(3,010,313)</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	837,341		3,305,972	7,745,744
Transfers out	(884,063)			(4,804,524)
Proceeds of loan payable				192,759
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>(46,722)</u>		<u>3,305,972</u>	<u>3,133,979</u>
<b>NET CHANGE IN FUND BALANCES FUND BALANCES (DEFICITS), July 1 (as restated)</b>	<u>(67,690)</u>	<u>56,245</u>	<u>(16,939)</u>	<u>123,666</u>
<b>FUND BALANCES (DEFICITS), June 30</b>	<u>\$ 819,710</u>	<u>\$ 255,453</u>	<u>\$ 5,312,561</u>	<u>\$ 44,503,322</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, 2003**

	Budget		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Intergovernmental	\$ 792,316	\$ 3,073,919	\$ 1,541,919	\$ (1,532,000)
Interest and rent - interest	26,900	58,161	31,846	(26,315)
Net increase in fair value of investments			(3,079)	(3,079)
Total revenues	<u>819,216</u>	<u>3,132,080</u>	<u>1,570,686</u>	<u>(1,561,394)</u>
<b>EXPENDITURES:</b>				
General government				
Public works	266,169	633,191	433,274	199,917
Parks and recreation		31,503	31,503	
Public safety	552,975	2,461,653	1,182,822	1,278,831
Total expenditures	<u>819,144</u>	<u>3,126,347</u>	<u>1,647,599</u>	<u>1,478,748</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>72</u>	<u>5,733</u>	<u>(76,913)</u>	<u>(82,646)</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in		55,277	55,277	
NET CHANGE IN FUND BALANCE	72	61,010	(21,636)	(82,646)
FUND BALANCES, JULY 1	<u>134,663</u>	<u>134,663</u>	<u>134,663</u>	
FUND BALANCES (DEFICIT), JUNE 30	<u>\$ 134,735</u>	<u>\$ 195,673</u>	<u>\$ 113,027</u>	<u>\$ (82,646)</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, 2003**

	Budget		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Intergovernmental	\$ 3,403,000	\$ 3,403,000	\$ 1,291,652	\$ (2,111,348)
Interest and rent - interest			55,082	55,082
Net increase in fair value of investments			(15,065)	(15,065)
<b>Total revenues</b>	<u>3,403,000</u>	<u>3,403,000</u>	<u>1,331,669</u>	<u>(2,071,331)</u>
<b>EXPENDITURES:</b>				
Highways and streets	485,495	485,495	15,822	469,673
Parks and recreation	306,635	306,365	89,606	216,759
Public works	1,479,033	1,069,562	124,910	944,652
<b>Total expenditures</b>	<u>1,964,528</u>	<u>1,555,057</u>	<u>230,338</u>	<u>1,414,325</u>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	<u>1,438,472</u>	<u>1,847,943</u>	<u>1,101,331</u>	<u>(746,612)</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	11,000	11,000	11,000	
Transfers out	(2,274,000)	(2,610,810)	(1,118,810)	1,492,000
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>(2,263,000)</u>	<u>(2,599,810)</u>	<u>(1,107,810)</u>	<u>1,492,000</u>
<b>NET CHANGE IN FUND BALANCE</b>	(824,528)	(751,867)	(6,479)	745,388
<b>FUND BALANCES, JULY 1</b>	<u>6,480</u>	<u>6,480</u>	<u>6,480</u>	
<b>FUND BALANCE (DEFICITS), JUNE 30</b>	<u>\$ (818,048)</u>	<u>\$ (745,387)</u>	<u>\$ 1</u>	<u>\$ 745,388</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, 2003**

	Budget		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES - fines and forfeits:				
Motor vehicle fines	\$ 519,000	\$ 519,000	\$ 454,221	\$ (64,779)
OTHER FINANCING USES:				
Transfers out	\$ (592,290)	(592,290)	(592,290)	_____
NET CHANGE IN FUND BALANCE	(73,290)	(73,290)	(138,069)	(64,779)
FUND BALANCES, JULY 1	554,731	554,731	554,731	_____
FUND BALANCES, JUNE 30	\$ <u>481,441</u>	\$ <u>481,441</u>	\$ <u>416,662</u>	\$ <u>(64,779)</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, 2003**

	<u>Budget</u>		<u>Actual</u>	Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>		
<b>REVENUES:</b>				
Taxes - business license tax	\$ 227,866	\$ 227,866	\$ 172,847	\$ (55,019)
Interest and rent - interest	4,000	4,000	2,092	(1,908)
Net increase in fair value of investments			(251)	(251)
Total revenues	<u>231,866</u>	<u>231,866</u>	<u>174,688</u>	<u>(57,178)</u>
<b>EXPENDITURES - community development</b>				
Downtown improvement district administration:				
Professional and contractual services	168,556	168,556	164,062	4,494
Materials and supplies	7,210	7,210	4,131	3,079
Other	26,800	26,800	28,024	(1,224)
Downtown improvements	25,300	25,300		25,300
Total expenditures	<u>227,866</u>	<u>227,866</u>	<u>196,217</u>	<u>31,649</u>
<b>NET CHANGE IN FUND BALANCE</b>	4,000	4,000	(21,529)	(25,529)
<b>FUND BALANCES, JULY 1</b>	<u>54,442</u>	<u>54,442</u>	<u>54,442</u>	<u></u>
<b>FUND BALANCES, JUNE 30</b>	<u>\$ 58,442</u>	<u>\$ 58,442</u>	<u>\$ 32,913</u>	<u>\$ (25,529)</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, 2003**

