



City of  
Modesto, California

Comprehensive Annual  
Financial Report

For the Fiscal Year Ended  
June 30, 2014





**CITY OF  
Modesto, California**

**COMPREHENSIVE ANNUAL FINANCIAL REPORT  
Fiscal Year Ended June 30, 2014**

**Prepared by  
Finance Department**



**CITY OF MODESTO**  
 June 30, 2014  
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**DIVIDER**

**INTRODUCTORY  
SECTION**



## **INTRODUCTORY SECTION**





December 22, 2014

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

We are pleased to present to you the Comprehensive Annual Financial Report (CAFR) for the City of Modesto. The City of Modesto City Charter and Municipal Code require that a complete (CAFR) which is comprised of a financial statement and report on the finances of the City be submitted to the City Council at the end of each fiscal year. This report is being submitted to fulfill that requirement for the fiscal year ended June 30, 2014.

City management assumes full responsibility for the completeness and reliability of the information contained in this report. We believe the data fairly represents 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. Because the cost of internal controls should not exceed the anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements. The evaluation of the costs and benefits of a particular control requires estimates and judgments by management.

The Modesto City Charter also requires an annual audit be performed by an independent certified public accountant selected by the Modesto City Council. The accounting firm of Brown and Armstrong was selected in 2009 to perform the City's annual financial audits. The auditors have issued an unqualified ("clean") opinion on the financial statements for the fiscal year ended June 30, 2014, which 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.

Management's discussion and analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview, and analysis of the basic financial statements. The MD&A is designed to be read in conjunction with this transmittal letter.

### **City of Modesto Profile**

Modesto is located in the heart of California's San Joaquin Valley and is the County Seat of Stanislaus County. It is also the retail, service and financial center of Stanislaus County. The City currently occupies a land area of 37.4 square miles and serves a population of 206,765. Periodically, as allowed by state statute, the City extends its corporate limits by annexation when deemed appropriate by the City Council. Modesto has a diverse economy and population with a strong sense of community pride.

Incorporated as a municipal city in 1884, the City of Modesto adopted its City Charter on March 12, 1951, with a Council-Manager form of government. The Modesto City Council is the City's legislative body and is made up of seven elected officials serving overlapping 4 year terms. The Mayor is elected at-large by the entire City; while the six Councilmembers are elected by district and are limited to two terms.

The City Council sets policy, approves budgets, and sets tax rates and passes ordinances and resolutions, which govern the City. The Council also appoints citizens to advisory

*City of Modesto*

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Hearing and Speech  
Impaired Only  
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boards, committees and commission as well as appoints the City Manager, City Attorney, City Clerk and City Auditor. The City Manager is responsible for carrying out Council policy and managing the day-to-day affairs of the City.

Modesto is a “full-service” City including police and fire; public works; water and sewer; community and economic development; parks, recreation and neighborhoods; public transportation; and cultural and convention visitor services.

Fire protection services during Fiscal Year 2014 were provided by the Modesto Regional Fire Authority, which is a joint powers agency whose members consist of the City, Stanislaus County and the Salida Fire Protection District. On July 1, 2014, the member agencies decided to disband the Regional Fire Authority and services returned to their respective agencies. As a transitional measure, the Salida Fire Protection District contracted with the City of Modesto to provide fire protection services from July 1, 2014 through December 31, 2014. Disbanding the Regional Fire Authority allows the member agencies to move to a more efficient and collaborative regional service delivery model involving ‘boundary drops’. Boundary drops also result in a more expanded regional effort than what would have been allowed under the Regional Fire Authority model.

The City’s 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 their governing boards consist of all seven members of the City Council. These component units are the Modesto Municipal Sewer District No. 1, the Modesto Public Financing Authority and the City of Modesto Community Facilities Districts.

The annual operating budget serves as the foundation for Modesto’s financial planning and control. The proposed budget is adopted annually prior to July 1, by City Council resolution. The Council’s legally adopted budget level is at the fund level. Throughout the fiscal year, the budget may be modified. The City Council has also adopted fiscal policies that delineate the delegated budget control authority to the following parties: the City Council, the City Manager and the Director of Finance.

### **Local Economy**

Agriculture is the backbone of the City’s economy and has been so for more than a century. The City and its surrounding areas contain canneries, packing plants and warehouses which ship agricultural products across the nation and the world. The major sectors for employment are agriculture related industries, healthcare, education, accommodation and food service, social assistance and light manufacturing. Approximately 25% of the workforce is employed in management, professional and related occupations. Stanislaus County consistently ranks among the top 10 California counties in terms of annual agricultural production values with leading commodities being milk, almonds and poultry.

Modesto’s economy is bolstered by several prominent wineries including E & J Gallo, which is one of the world’s largest wineries. The Gallo Glass Company is one of the largest wine bottle manufacturing companies in the world and provides thousands of manufacturing and office jobs. The food canneries and several steel working facilities also provide numerous jobs in Modesto. The prominent almond factory, the Blue Diamond Growers, and Foster Farms, a major poultry processing plant, are located in the region and provide numerous jobs. In addition, more than 20% of the Modesto workforce is employed outside of the county.

Modesto continues to make progress from the effects of the Great Recession. Primary revenue sources of the City, such as sales and property taxes, have been directly impacted by economic influences. However, during 2013, property values finally began to show positive growth, but have not reached pre-recessionary levels. The median sales price for a home in Modesto is

approximately \$178,000 or \$117/square foot, which reflects an increase of approximately 30% when compared to the prior year.