	Budget		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Intergovernmental - federal grants	\$ 3,169,184	\$ 4,643,488	\$ 4,546,307	\$ (97,181)
Charges for services	164,632	164,632	56,221	(108,411)
Interest and rent - interest	316,000	316,000	198,075	(117,925)
Miscellaneous			12,280	12,280
Total revenues	<u>3,649,816</u>	<u>5,124,120</u>	<u>4,812,883</u>	<u>(311,237)</u>
<b>EXPENDITURES - community development</b>				
Housing program	3,489,492	3,798,314	2,503,975	1,294,339
Removal of architectural barriers	(1,095)	473,920	343,837	130,083
Total expenditures	<u>3,488,397</u>	<u>4,272,234</u>	<u>2,847,812</u>	<u>1,424,422</u>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	<u>161,419</u>	<u>851,886</u>	<u>1,965,071</u>	<u>1,113,185</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in		50,000	50,000	
Transfers out	(2,054,530)	(2,055,624)	(1,062,361)	993,263
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>(2,054,530)</u>	<u>(2,005,624)</u>	<u>(1,012,361)</u>	<u>993,263</u>
<b>NET CHANGE IN FUND BALANCE</b>	(1,893,111)	(1,153,738)	952,710	2,106,448
<b>FUND BALANCES, JULY 1</b>	<u>13,086,683</u>	<u>13,086,683</u>	<u>13,086,683</u>	
<b>FUND BALANCES, JUNE 30</b>	<u>\$ 11,193,572</u>	<u>\$ 11,932,945</u>	<u>\$ 14,039,393</u>	<u>\$ 2,106,448</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, 2003**

	Budget		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Charges for services	\$ 50,000	\$ 201,500	3,000	\$ (198,500)
Special assessments levied	70,000	70,000	\$ 125,061	55,061
Interest and rent - interest	21,000	21,000	43,651	22,651
Net increase in fair value of investments			(4,972)	(4,972)
Miscellaneous		166,491	166,491	
Total revenues	<u>141,000</u>	<u>458,991</u>	<u>333,231</u>	<u>(125,760)</u>
<b>EXPENDITURES:</b>				
Community development	656,031	1,149,825	575,245	574,580
Public works	100,000	123,900	20,757	103,143
Total expenditures	<u>756,031</u>	<u>1,273,725</u>	<u>596,002</u>	<u>677,723</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	(615,031)	(814,734)	(262,771)	551,963
<b>OTHER FINANCING SOURCES:</b>				
Transfers in	<u>50,000</u>	<u>50,000</u>	<u>50,000</u>	
<b>NET CHANGE IN FUND BALANCE</b>	(565,031)	(764,734)	(212,771)	551,963
<b>FUND BALANCES, JULY 1</b>	<u>1,312,498</u>	<u>1,312,498</u>	<u>1,312,498</u>	
<b>FUND BALANCES, JUNE 30</b>	<u>\$ 747,467</u>	<u>\$ 547,764</u>	<u>\$ 1,099,727</u>	<u>\$ 551,963</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, 2003**

	Parking	Storm Drain	Airport
<u>ASSETS</u>			
Current assets:			
Cash and cash equivalents	\$ 627,848	\$ 1,621,037	\$ 940,351
Cash and cash equivalents with fiscal agent			
Receivables:			
Accounts	6,363	6,899	27,448
Interest		36,867	
Utilities, net		543,605	
Due from governments		84,859	91,677
Total current assets	634,211	2,293,267	1,059,476
Capital assets:			
Land and construction in progress	3,142,479	1,040,300	1,850,391
Other capital assets, net of accumulated depreciation	9,172,920	11,234,806	5,715,246
Total assets	12,949,610	14,568,373	8,625,113
<u>LIABILITIES</u>			
Current liabilities:			
Accounts payable	30,389	107,559	47,412
Accrued salaries and benefits	6,663	36,563	11,103
Interest payable			
Current portion - long-term debt			
Deferred revenues		65,724	
Total current liabilities	37,052	209,846	58,515
Noncurrent liabilities:			
Advances from other funds			42,538
Long-term debt:			
Certificates of participation			
Total liabilities	37,052	209,846	101,053
<u>NET ASSETS</u>			
Invested in capital assets, net of related debt	12,315,399	12,275,106	7,565,637
Unrestricted	597,159	2,083,421	958,423
Total net assets	\$ 12,912,558	\$ 14,358,527	\$ 8,524,060

<u>Bus</u>	<u>Golf</u>	<u>Community Center</u>	<u>Total</u>
\$ 3,995,578	\$ 248,675	\$ 716,112	\$ 8,149,601
	594,693		594,693
99,370	2,231	46,211	188,522
964	4,104	366	42,301
			543,605
<u>3,448,937</u>	<u>31,853</u>		<u>3,657,326</u>
<u>7,544,849</u>	<u>881,556</u>	<u>762,689</u>	<u>13,176,048</u>
4,843,587	494,262	3,746,883	15,117,902
<u>12,759,612</u>	<u>4,227,094</u>	<u>13,153,573</u>	<u>56,263,251</u>
<u>25,148,048</u>	<u>5,602,912</u>	<u>17,663,145</u>	<u>84,557,201</u>
574,546	6,575	24,854	791,335
31,195		29,985	115,509
	55,658		55,658
	175,000		175,000
<u>4,734,649</u>	<u>145,497</u>		<u>4,945,870</u>
<u>5,340,390</u>	<u>382,730</u>	<u>54,839</u>	<u>6,083,372</u>
			42,538
	<u>6,235,000</u>		<u>6,235,000</u>
<u>5,340,390</u>	<u>6,617,730</u>	<u>54,839</u>	<u>12,360,910</u>
17,603,199	(1,099,714)	16,900,456	65,560,083
<u>2,204,459</u>	<u>84,896</u>	<u>707,850</u>	<u>6,636,208</u>
<u>\$ 19,807,658</u>	<u>\$ (1,014,818)</u>	<u>\$ 17,608,306</u>	<u>\$ 72,196,291</u>

**CITY OF MODESTO**  
**COMBINING STATEMENT OF REVENUES, EXPENSES, AND**  
**CHANGES IN FUND NET ASSETS - NONMAJOR ENTERPRISE FUNDS**  
**Year ended June 30, 2003**