The unemployment rate within the Modesto Metropolitan Statistical Area decreased during the 2013-2014 fiscal year. As of June, 30, 2014, Modesto's unemployment rate was recorded at 11%, down from a rate of 13.3% a year ago.

Building permit activity increased slightly during the 2013-2014 fiscal year. Fiscal year 2014 ended with a total of 3,871 permits issued with a valuation of \$58,850,241.

### **Our Five Strategic Priorities**

Our priorities bring the City's vision and values to life in our community and define our overall direction as a City. While the priorities are individually important, they are also interconnected and cannot be addressed in isolation. In addition, they are the basis of our scorecard that measures success and upon which our performance metrics are built.

- **Healthy Economy and Great Quality of Life:** Increase the City's proactive economic development efforts by creating and preserving jobs, strengthening our economic base and enhancing the City's revenue base.
- **Safe Neighborhoods:** Explore new approaches to public safety, working in partnership with the community to reduce crime and maintain a safe and inviting community in which to live, work and play.
- **Great Neighborhoods:** Increase collaboration with neighborhoods and school district(s) to achieve quality of life improvements, and safe neighborhoods through supporting community self-reliance, problem solving and public/private partnerships.
- **Effective, Responsive and Transparent Government:** Enhance the organization's commitment to the 9 principals of EMBRACE IT, develop new and creative methods to leverage technology, market organization strengths and remain dedicated to seeking efficiencies and continuous improvement. EMBRACE IT represents our employees' commitment to: **E**xceptional Service; **M** measurable Success; **B**uild Trust; **R**esults-Oriented; **A**ccountability; **C**ommunity Outreach; **E**xcite Pride; **I**nnovation; and **T**eamwork.
- **Vibrant Infrastructure and Sustainable Environment:** Strengthen and maintain a safe infrastructure of City roads, water supply, storm sewers, transit and airport needs for residents, businesses and visitors.

### **Long-Term Financial Planning**

The City continues to develop strategic multi-year budgets and projects revenues and expenditures ten (10) years into the future. In June 2013, the City Council amended its fiscal policies to require the City to maintain at least \$7 million of General Fund expenditures in reserve for the budget fiscal year 2013-2014, which it successfully has done. At the end of Fiscal Year 2014, total General Fund balance was \$19.9 million representing 19% of total General Fund expenditures. This fund balance allows the City to respond to unplanned circumstances and maintain adequate working capital to meet its cash flow needs.

The long-term maintenance of a stable fund balance is a direct reflection of the Mayor and Council's leadership and prudent fiscal management. The City has employed expenditure reduction strategies in direct response to declining revenues. Fund balance reserves are then available for unexpected events or emergency needs.

## **SIGNIFICANT EVENTS and ACCOMPLISHMENTS**

### **Local Initiatives and Accomplishments**

- **Digital City:** The City has once again been ranked as one of the top 10 most technology-advanced cities in the 2013 Digital Cities Survey published by the Center for Digital Government. The national survey examines results achieved by cities, via the use of technology, in operating efficiencies and realizing strategic objectives despite current fiscal constraints. Modesto has received this award since 2009.
- **State Route 99/Pelandale Reconstruction Project:** The interchange project at State Route 99 and Pelandale Avenue is currently under construction and is expected to be completed in the Spring of 2016. This is a \$56 million dollar project. More than \$50 million of state and federal funds have been secured for this project.
- **Carpenter Road Bridge Seismic Retrofit:** Construction was recently completed on the Carpenter Road Bridge over the Tuolumne River. The bridge was widened from 33 feet to 70 feet and the existing structure was retrofitted to bring it up to current, seismic standards. This \$11 million dollar project was funded with federal funds and state Prop. 1B funds.
- **Tertiary Wastewater Treatment Facility:** During the summer of 2012, the City started construction of its Phase 2 Tertiary Wastewater Treatment facility. Construction of this project proceeded according to plan and is expected to be completed in May 2016. The City successfully obtained a State of California Revolving Fund loan in the amount of \$128,162,000 to fund construction of this facility.
- **City Reorganization:** During 2014, the City focused on a major reorganization of its operations. The potential annualized savings from this action is approximately \$1.1 million with a potential General Fund savings of \$424,000. Two significant outcomes of this action include the creation of the Utilities Department and the Administrative Services Department. The Utilities Department combined various functions previously housed in several departments. Specifically, all water, wastewater and storm drainage functions now reside in the Utilities Department. The Administrative Services Department combined the Human Resources and Information Technology Departments under one Director.
- **Modesto Grand Prix:** On August 1, 2014 through August 3, 2014, the City, in conjunction with SaveMart Supermarkets, was honored to have hosted the Superkarts! USA 5th Annual Summer Nationals. Modesto welcomed approximately 350 SKUSA racers from all continents and presented them with an exciting downtown street circuit dubbed the Modesto Grand Prix. An estimated 10,000 people attended this event over three days. The City hopes to host another event in 2016.
- **Modesto Police Department:** One of the City's strategic priorities is Safe Neighborhoods. During 2013-14, the Modesto Police Department (MPD) was establishing Crime Analyst capacity to identify crime trends and focus patrol resources where they are needed most. Predictive Policing uses 10 years of crime data in our community to help predict where crime will occur. The Operations Division continues to expand community based programs such as a Citizen Advisory Board to increase transparency and ensure we are meeting the needs of our citizens, and we will continue with outreach projects such as Public Safety Fairs, Coffee with Cops, and Town Hall Meetings. MPD increased Neighborhood Watch Groups by 15% and placed first in California and fifth in the nation for National Night Out in areas with a population of 100,000 to 299,000. All of these efforts had an impact on crime rates, which decreased 7% from the prior year.

- **Modesto Fire Department:** As of July 1, 2014, the Board of Directors of the Modesto Regional Fire Authority (Authority) and its underlying parent organizations (the City of Modesto, the County of Stanislaus and the Salida Fire Protection District) agreed to dissolve the Authority in order to pursue a new regional service delivery model. Achieving a broader regional vision based on a more collaborative approach will be realized through boundary drops and shared resources. The new model focuses on maximizing public service by dropping the territorial boundaries of the various participating public agencies. As a result of the dissolution, the City re-established its Fire Department and the parent organizations are in the process of closing-out the Authority. The City also assumed possession of an entire new fleet of Breathing Apparatus and one new fire engine from the Authority.

We also continued to be the home of the Modesto Nuts baseball team, which is affiliated with the Major League team, the Colorado Rockies.

#### **Awards and Acknowledgments**

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, 2013. This was the 30<sup>th</sup> consecutive year that the government has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

The Comprehensive Annual Financial Report (CAFR) is the result of the cooperative work of many people. We wish to convey our appreciation to all of the City departments and members of the Finance Department team who prepared and contributed to its successful completion. Without their hard work, this report would not be possible.

Finally, we would like to express our appreciation to the City Council and community for their leadership and support. We look forward to the next year's challenges and opportunities.

Respectfully submitted,

  
Jim Holgersson  
City Manager

  
Gloriette Genevex  
Director of Finance





Government Finance Officers Association

**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, 2013**

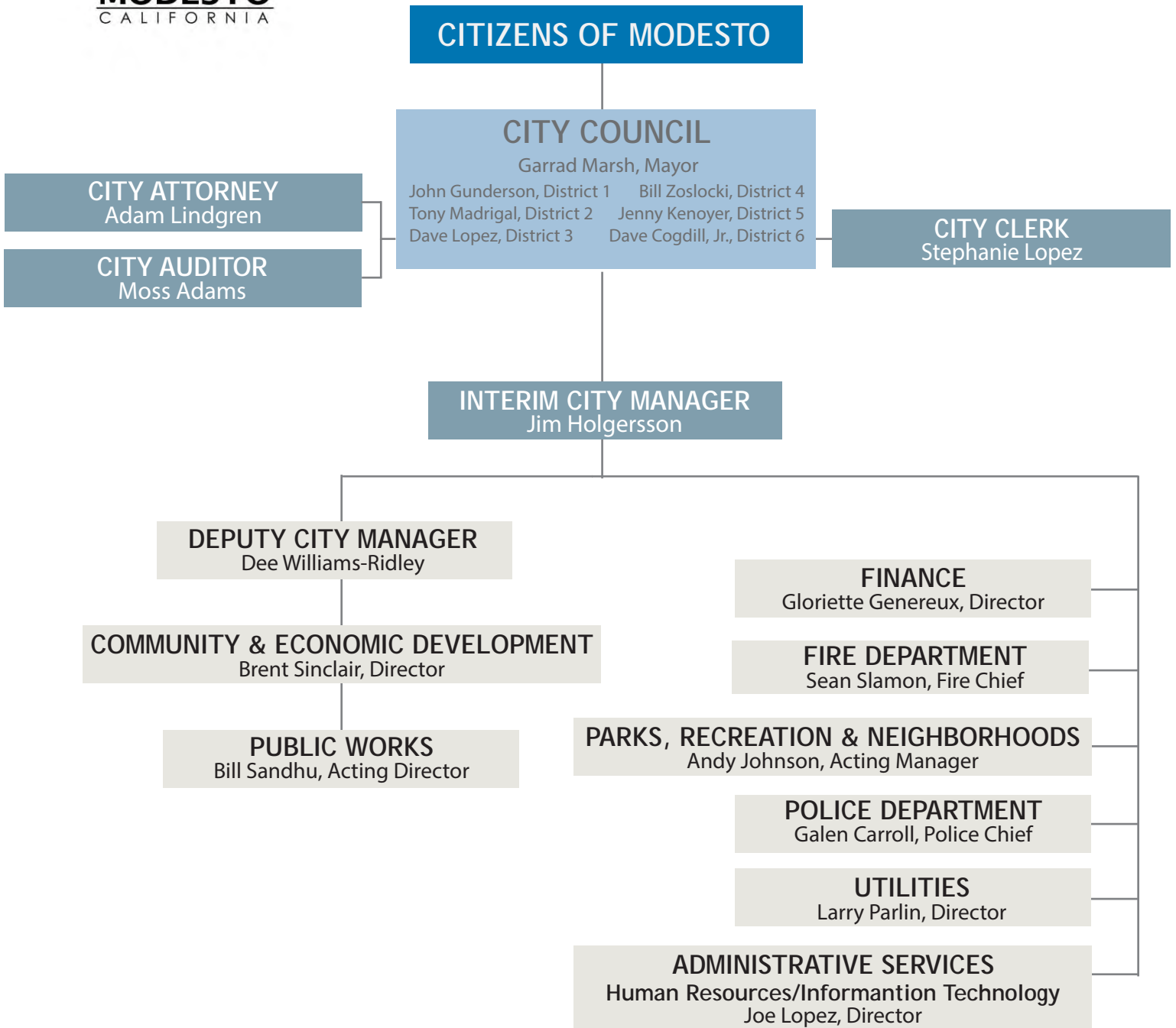
Executive Director/CEO

# CITY OF MODESTO ORGANIZATIONAL CHART



## Legend

- Elected*
- Council Appointed*
- City Manager Appointed*



**DIVIDER**

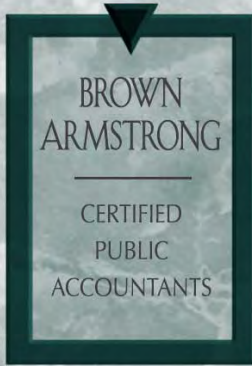
**FINANCIAL**

**SECTION**



## **FINANCIAL SECTION**





# BROWN ARMSTRONG

*Certified Public Accountants*

## INDEPENDENT AUDITOR'S REPORT

To the Honorable City Council  
City of Modesto, California

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Modesto, California (the City), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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## Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Modesto, as of June 30, 2014, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Emphasis of Matter

As discussed in Note I-F to the financial statements, during the year ended June 30, 2014, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to the matter.

## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of funding progress of the City's pension plan and other postemployment benefit plan, and budgetary comparison schedules for general fund and major special revenue funds be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements and schedules, and statistical section, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

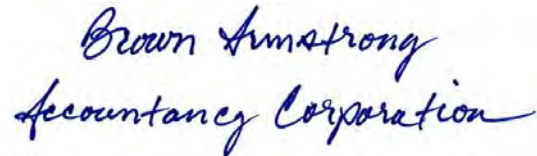
The combining and individual nonmajor fund financial statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2014, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

BROWN ARMSTRONG  
ACCOUNTANCY CORPORATION

A handwritten signature in blue ink that reads "Brown Armstrong Accountancy Corporation". The signature is written in a cursive, flowing style.

Bakersfield, California  
December 19, 2014