	<u>Parking</u>	<u>Storm Drain</u>	<u>Airport</u>
<b>OPERATING REVENUES:</b>			
Charges for services	\$ 824,917	\$ 5,169,831	\$ 590,960
Miscellaneous			
Total operating revenues	<u>824,917</u>	<u>5,169,831</u>	<u>590,960</u>
<b>OPERATING EXPENSES:</b>			
Salaries and wages	182,757	937,605	249,047
Contractual services	162,635	1,779,035	49,581
Utilities	80,194	31,432	67,703
Maintenance and supplies	180,419	1,014,715	91,699
Insurance	19,265	15,897	8,392
Employee benefits	30,703	223,699	52,944
Administration services	79,970	588,644	13,129
Allocated indirect administrative costs	25,643	239,670	36,771
Other	95	8,588	17,333
Depreciation	391,464	462,662	372,921
Total operating expenses	<u>1,153,145</u>	<u>5,301,947</u>	<u>959,520</u>
<b>OPERATING INCOME (LOSS)</b>	<u>(328,228)</u>	<u>(132,116)</u>	<u>(368,560)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Operating grants		35,930	
Loss on disposition of capital assets		(3,896)	(12,052)
Tax revenue			187,859
Tax expense			(293)
Interest income	(74,489)	34,726	10,870
Net increase (decrease) in fair value of investments	(5,991)	(7,367)	(2,383)
Rental income			130,104
Interest expense			
Total nonoperating revenues (expenses)	<u>(80,480)</u>	<u>59,393</u>	<u>314,105</u>
<b>INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS</b>	<u>(408,708)</u>	<u>(72,723)</u>	<u>(54,455)</u>
Capital contributions		1,822,581	75,267
Transfers in		1,111,214	
Transfers out	<u>(500,000)</u>		
<b>CHANGE IN NET ASSETS</b>	<u>(908,708)</u>	<u>2,861,072</u>	<u>20,812</u>
<b>NET ASSETS (DEFICIT), July 1 (as restated)</b>	<u>13,821,266</u>	<u>11,497,455</u>	<u>8,503,248</u>
<b>NET ASSETS (DEFICIT), June 30</b>	<u>\$ 12,912,558</u>	<u>\$ 14,358,527</u>	<u>\$ 8,524,060</u>

<u>Bus</u>	<u>Golf</u>	<u>Community Center</u>	<u>Total</u>
\$ 2,071,656	\$ 2,064,802	\$ 467,229	\$ 11,189,395
65,409	55,887		121,296
2,137,065	2,120,689	467,229	11,310,691
666,824		753,125	2,789,358
5,799,618	1,591,108	90,941	9,472,918
53,647	73,423	151,743	458,142
1,177,358	10,427	266,401	2,741,019
11,924	6,723	32,390	94,591
138,794		139,012	585,152
261,413	31,119	25,566	999,841
267,008	88,557		657,649
88,628	8,676	33,852	157,172
960,996	315,107	732,846	3,235,996
9,426,210	2,125,140	2,225,876	21,191,838
(7,289,145)	(4,451)	(1,758,647)	(9,881,147)
5,083,544			5,119,474
(2,058)	(13,990)	(1,472)	(33,468)
		(4,565)	187,859
158,560	(1,118)	22,326	(4,858)
(15,835)	1,217	(3,891)	150,875
186,660	31,032	419,182	(34,250)
	(336,783)		766,978
5,410,871	(319,642)	431,580	5,815,827
(1,878,274)	(324,093)	(1,327,067)	(4,065,320)
4,571,266	13,990	6,924	6,490,028
61,802	423,000	731,974	2,327,990
(18,000)			(518,000)
2,736,794	112,897	(588,169)	4,234,698
17,070,864	(1,127,715)	18,196,475	67,961,593
\$ 19,807,658	\$ (1,014,818)	\$ 17,608,306	\$ 72,196,291

**CITY OF MODESTO**  
**COMBINING STATEMENT OF CASH FLOWS - NONMAJOR ENTERPRISE FUNDS**  
**Year ended June 30, 2003**

	<u>Parking</u>	<u>Storm Drain</u>	<u>Airport</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Receipts from customers and users	\$ 829,618	\$ 5,128,663	\$ 727,970
Receipts from interfund services provided		21,554	
Payments to suppliers	(384,790)	(2,106,682)	(222,540)
Payments to employees	(210,110)	(1,160,771)	(299,828)
Payments for interfund services used	(152,056)	(1,669,547)	(126,826)
Net cash provided (used) by operating activities	<u>82,662</u>	<u>213,217</u>	<u>78,776</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>			
Operating grants received		21,333	
Taxes received			187,859
Transfers in		1,111,214	
Transfers out	(500,000)		
Repayments of advances from other funds		(250,000)	(44,762)
Net cash provided (used) by noncapital financing activities	<u>(500,000)</u>	<u>882,547</u>	<u>143,097</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>			
Acquisition and construction of capital assets		(277,113)	(377,692)
Principal repayments			
Interest paid			
Capital grants received			479,921
Net cash used by capital and related financing activities		<u>(277,113)</u>	<u>102,229</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Interest received	(74,489)	36,014	10,870
Net increase (decrease) in the fair value of investments	(5,991)	(7,367)	(2,383)
Net cash provided by investing activities	<u>(80,480)</u>	<u>28,647</u>	<u>8,487</u>
Net increase (decrease) in cash and cash equivalents	(497,818)	847,298	332,589
CASH AND CASH EQUIVALENTS, JULY 1	<u>1,125,666</u>	<u>773,739</u>	<u>607,762</u>
CASH AND CASH EQUIVALENTS, JUNE 30	<u>\$ 627,848</u>	<u>\$ 1,621,037</u>	<u>\$ 940,351</u>
<b>RECONCILIATION TO STATEMENT OF NET ASSETS:</b>			
Cash and cash equivalents	\$ 627,848	\$ 1,621,037	\$ 940,351
Cash and cash equivalents with fiscal agent			
<b>TOTAL CASH AND CASH EQUIVALENTS</b>	<u>\$ 627,848</u>	<u>\$ 1,621,037</u>	<u>\$ 940,351</u>