## 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, 2014. 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 2014 fiscal year by \$1,109,651,087 (*total net position*). Of this amount, \$159,355,084 (*unrestricted net position*) may be used to meet ongoing obligations to citizens and creditors, \$99,963,634 is restricted for a specific purpose (*restricted net position*), and \$850,332,369 is invested in capital assets, net of related debt.
- The City's total net position increased by \$20,654,158 compared to the prior year. The increase is attributable to both Governmental and Business-Type Activities.
- As of June 30, 2014, the City's governmental funds reported combined fund balances of \$97,635,248, an increase of \$3,136,762 in comparison with the prior year. Approximately 12% of the General fund balances, \$12,069,864 is available to meet the City's current and future needs (*General Fund unassigned fund balance*).
- At the end of the fiscal year, the General Fund balance was \$19,914,847 or 19.8% of total General Fund expenditures. Of this, \$3,718,682 is restricted fund balances. The unassigned fund balance of \$12,069,864 represents 12% of total General Fund outflows. The City Council has adopted a goal of maintaining an 8% unassigned fund balance amount.
- The City's total long-term liabilities showed a net increase of \$38,523,459 in comparison with the prior year. The increase is due to an increase in the Net OPEB obligation and the loan payable which represents the state revolving loan currently funding the construction of the wastewater treatment tertiary plant.

### 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 position* presents information on all City assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position 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 position changed during the most recent fiscal year. All changes in net position 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, community center and abatement and public nuisance 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 Successor Agency of the City of Modesto and the Modesto Public Financing Authority.

**The government-wide financial statements can be found on pages 17-19 of this report.**

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

**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 reports 16 individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures and changes in fund balances for the General Fund and Housing and Community Development.. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* elsewhere in this report.

**The governmental funds financial statements can be found on pages 20-23 of this report**

**Proprietary funds** are maintained two ways. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its Water, Sewer, Parking, Storm Drain, Compost, Airport, Bus, Golf, Community Center operations and Abatement and Public Nuisance. *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. Internal services benefiting business-type functions have been allocated as "internal balances".

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The Water, Sewer and Bus funds are considered to be major funds of the City. The City's six internal service funds are combined into a single, aggregated presentation in the proprietary funds financial statements. Individual fund data for the internal service funds is provided in the form of *combining statements* elsewhere in this report.

**The proprietary funds financial statements can be found on pages 24-27 of this report.**

**Fiduciary funds** are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds except for agency funds.

**The fiduciary fund financial statements can be found on page 28-29 of this report.**

**Notes to Basic Financial Statements** provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes can be found on **pages 30-64** of this report.

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

**Required supplementary information can be found on pages 67-73 of this report.**

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

The *combining and individual fund statements and schedules* referred to earlier provide information for non-major governmental, 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 80-113** of this report.

### GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$1,109,651,087 at the close of the most recent fiscal year.

#### Net Position

	Governmental activities		Business-type activities		Total	
	2014	2013	2014	2013	2014	2013
Current and other assets	\$224,226,389	\$218,755,737	\$254,157,756	\$228,862,464	\$478,384,145	\$447,618,201
Capital assets	410,178,059	412,208,979	799,350,704	755,629,953	1,209,528,763	1,167,838,932
Total assets	<u>634,404,448</u>	<u>630,964,716</u>	<u>1,053,508,460</u>	<u>984,492,417</u>	<u>1,687,912,908</u>	<u>1,615,457,133</u>
Deferred outflow s of resources	10,276,475	10,345,451	32,384,362	31,506,614	42,660,837	41,852,065
Current and other liabilities	67,694,068	64,203,905	29,844,485	25,990,080	97,538,553	\$90,193,985
Long-term liabilities	131,437,023	142,899,876	343,352,655	293,366,343	474,789,678	436,266,219
Total liabilities	<u>199,131,091</u>	<u>207,103,781</u>	<u>373,197,140</u>	<u>319,356,423</u>	<u>572,328,231</u>	<u>526,460,204</u>
Deferred inflow s of resources	11,170,483	10,345,451	37,423,944	31,506,614	48,594,427	41,852,065
Net position:						
Net investment in capital assets	347,647,419	361,582,237	502,684,950	476,681,835	850,332,369	\$838,264,072
Restricted net position	77,564,677	63,381,356	22,398,957	25,571,860	99,963,634	\$88,953,216
Unrestricted net position	9,167,253	(1,102,658)	150,187,831	162,882,299	159,355,084	161,779,641
Total net position	<u>\$434,379,349</u>	<u>\$423,860,935</u>	<u>\$675,271,738</u>	<u>\$665,135,994</u>	<u>\$1,109,651,087</u>	<u>\$1,088,996,929</u>

The largest portion of the City's net position, \$850,332,369 (76.6 percent), reflects its investment in capital assets (e.g. land, water rights, buildings, improvements, furnishings and equipment, buses and fare boxes, pipelines, and infrastructure), less any related debt used to acquire those assets that are 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 position represents *unrestricted net position* of \$159,355,084 (14.4 percent), which may be used to meet the City's ongoing obligations to citizens and creditors.

The remaining balance of the City's net position of \$99,963,634 (9.0 percent) represents resources that are subject to external restrictions on how they may be used.

At the end of the 2014 fiscal year, the City reported positive balances in all three categories of net position for the City as a whole.

The City's net position increased by \$20,654,158 during the current fiscal year.

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

The following table indicates the changes in net position for governmental and business-type activities, as well as comparative data for the prior year:

### Changes in Net Position

	Governmental activities		Business-type activities		Total	
	2014	2013	2014	2013	2014	2013
<b>Revenues:</b>						
<b>Program revenues:</b>						
Charges for services	\$21,511,357	\$22,005,165	\$124,329,967	\$125,553,073	\$145,841,324	147,558,238
Operating grants and contributions	5,868,684	16,477,474	13,721,179	13,766,061	19,589,863	30,243,535
Capital grants and contributions	8,206,154	9,046,762	4,971,940	4,282,549	13,178,094	13,329,311
<b>General revenues:</b>						
Taxes	50,096,127	50,034,153	254,200	257,687	50,350,327	50,291,840
Intergovernment revenue not restricted for specific purposes	55,415,831	51,994,820	-	-	55,415,831	51,994,820
Unrestricted investment earnings	441,383	52,893	2,726,148	1,184,422	3,167,531	1,237,315
Settlements and recoveries	-	-	110,376	116,711	110,376	116,711
Connection fees	-	-	524,914	1,200,800	524,914	1,200,800.00
Miscellaneous	5,402,480	1,861,660	-	-	5,402,480	1,861,660
<b>Total revenues</b>	<b>146,942,016</b>	<b>151,472,927</b>	<b>146,638,724</b>	<b>146,361,303</b>	<b>293,580,740</b>	<b>297,834,230</b>
<b>Expenses:</b>						
General government	11,221,704	12,041,953	-	-	11,221,704	12,041,953
Community development	13,002,466	25,162,533	-	-	13,002,466	25,162,533
Highways and streets	21,316,315	20,525,496	-	-	21,316,315	20,525,496
Public works	3,241,135	4,064,497	-	-	3,241,135	4,064,497
Parks and recreation	11,659,816	13,036,579	-	-	11,659,816	13,036,579
Public safety	72,301,682	83,857,207	-	-	72,301,682	83,857,207
Interest on long-term debt	2,958,471	3,193,997	-	-	2,958,471	3,193,997
Parking	-	-	1,605,829	1,252,660	1,605,829	1,252,660
Water	-	-	63,498,896	48,656,862	63,498,896	48,656,862
Sewer	-	-	31,895,568	24,155,935	31,895,568	24,155,935
Storm drain	-	-	6,372,418	4,239,567	6,372,418	4,239,567
Compost	-	-	4,951,441	4,350,079	4,951,441	4,350,079
Airport	-	-	2,291,222	1,534,242	2,291,222	1,534,242
Bus	-	-	19,618,547	18,025,010	19,618,547	18,025,010
Golf	-	-	2,845,109	2,197,368	2,845,109	2,197,368
Community center	-	-	2,031,928	1,864,996	2,031,928	1,864,996
Abatement and Public Nuisance	-	-	31,877	42,879.00	31,877	42,879.00
<b>Total expenses</b>	<b>135,701,589</b>	<b>161,882,262</b>	<b>135,142,835</b>	<b>106,319,598</b>	<b>270,844,424</b>	<b>268,201,860</b>
Increase in net position before transfers	11,240,427	(10,409,335)	11,495,889	40,041,705	22,736,316	29,632,370
Transfers	(41,312)	1,055,670	41,317	(1,055,670)	5.00	-
Special item	-	-	(1,356,418)	(1,143,257)	(1,356,418)	(1,143,257)
<b>Total transfers and special items</b>	<b>(41,312)</b>	<b>1,055,670</b>	<b>(1,315,101)</b>	<b>(2,198,927)</b>	<b>(1,356,413)</b>	<b>(1,143,257)</b>
<b>Change in net position</b>	<b>11,199,115</b>	<b>(9,353,665)</b>	<b>10,180,788</b>	<b>37,842,778</b>	<b>21,379,903</b>	<b>28,489,113</b>
Net position - beginning, as restated	423,860,935	421,927,689	665,135,994	625,760,853	1,088,996,929	1,047,688,542
Prior year adjustments	(680,701)	11,286,911	(45,044)	1,532,363	(725,745)	12,819,274
<b>Net position - ending</b>	<b>\$434,379,349</b>	<b>\$423,860,935</b>	<b>\$675,271,738</b>	<b>\$665,135,994</b>	<b>\$1,109,651,087</b>	<b>\$1,088,996,929</b>