<u>Bus</u>	<u>Golf</u>	<u>Community Center</u>	<u>Total</u>
\$ 2,281,668	\$ 2,198,562	\$ 881,670	\$ 12,048,151
(7,339,553)	(1,627,974)	(577,145)	(12,258,684)
(798,462)		(882,715)	(3,351,886)
(737,590)	(208,182)	(139,443)	(3,033,644)
<u>(6,593,937)</u>	<u>362,406</u>	<u>(717,633)</u>	<u>(6,574,509)</u>
3,785,424			3,806,757
			187,859
61,802	423,000	731,974	2,327,990
(18,000)			(518,000)
			<u>(294,762)</u>
<u>3,829,226</u>	<u>423,000</u>	<u>731,974</u>	<u>5,509,844</u>
(3,827,225)	(39,557)	(90,241)	(4,611,828)
	(170,000)		(170,000)
	(338,200)		(338,200)
<u>4,571,266</u>			<u>5,051,187</u>
<u>744,041</u>	<u>(547,757)</u>	<u>(90,241)</u>	<u>(68,841)</u>
157,596	(2,312)	22,088	149,767
(15,835)	1,217	(3,891)	(34,250)
<u>141,761</u>	<u>(1,095)</u>	<u>18,197</u>	<u>115,517</u>
(1,878,909)	236,554	(57,703)	(1,017,989)
<u>5,874,487</u>	<u>606,814</u>	<u>773,815</u>	<u>9,762,283</u>
<u>\$ 3,995,578</u>	<u>\$ 843,368</u>	<u>\$ 716,112</u>	<u>\$ 8,744,294</u>
\$ 3,995,578	\$ 248,675	\$ 716,112	\$ 8,149,601
	594,693		594,693
<u>\$ 3,995,578</u>	<u>\$ 843,368</u>	<u>\$ 716,112</u>	<u>\$ 8,744,294</u>

(continued)

**CITY OF MODESTO**  
**COMBINING STATEMENT OF CASH FLOWS - NONMAJOR ENTERPRISE FUNDS (Continued)**  
**Year ended June 30, 2003**

	Parking	Storm Drain	Airport
<b>RECONCILIATION OF OPERATING INCOME (LOSS)</b>			
<b>TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</b>			
Operating income (loss)	\$ (328,228)	\$ (132,116)	\$ (368,560)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	391,464	462,662	372,921
Rental income			130,104
Taxes paid			(293)
Change in assets and liabilities:			
(Increase) decrease in accounts receivable	4,701	8,382	6,906
(Increase) decrease in utilities receivable		(27,996)	
Increase (decrease) in accounts payable and accrued expenses	11,375	(98,248)	(64,465)
Increase (decrease) in accrued salaries and benefits	3,350	533	2,163
Increase in deferred revenues			
Total adjustments	410,890	345,333	447,336
Net cash provided (used) by operating activities	\$ 82,662	\$ 213,217	\$ 78,776

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

Capital asset additions accrued at year end		\$	38,602
Capital assets transferred from other funds			
Developer infrastructure contributions	\$		1,822,581

<u>Bus</u>	<u>Golf</u>	<u>Community Center</u>	<u>Total</u>
\$ <u>(7,289,145)</u>	\$ <u>(4,451)</u>	\$ <u>(1,758,647)</u>	\$ <u>(9,881,147)</u>
960,996	315,107	732,846	3,235,996
186,660	31,032	419,182	766,978
		(4,565)	(4,858)
(42,057)	32,674	(4,741)	5,865
			(27,996)
(417,547)	(26,123)	(111,130)	(706,138)
7,156		9,422	22,624
<u>695,208</u>	<u>14,167</u>	<u>1,041,014</u>	<u>3,306,638</u>
\$ <u><u>(6,593,937)</u></u>	\$ <u><u>366,857</u></u>	\$ <u><u>(717,633)</u></u>	\$ <u><u>(6,574,509)</u></u>
	\$ 13,990	\$ 6,924	\$ 38,602
			20,914
			1,822,581

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, 2003**

	Fleet Management	Central Services	Information & Technology Services	Insurance
<b><u>ASSETS</u></b>				
Current assets:				
Cash and cash equivalents	\$ 7,555,107	\$ 229,315	\$ 1,377,756	\$ 8,928,357
Receivables:				
Accounts receivable	31,784	3,430		1,225,640
Interest	11,593			93,243
Inventories		390,354		
Advances to other funds	2,000,000			
Total current assets	9,598,484	623,099	1,377,756	10,247,240
Noncurrent assets:				
Notes receivable, net				
Land and construction in progress	618,669			
Other capital assets, net of accumulated depreciation	16,443,810	107,869	2,110,708	55,199
Total assets	26,660,963	730,968	3,488,464	10,302,439
<b><u>LIABILITIES</u></b>				
Current liabilities:				
Accounts payable	130,237	115,901	152,281	82,116
Accrued salaries and benefits	40,626	9,155	52,271	8,973
Due to other funds				
Current portion - compensated absences				
Current portion - claims liability				4,314,894
Current portion - long-term debt	22,217		22,182	
Total current liabilities	193,080	125,056	226,734	4,405,983
Noncurrent liabilities:				
Compensated absences				
Claims liability				7,959,981
Long-term debt:				
Notes payable	219,663			
Obligations under capital leases			45,416	
Total liabilities	412,743	125,056	272,150	12,365,964
<b><u>NET ASSETS</u></b>				
Invested in capital assets, net of related debt	16,820,599	107,869	2,043,110	55,199
Unrestricted	9,427,621	498,043	1,173,204	(2,118,724)
Total net assets	\$ 26,248,220	\$ 605,912	\$ 3,216,314	\$ (2,063,525)

<u>Employee Benefits Management</u>	<u>Building Services</u>	<u>Total</u>
\$ 14,111,347	\$ 727	\$ 32,202,609
	205,077	1,465,931
		104,836
		390,354
		<u>2,000,000</u>
<u>14,111,347</u>	<u>205,804</u>	<u>36,163,730</u>
85,291		85,291
		618,669
<u>11,648</u>	<u>246,745</u>	<u>18,975,979</u>
<u>14,208,286</u>	<u>452,549</u>	<u>55,843,669</u>
33,063	108,485	622,083
1,918	42,917	155,860
	245,000	245,000
1,526,963		1,526,963
		4,314,894
		<u>44,399</u>
<u>1,561,944</u>	<u>396,402</u>	<u>6,909,199</u>
52,199,556		52,199,556
		7,959,981
		219,663
		<u>45,416</u>
<u>53,761,500</u>	<u>396,402</u>	<u>67,333,815</u>
11,648	246,745	19,285,170
<u>(39,564,862)</u>	<u>(190,598)</u>	<u>(30,775,316)</u>
<u>\$ (39,553,214)</u>	<u>\$ 56,147</u>	<u>\$ (11,490,146)</u>