**Governmental activities.** Governmental activities increased the City's net position by \$10,518,414. Taxes in total increased slightly by \$61,974 compared to 2013 due to a slow increase in the economy. Intergovernmental revenues increase due to an increase in the McHenry Tax Sharing agreement revenues compared to the prior fiscal year. The long term liabilities decreased by \$11.5 million due to an overall reduction in the net OPEB obligations, compensated absences, and principal payments being made on current outstanding debt.

Expenses in total were lower compared to the prior year by \$26,180,673, or -16.2%, due mainly to a decrease in housing and capital facility fee expenditures. For the Housing and Community development, the expenditures have been reduced due to the funding ending for the Neighborhood Stabilization Program grant funds.

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

**Business-type activities.** Business-type activities increased the City's net position by \$10,135,744. As detailed in the schedule on **page 9**, a majority of the enterprise funds had an increase in net income but the major change in net position came from the Sewer fund.

Charges for services decreased by approximately \$1.2 million and capital contributions increased by \$689,391.

### 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, *unassigned 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, 2014, the City's governmental funds reported combined fund balances of \$97,635,248 an increase of \$3,136,762 from the prior year. The total negative unassigned fund balance of (\$22,586,753) includes a positive \$12,069,864 which represents the General Fund unassigned fund balance that is available to meet the City's current and future needs. The remainder of fund balance is *Non-spendable, restricted, committed and assigned* to indicate that it is *not* available for new spending because it has been committed.

The General Fund is the chief operating fund of the City. At June 30, 2014, unassigned fund balance of the General Fund was \$12,069,864 while total fund balance was \$19,914,847. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 12.0% of total General Fund expenditures, while total fund balance represents 19.8% of that same amount. The prior year ratios were 11.7% and 16.7%, respectively. The use of the fund balance reserves was planned and budgeted during the year.

Revenues of governmental funds totaled \$146,312,711 in fiscal year 2013-14, which represents a decrease of \$5,554,750 from fiscal year 2012-13.

Expenditures of governmental funds totaled \$140,139,415 in fiscal year 2013-14, representing a decrease of \$22,983,484 from fiscal year 2012-13.

The following table presents governmental fund revenues from various sources, with comparisons to the prior year:

Revenues Classified by Source – Governmental Funds

Revenues by Source	FY 2014		FY 2013		Increase (Decrease)	
	Amount	Percent	Amount	Percent	Amount	% Change
Taxes	\$50,096,127	34.1%	\$50,034,153	32.9%	\$61,974	0.1%
Licenses and permits	174,734	0.1%	175,720	0.1%	(986)	-0.6%
Intergovernmental	67,426,885	46.0%	75,737,161	50.0%	(8,310,276)	-11.0%
Charges for services	19,457,298	13.3%	19,800,718	13.0%	(343,420)	-1.7%
Special assessments	2,063,784	1.4%	1,781,896	1.2%	281,888	15.8%
Interest and rent	1,019,357	0.7%	835,994	0.6%	183,363	21.9%
Net increase (decrease) in fair value	(423,827)	-0.3%	(584,090)	-0.4%	160,263	-27.4%
Fines and forfeits	1,844,607	1.3%	2,004,133	1.3%	(159,526)	-8.0%
Miscellaneous	4,653,746	3.3%	2,081,776	1.4%	2,571,970	123.5%
<b>Total</b>	<b>\$146,312,711</b>	<b>100.0%</b>	<b>\$151,867,461</b>	<b>100.0%</b>	<b>(\$5,554,750)</b>	<b>-3.7%</b>

- Taxes – Revenues for property taxes and business license came in higher than expected due to a positive upturn in the economy and increased collection and compliance efforts by City staff.
- Intergovernmental – Revenues decreased due to a reduction in grant revenues received in fiscal year 2013-14.

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

- Charges for services – A reduction of \$343,420 occurred from the prior year due to a change in the methodology utilized for the General Fund's indirect cost recovery plan.
- Investment revenues increased slightly due to an increase of cash balances and changes in interest rates.

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

### Expenditures by Function – Governmental Funds

Exp by Function	FY 2014		FY 2013		Increase (Decrease)	
	Amount	Percent	Amount	Percent	Amount	% Change
General government	\$11,643,579	8.3%	\$11,169,669	6.8%	\$473,910	4.2%
Community development	12,589,817	9.0%	23,673,373	14.5%	(11,083,556)	-46.8%
Highways and streets	8,744,899	6.2%	8,560,717	5.2%	184,182	2.2%
Public works	3,088,701	2.2%	2,993,702	1.8%	94,999	3.2%
Parks and recreation	11,947,862	8.5%	11,299,979	6.9%	647,883	5.7%
Public safety	74,595,533	53.3%	74,094,399	45.3%	501,134	0.7%
Capital outlay	12,901,002	9.3%	26,616,638	16.3%	(13,715,636)	-51.5%
Debt Service-principal retirement	1,596,000	1.1%	1,451,000	0.9%	145,000	10.0%
Debt Service-interest charges	2,159,672	1.5%	2,330,962	1.4%	(171,290)	-7.3%
Debt Service-other	872,350	0.6%	932,460	0.6%	(60,110)	-6.4%
<b>Total</b>	<b>\$140,139,415</b>	<b>100.0%</b>	<b>\$163,122,899</b>	<b>100.0%</b>	<b>(\$22,983,484)</b>	<b>-14.1%</b>

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

- General government –Expenditures increased by \$473,910 or 4.2% over the prior year, due to an increase in expenditures for the City Clerk/Auditor and City Attorney office.
- Community development – Expenditures decreased by \$11,083,556 or 46.8% due to a decrease in funding expenditures for the neighborhood stabilization projects compared to the prior year.
- Parks and recreation – Expenditures increased by \$647,883 or 5.7% over the prior year, due to an increase in cost for the parks operation and maintenance areas compared to the prior year.
- Public safety –Expenditures increased by \$501,134 or 0.7% over the prior year, due to an increase in discretionary cost for the police department.
- Capital outlay –Expenditures decreased by \$13,715,636 or 51.5% reflects the current cycle of a decline in planning and construction of capital improvements.

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

	FY 2014	FY 2013	Increase/(Decrease)	
			Amount	Percent
Transfers in	\$7,962,817	\$18,230,774	(\$10,267,957)	-56.3%
Transfers out	(11,164,994)	(18,417,413)	7,252,419	-39.4%
Sale of assets	200,838	72,489	128,349	100.0%
<b>Net financing sources (uses)</b>	<b>(\$3,001,339)</b>	<b>(\$114,150)</b>	<b>(\$2,887,189)</b>	<b>2529.3%</b>

Transfers - The City uses interfund transfers to: (1) move resources from a fund to other funds that will utilize them in accordance with statutory and budgetary requirements, (2) utilize unrestricted resources 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 pay debt service to the funds that are responsible for payment as those payments become due.

- The net transfers *from* governmental funds for 2014 were \$(3,202,177) compared to \$(186,639) in the prior year. This net transfer is *to* various City funds including transferring funds from the General Fund, Capital Facility Fee funds and the Public Financing Authority to cover the debt service payments and various transfers to cover City grant matches.

## Management's Discussion and Analysis (continued)

- The annual totals for both transfers in and out vary, depending on the nature of the activities that are undertaken each year.

Debt transactions –No new debt was issued for the governmental funds.

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 Fund	Housing and Community Development	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	
Revenues	\$110,959,654	\$5,031,619	\$18,291,325	\$10,919,403	\$1,110,710	\$146,312,711
Expenditures	(100,799,937)	(4,787,255)	(17,621,737)	(12,590,422)	(4,340,064)	(140,139,415)
Other financing sources/(uses), net	(6,693,588)	(100,808)	819,526	261,219	2,712,312	(3,001,339)
Net change in fund balances	3,466,129	143,556	1,489,114	(1,409,800)	(517,042)	3,171,957
Fund balance-July 1	16,772,366	20,171,931	7,891,543	44,295,492	5,367,154	94,498,486
Prior year adjustment	(323,648)	259,184	18,561	10,708.00	-	(35,195)
Fund balance June 30	\$19,914,847	\$20,574,671	\$9,399,218	\$42,896,400	\$4,850,112	\$97,635,248

The fund balance of the City's General Fund increased by \$3,142,481 during the fiscal year. This result is consistent with the City Council's budgetary direction to reduce spending and identify additional revenue sources that would allow the General Fund to retain an unrestricted reserve that meets the City Council's adopted 8% level.

Revenues and expenditures decreased compared to the prior year to help sustain an increase in the General Fund fund balance.