**CITY OF MODESTO**  
**COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES**  
**IN FUND NET ASSETS - INTERNAL SERVICE FUNDS**  
**Year ended June 30, 2003**

	<u>Fleet Management</u>	<u>Central Services</u>	<u>Information &amp; Technology Services</u>	<u>Insurance</u>
<b>OPERATING REVENUES:</b>				
Charges for services	\$ 7,592,715	\$ 329,632	\$ 3,576,703	\$ 14,932,982
Sales		2,795,221		
Cost of sales		(2,686,358)		
Total operating revenues	<u>7,592,715</u>	<u>438,495</u>	<u>3,576,703</u>	<u>14,932,982</u>
<b>OPERATING EXPENSES:</b>				
Salaries and wages	925,972	185,723	1,268,329	222,069
Contractual services	354,752	78,856	204,863	98,926
Utilities	7,812	1,253	267,816	546
Maintenance and supplies	1,629,333	65,348	799,115	17,267
Insurance	40,785	3,641	9,551	7,376,841
Claims expense				6,680,187
Employee benefits	226,642	44,146	242,917	57,254
Administration services	37,165	15,007	19,865	855,258
Allocated indirect administrative costs	253,758			
Other	15,028	548	61,763	25,959
Depreciation	<u>2,324,662</u>	<u>14,944</u>	<u>265,475</u>	<u>8,803</u>
Total operating expenses	<u>5,815,909</u>	<u>409,466</u>	<u>3,139,694</u>	<u>15,343,110</u>
<b>OPERATING INCOME (LOSS)</b>	<u>1,776,806</u>	<u>29,029</u>	<u>437,009</u>	<u>(410,128)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Loss on disposition of capital assets	495	(13,352)	(36,243)	
Interest income		6,308	38,631	359,939
Net increase (decrease) in fair value of investments		(1,522)	(7,243)	(50,185)
Interest expense	<u>(15,199)</u>		<u>(8,223)</u>	
Total nonoperating revenues (expenses)	<u>(14,704)</u>	<u>(8,566)</u>	<u>(13,078)</u>	<u>309,754</u>
<b>INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS</b>	1,762,102	20,463	423,931	(100,374)
Capital contributions	359,507			
Transfers in	85,000			
Transfers out	<u>(61,802)</u>			
<b>CHANGE IN NET ASSETS</b>	2,144,807	20,463	423,931	(100,374)
<b>NET ASSETS (DEFICITS), July 1</b>	<u>24,103,413</u>	<u>585,449</u>	<u>2,792,383</u>	<u>(1,963,151)</u>
<b>NET ASSETS (DEFICITS), June 30</b>	<u>\$ 26,248,220</u>	<u>\$ 605,912</u>	<u>\$ 3,216,314</u>	<u>\$ (2,063,525)</u>

<u>Employee Benefits Management</u>	<u>Building Services</u>	<u>Total</u>
\$ 22,092,948	\$ 3,086,713	\$ 51,611,693
		2,795,221
		(2,686,358)
<u>22,092,948</u>	<u>3,086,713</u>	<u>51,720,556</u>
45,290	1,003,678	3,651,061
53,197	634,202	1,424,796
	540,644	818,071
36,159	478,070	3,025,292
500	121,253	7,552,571
		6,680,187
39,868,331	244,693	40,683,983
32,690	50,954	1,010,939
		253,758
45,862	6,834	155,994
2,334	26,898	2,643,116
<u>40,084,363</u>	<u>3,107,226</u>	<u>67,899,768</u>
<u>(17,991,415)</u>	<u>(20,513)</u>	<u>(16,179,212)</u>
		(49,100)
560,170	(9,955)	955,093
(76,929)	1,436	(134,443)
		(23,422)
<u>483,241</u>	<u>(8,519)</u>	<u>748,128</u>
(17,508,174)	(29,032)	(15,431,084)
	8,358	367,865
		85,000
<u>(1,007,709)</u>	<u>                    </u>	<u>(1,069,511)</u>
(18,515,883)	(20,674)	(16,047,730)
<u>(21,037,331)</u>	<u>76,821</u>	<u>4,557,584</u>
\$ <u><u>(39,553,214)</u></u>	\$ <u><u>56,147</u></u>	\$ <u><u>(11,490,146)</u></u>

**CITY OF MODESTO**  
**COMBINING STATEMENT OF CASH FLOWS - INTERNAL SERVICE FUNDS**  
**Year ended June 30, 2003**

	<u>Fleet Management</u>	<u>Central Services</u>	<u>Information &amp; Technology Services</u>	<u>Insurance</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Receipts from customers and users	\$ 336,382	\$ 27,710	\$	\$ 30,945
Receipts from interfund services provided	7,234,069	407,380	3,578,364	13,767,366
Payments to suppliers	(1,928,779)	(166,329)	(1,324,709)	(13,496,568)
Payments to employees	(1,145,181)	(228,456)	(1,499,338)	(279,548)
Payments for interfund services used	(441,958)	(83,679)	(66,805)	(907,703)
Net cash provided (used) by operating activities	<u>4,054,533</u>	<u>(43,374)</u>	<u>687,512</u>	<u>(885,508)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>				
Transfers in	85,000			
Transfers out	(61,802)			
Due to other funds				
Advances to other funds	(2,000,000)			
Net cash provided (used) by noncapital financing activities	<u>(1,976,802)</u>	<u></u>	<u></u>	<u></u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>				
Acquisition and construction of capital assets	(3,541,385)	(20,878)	(341,569)	
Proceeds from sale of capital assets	175,954			
Principal repayments	(20,927)		(19,783)	
Interest paid	(15,199)		(8,223)	
Net cash used by capital and related financing activities	<u>(3,401,557)</u>	<u>(20,878)</u>	<u>(369,575)</u>	<u></u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
Interest received		6,308	38,631	348,464
Net (decrease) in the fair value of investments		(1,522)	(7,243)	(50,185)
Net cash provided by investing activities		<u>4,786</u>	<u>31,388</u>	<u>298,279</u>
Net increase (decrease) in cash and cash equivalents	(1,323,826)	(59,466)	349,325	(587,229)
CASH AND CASH EQUIVALENTS, JULY 1	<u>8,878,933</u>	<u>288,781</u>	<u>1,028,431</u>	<u>9,515,586</u>
CASH AND CASH EQUIVALENTS, JUNE 30	<u>\$ 7,555,107</u>	<u>\$ 229,315</u>	<u>\$ 1,377,756</u>	<u>\$ 8,928,357</u>

<u>Employee Benefits Management</u>	<u>Building Services</u>	<u>Total</u>
\$ 6,487	\$ 953,649	\$ 1,355,173
22,086,461	1,977,957	49,051,597
(271,690)	(1,579,913)	(18,767,988)
(22,820,069)	(1,242,249)	(27,214,841)
<u>(38,241)</u>	<u>(261,541)</u>	<u>(1,799,927)</u>
<u>(1,037,052)</u>	<u>(152,097)</u>	<u>2,624,014</u>
		85,000
(1,007,709)		(1,069,511)
	161,000	161,000
		<u>(2,000,000)</u>
<u>(1,007,709)</u>	<u>161,000</u>	<u>(2,823,511)</u>
		(3,903,832)
		175,954
		(40,710)
		<u>(23,422)</u>
		<u>(3,792,010)</u>
		560,170
	(9,643)	943,930
<u>(76,929)</u>	<u>1,436</u>	<u>(134,443)</u>
<u>483,241</u>	<u>(8,207)</u>	<u>809,487</u>
(1,561,520)	696	(3,182,020)
<u>15,672,867</u>	<u>31</u>	<u>35,384,629</u>
\$ <u>14,111,347</u>	\$ <u>727</u>	\$ <u>32,202,609</u>

(continued)

**CITY OF MODESTO**  
**COMBINING STATEMENT OF CASH FLOWS - INTERNAL SERVICE FUNDS (Continued)**  
**Year ended June 30, 2003**

	<u>Fleet Management</u>	<u>Central Services</u>	<u>Information &amp; Technology Services</u>	<u>Insurance</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:				
Operating income (loss)	\$ 1,776,806	\$ 29,029	\$ 437,009	\$ (410,128)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation	2,324,662	14,944	265,475	8,803
Change in assets and liabilities:				
(Increase) decrease in accounts receivable	(22,264)	(3,405)	1,661	(1,134,671)
(Increase) in notes receivable				
Decrease in due from governments				
Decrease in inventories		(50,488)		
Increase (decrease) in accounts payable and accrued expenses	(32,104)	(34,867)	(28,541)	(461,685)
Increase (decrease) in accrued salaries and benefits payable	7,433	1,413	11,908	(225)
Increase in compensated absences				
Increase in claims liability				1,112,398
Total adjustments	<u>2,277,727</u>	<u>(72,403)</u>	<u>250,503</u>	<u>(475,380)</u>
Net cash provided (used) by operating activities	<u>\$ 4,054,533</u>	<u>\$ (43,374)</u>	<u>\$ 687,512</u>	<u>\$ (885,508)</u>
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:				
Capital assets transferred in	\$ 359,507			

<u>Employee Benefits Management</u>	<u>Building Services</u>	<u>Total</u>
\$ <u>(17,991,415)</u>	\$ <u>(20,513)</u>	\$ <u>(16,179,212)</u>
2,334	26,898	2,643,116
1,850	(155,107)	(1,313,786)
(141,523)	(9,497)	(50,488)
5	6,122	(708,217)
17,091,697		26,656
<u>16,954,363</u>	<u>(131,584)</u>	17,091,697
<u>\$ (1,037,052)</u>	<u>\$ (152,097)</u>	1,112,398
		<u>18,803,226</u>
	\$ 8,358	<u>\$ 2,624,014</u>
		\$ 367,865

THIS PAGE IS INTENTIONALLY LEFT BLANK

## **FIDUCIARY FUNDS**

The City maintains the Special Assessments Agency Funds to account for collection of special assessments from property owners and forwarding these collections to trustees for payment to bondholders.

**CITY OF MODESTO**  
**STATEMENT OF CHANGES IN ASSETS AND LIABILITIES SPECIAL ASSESSMENTS AGENCY FUND**  
**Year ended June 30, 2003**

	Balance <u>June 30, 2002</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2003</u>
<u>ASSETS</u>				
Cash and cash equivalents	\$ <u>537,764</u>	\$ <u>12,130</u>	\$ <u>64,860</u>	\$ <u>485,034</u>
 <u>LIABILITIES</u>				
Dues to special assessment bondholders	\$ <u>537,764</u>	\$ <u>12,130</u>	\$ <u>64,860</u>	\$ <u>485,034</u>

## **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	
2003	\$98,325	\$14,533	\$36,901	\$41,592	\$38,556	\$5,648	\$2,221	\$237,776	

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)

Fiscal Year	General Government	Community Development	Highways and Streets	Public Works	Parks and Recreation	Public Safety	Interest on Long-term Debt	Parking	Water	Sewer	Storm Drain	Airport	Bus	Golf	Community Center	Total
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
2003	\$12,557	\$13,824	\$19,656	\$6,844	\$16,723	\$64,410	\$4,613	\$1,153	\$30,875	\$23,266	\$5,940	\$972	\$9,746	\$2,476	\$2,391	\$215,446

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
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
2003	10,938,635	7,216,938	7,743,346	4,325,317	13,402,710	56,571,767	10,772,096	7,290,650	118,261,459

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 Assessments	Interest and Rent	Fines and Forfeits	Miscellaneous	Total
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
2003	40,581,244	169,108	63,361,617	16,507,447	2,015,090	2,171,490	1,030,389	1,648,415	127,484,800

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

**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>
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	8,312,582	8,249,461	99.24	11,028	8,260,489	99.37		
2003	9,172,429	9,118,481	99.41	16,174	9,134,655	99.59		

NOTES: (1) Source of Data: Stanislaus County Auditor, 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	
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
2003	10,005,769,331	10,005,769,331	229,231,096	299,231,096	10,305,000,427	10,305,000,427	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>
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
2003	1.00	.0815	1.0815

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>
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
2003	166,446	160,767	97	448,031
	(1)	(2)		(3)

- (1) Principal levied on prior year tax roll in 2002/03
- (2) Total received on current year tax roll
- (3) Total of Assessment Receivable

**CITY OF MODESTO**  
**COMPUTATION OF LEGAL DEBT MARGIN**  
**June 30, 2003**

Net assessed value (1)		\$ 10,062,821,534
Plus homeowners' exemption (1)		<u>242,178,893</u>
Gross assessed value (1)		\$ 10,305,000,427
Debt limit - 15% of gross assessed value (2)		\$ 1,545,750,064
Amount of debt applicable to debt limit:		
Total general bonded debt, including special assessment debt	\$	0
Less: Assets in debt service funds available for payment of principal	\$	0
Other deductions: Special assessment debt	<u>0</u>	
Total deductions		0
Total amount of debt applicable to debt limit		<u>0</u>
Legal debt margin		<u><u>\$ 1,545,750,064</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, 2003**

<u>Jurisdiction</u>	<u>Net Debt Outstanding (1)</u>	<u>Percentage Applicable to City of Modesto (2)</u>	<u>Amount Applicable to City of Modesto</u>
Direct debt:			
City of Modesto	\$ <u>0</u>	100%	\$ <u>0</u>
Overlapping debt - school districts:			
Ceres Unified District		10.0	
Empire Union School District		35.0	
Modesto Elementary School District	13,405,000	72.5	9,718,625
Modesto High School District	20,180,000	68.5	13,823,300
Sylvan School District	10,690,000	85.0	9,086,500
Salida Union Elementary District	2,090,000	27.0	564,300
Stanislaus Union School District	<u>4,830,000</u>	33.0	<u>1,593,900</u>
Total overlapping debt	<u>51,195,000</u>		<u>34,786,625</u>
Total direct and overlapping debt	\$ <u><u>51,195,000</u></u>		\$ <u><u>34,786,625</u></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, 2003**

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 6/30/03

<u>Category</u>	<u>Number of Accounts</u>	<u>% of Total Accounts</u>	<u>% of Customer Revenues</u>
Residential	58,427	95.77	47.2
Commercial	2,531	4.15	15.8
Industrial	47	0.08	37

Ten Largest Users of Sewer Facilities, Year Ended 6/30/03

<u>User</u>	<u>% of Sewer Operating Revenue</u>
1) Stanislaus Foods	8.07
2) Del Monte	6.50
3) Signature Fruit	6.46
4) E & J Gallo Winery	2.16
5) Frito Lay	2.09
6) City of Ceres	1.81
7) Foster Farms	1.37
8) Modesto Tallow	1.28
9) Nestle Food Company	0.63
10) Kraft/General Foods Corp.	0.40

There was a 4% sewer rate increase on October 1, 2002.

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 27	
General Fund Revenues, Expenditures and Changes in Fund Balance	Page 24	
Principal Amount of Bonds and Other Parity Debt	Page 45	(Note III-C)
Historical Debt Service Coverage	Page 119	
Property Tax Levies and Collections	Page 109	
Assessed Value of Taxable Property, Last 5 Fiscal Years	Page 110	
Property Value and Construction Activity, Last 5 Fiscal Years	Page 120	

(continued)

**CITY OF MODESTO**  
**CONTINUING DISCLOSURE REQUIREMENTS INFORMATION (continued)**

**Year Ended June 30, 2003**

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, 2003**

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 6/30/03	\$0 (covered by surety bond, issued by Federal Guaranty Insurance Company)
Balance in Parity Reserve Fund as of 6/30/03	\$0
Balance in Rate Stabilization Fund as of 6/30/03	\$2,846,800

Ten Largest Customers of Water Utility System, Year Ended 6/30/03

<u>Customer</u>	<u>Business Type</u>	<u>% of Total Water Sales Revenue</u>
1) Signature Fruit	Cannery	2.40
2) Stanislaus Foods	Cannery	1.37
3) E & J Gallo Winery	Winery	1.27
4) Foster Farms	Dairy Processor	0.80
5) Del Monte Foods	Cannery	0.56
6) Nestle Food Company	Food Processor	0.40
7) Yosemite Community College	Community College	0.33
8) Memorial Hospital	Hospital	0.30
9) Doctors Hospital	Hospital	0.24
10) Stanislaus Co. Housing Auth.	Housing Authority	0.23

Water Sales Revenue, Year Ended 6/30/03

Residential - flat rates	\$16,681,741
Commercial, industrial and municipal - metered rates	10,075,169
Total Water Sales	<u><u>\$26,756,910</u></u>

Average Monthly Water Service Charges as of 6/30/03 - Residential Accounts

Zone 1	\$20.60
Zone 2	28.58
Zone 3	18.20

Current Water Rates and Charges as of 6/30/03 - 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 6/30/03 is \$84,660,000. (continued)

**CITY OF MODESTO**  
**CONTINUING DISCLOSURE REQUIREMENTS INFORMATION (continued)**  
**Year Ended June 30, 2003**

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 2003

Gross Operating Revenues:	
Charges for services	\$27,986,082
DBCP settlement	214,803
Connection charges	1,169,995
Interest and rental income	964,817
Draw from Rate Stabilization Fund	153,200
Total Gross Operating Revenues	<u>30,488,897</u>
Operating Expenses:	
Total operating expenses	27,815,253
Less: Depreciation	(1,884,768)
T&DA debt service component paid to MID	(7,729,135)
Plus: property taxes	77,676
Total Operating Expenses	<u>18,279,026</u>
Net Operating Revenues	<u>\$12,209,871</u>
Total Debt Service:	
1997 Refunding Certificates of Participation	1,774,093
Treatment & Delivery Agreement	7,729,135
CDWR Loan	264,656
Total Debt Service	<u>\$9,767,884</u>
Debt Service Coverage (Net Operating Revenues/Total Debt Service)	1.25

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

Water Utility System Statement of Net Assets	Page	26	
Water Utility System Revenues and Expenses	Page	27	
Principal Amount of Certificates Outstanding	Page	43	(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)
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
2003	24,623,786	15,664,660	8,959,126	3,551,958	2.52

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	
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	1,896,410,000
2003	37	30,191,287	1,032	195,225,744	10,011,289,445	619,046,040	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 2002

**CITY OF MODESTO**  
**PRINCIPAL PAYERS OF PROPERTY TAX**  
**Year Ended June 30, 2003**

<u>Taxpayer</u>	<u>Type of Business</u>	<u>Assessed Value</u>	<u>Percent of Total</u>
National Medical Hospitals	Medical	\$ 117,184,678	1.14 %
Macerich Vintage Faire Associates	Shopping Center	82,158,859	0.80
Foster Farms Dairy	Food Processing	76,238,617	0.74
Phenix Management Corp.	Food Processing	55,101,461	0.53
Liljenquist Modesto	Real Estate	40,410,464	0.39
Hamilton Meredith	Real Estate	30,303,171	0.29
Pan Pacific Retail	Retail	26,616,447	0.26
McClatchy Newspapers	Publishing	21,925,101	0.21
Costco Wholesale Co.	Wholesale	21,674,172	0.21
O'Brien Mark T ET AL	Distribution	21,384,000	0.21
All others			95.22
			<u>100.00</u> %

Source of Data: Stanislaus County Assessor

**CITY OF MODESTO**  
**SCHEDULE OF INSURANCE POLICIES IN FORCE**  
**June 30, 2003**

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	AAPN00056431	\$30,000,000	6/30/03 - 6/30/06	\$22,994	\$0
Gen. Liability Auto Liability Errors & Omissions (excludes Airport)	ACCEL	ACC0304MOD51	\$19,000,000	7/1/03 - 7/01/04	\$403,818	\$1,000,000 (SIR)
City Property (buildings & contents) Fire Trucks-(Collison) All vehicles Flood (\$1 million)	PEPIP (various carriers)	PPROP0304	\$1,000,000,000 per occurrence w/ various sub-limits per occurrence	5/15/03 - 5/15/04	\$226,311	\$5,000 \$25,000 Flood
Boiler & Machinery	VARIOUS	PBOILER0304	\$ 50,000,000	5/15/03- 5/15/04	Included in PEP Premium \$3,774	\$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	9/29/02 - 9/29/03 (haven't rec'd new one yet)	\$3,887	\$ 0
Workers' Compensation	CSAC-EIA	6890-0005-02A	\$ 5,000,000	7/1/03- 6/30/04	\$158,518	SIR to 5 mil.
Faithful Performance and Crime Bond (All Officers & Employees)	Great American Insurance Co.	GVT1243703	Emp. Dishonesty/Forgery \$ 1,000,000 Theft/Destruction \$250,000 Computer Fraud \$1,000,000	4/1/00 - 4/1/03	\$5,754 3-Yr Prepaid Net Premium	\$5,000 \$5,000 \$5,000
Sabotage & Terrorism	Various	PTIP0304		5/15/03 - 7/1/04	\$22,675	
City/County Capital Improvements - JPA	Various	PPROP0304	\$500,000,000 loss limit per occurrence w/various sublimits	5/15/03 - 7/01/04	\$45,863	\$5,000

Source of data: City of Modesto Risk Manager

**CITY OF MODESTO**  
**SALARIES AND SURETY BONDS OF PRINCIPAL OFFICIALS**  
**June 30, 2003**

<u>Name and Title of Official</u>	<u>Annual Salary</u>	<u>Amount of Surety Bond</u>
Jack Crist, City Manager	\$ 157,311	\$ 25,000
Jean Zahr, City Clerk/Auditor	79,025	50,000
Marilyn Romey, Assistant City Clerk/Auditor	55,294	50,000
Peggy Hetzler, Finance Director	114,473	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, 2003**

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	36.21

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
01/01/03	203,300

Housing units:

1980 (2)	42,570
1990 (3)	60,878
2000 (4)	67,683
2002 (4)	60,878
2003 (1)	70,969

Median housing unit value (6)	\$219,000.00
Median monthly rent (4)	\$694.00
Median age (4)	32.7
Median family income (5)	\$48,000.00

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.
- (5) State of Calif. - Dept. of Housing & Community Development
- (6) Central Valley Association of Realtors

**CITY OF MODESTO**  
**DEMOGRAPHIC AND MISCELLANEOUS STATISTICAL DATA (continued)**  
**June 30, 2003**

Permanent employees authorized	1,258.675
Fire Protection: Underwriter's Classification - Class 2	
Fire Stations	10
Positions authorized	159
Number of fire hydrants	6,639
Police Protection:	
Police Station	1
Area command offices	4
Positions authorized (includes 10 unfunded positions)	373
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 Regional	456.30
Total: 12 Undeveloped Parks	556.04
Special Facilities	
1 Baseball stadium	20.00
3 Golf courses	363.29
Total: 4 Special Facilities	383.29
Total Recreational Areas	1,438.74
Building Permits:	
Permits issued in 2002-2003	6,257
Estimated cost of construction	\$316,057,473
Streets:	
Streets (miles)	647
Street lights	12,727
Traffic signals	191
Parking Facilities:	
Number of parking lots (incl. garages)	13
Number of off-street parking spaces	2,409

(Continued)

**CITY OF MODESTO**  
**DEMOGRAPHIC AND MISCELLANEOUS STATISTICAL DATA (continued)**  
**June 30, 2003**

Elderly and handicapped van service:

Number of vehicles	11
Seating capacity vans	12
Average weekday number of passengers	390
Average miles per month	42,323

Airport:

For year ended June 30, 2002

Number of passengers enplaned	17,080
Number of passengers deplaned	17,029
Total aircraft movements	80,458
Annual fuel consumption in gallons	769,965
Total number of tenant aircraft	182
Total acreage	450
Parking apron acreage	9
Aircraft tie down acreage	28
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 weekday number of passengers	10,137
Average miles per month	126,220
Frequency of service	30 min. & 60 min.

Sewer Service:

Plant capacity in gallons per day	62.5
Miles of storm sewers	115.7
Miles of sanitary laterals	465.33
Miles of sanitary trunks and industrial	80.68

Water Service:

Average daily consumption in gallons	73,850,287
Number of wells	119
Miles of water mains	900

Sources of data: Various City departments