**Proprietary funds.** The City's proprietary fund disclosures 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	Bus	Parking	Storm Drain	Compost	Airport	Golf	Community Center		Abatement Public Nuisance
Operating revenues	\$60,254,110	\$46,046,304	\$2,989,504	\$1,092,347	\$5,831,133	\$4,853,133	\$634,530	\$2,196,280	\$230,801	\$201,825	\$124,329,967
Operating expenses	(52,647,526)	(25,578,178)	(19,233,993)	(1,411,746)	(4,925,569)	(4,754,146)	(2,071,674)	(2,587,744)	(1,842,280)	(28,607)	(115,081,463)
Operating income (loss)	7,606,584	20,468,126	(16,244,489)	(319,399)	905,564	98,987	(1,437,144)	(391,464)	(1,611,479)	173,218	9,248,504
Non-operating revenues (expenses), net	(5,609,507)	(1,116,970)	13,099,075	(19,512)	57,628	397,525	737,124	(128,850)	336,877	1,623	\$7,755,013
Income (loss) before capital contributions, transfers and special items	1,997,077	19,351,156	(3,145,414)	(338,911)	963,192	496,512	(700,020)	(520,314)	(1,274,602)	174,841	17,003,517
Contributions, transfers and special items	(1,791,449)	475,911	2,195,233	(4,248)	655,399	749,076	(10,597)	898,126	539,388	(50,000)	3,656,839
Net income (loss)	\$205,628	\$19,827,067	(\$950,181)	(\$343,159)	\$1,618,591	\$1,245,588	(\$710,617)	\$377,812	(\$735,214)	\$124,841	\$20,660,356

The Water, Sewer, Storm Drain, Compost, Golf and the Abatement and Public Nuisance enterprise funds posted net incomes during the period. It is important to note that while the Water and Sewer funds show rather healthy operating results, capital improvement expenses and debt service principal payments incurred during the year are not reflected in the expenses totals shown above. Net losses were experienced by the other enterprise funds. Golf and Community Center operations continue to receive an operating subsidy from the General Fund in 2014.

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

The Water utility fund had a 2.3% CPI increase in July 2013. The Sewer utility fund had an increase in revenue due to 6.0% rate increases in July 2013 and an additional 2.0% increase which became effective in fiscal year 2014-2015.

### GENERAL FUND BUDGETARY HIGHLIGHTS

Budget to actual information for the General Fund is presented as Required Supplementary Information, beginning on page 69-70 of this report.

While the City Council amended the budget several times through the year, the differences between the original budget and the final amended budget for the General Fund were increased overall mainly due to an increase in taxes, intergovernmental revenue, and charges for services. The estimated revenues increased about \$2,364,894 while total appropriations were increased \$2,188,541. These amendments were to adjust the actual beginning balances and carryovers after closing the prior fiscal year, and to reflect adjustments to current estimates based on the periodic monitoring of revenue and expenditures throughout the year.

Revenues came in \$5,451,841 more than final estimates. Variances in Sales tax \$248,960, Utility users tax \$653,653, Business Taxes \$573,820, Other Intergovernmental \$972,465, and Miscellaneous Revenue \$4,362,966 were due to an increased in collection and compliance efforts and the insurance and recovery reimbursements.

Expenditures, overall, were \$6,135,136 under budget, primarily due to efforts of departments to realize savings, and certain purchases being deferred to future periods.

### 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, 2014, amounted to \$1,209,528,763 (net of accumulated depreciation). The total increase in the City's investment in capital assets compared to 2013 was 3.6%. Capital assets net of depreciation, for the governmental and business-type activities are presented below to illustrate changes from the prior year.

	Governmental		Business type		Total		Increase (decrease)	
							Percent	\$ change
	2014	2013	2014	2013	2014	2013	Change	
Land	\$33,658,003	\$33,632,095	\$31,102,451	\$30,073,929	\$64,760,454	\$63,706,024	1.7%	\$1,054,430
Capitalized Interest	-	-	13,341,683	12,147,655	13,341,683	12,147,655	10%	1,194,028
Buildings	15,956,712	16,526,576	45,370,293	47,186,431	61,327,005	63,713,007	-4%	(2,386,002)
Improvements	35,870,111	35,560,128	106,719,673	111,719,201	142,589,784	147,279,329	-3%	(4,689,545)
Furnishings and equipment	2,628,864	2,896,815	4,216,112	4,649,477	6,844,976	7,546,292	-9%	(701,316)
Intangible Assets	4,827,027	5,226,281	32,615	-	4,859,642	5,226,281	-7%	(366,639)
Equipment pool	11,397,986	11,557,150	-	-	11,397,986	11,557,150	-1%	(159,164)
Service Animals	23,744	20,877	-	-	23,744	20,877		2,867
Water Rights	-	-	310,463,132	322,404,022	310,463,132	322,404,022	-4%	(11,940,890)
Streets	218,024,192	227,910,317	-	-	218,024,192	227,910,317	-4%	(9,886,125)
Signalization	1,760,044	2,174,636	-	-	1,760,044	2,174,636	-19%	(414,592)
Bridges	20,621,676	21,145,820	-	-	20,621,676	21,145,820	-3%	(524,144)
Buses & fareboxes	-	-	5,057,982	4,896,166	5,057,982	4,896,166	3%	161,816
Pipelines	-	-	115,912,808	117,854,932	115,912,808	117,854,932	-2%	(1,942,124)
Construction in progress	65,409,700	55,558,284	167,133,955	104,698,140	232,543,655	160,256,424	45%	72,287,231
<b>Total</b>	<b>\$410,178,059</b>	<b>\$412,208,979</b>	<b>\$799,350,704</b>	<b>\$755,629,953</b>	<b>\$1,209,528,763</b>	<b>\$1,167,838,932</b>	<b>3.6%</b>	<b>\$41,689,831</b>

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

- Land – Business activities had an increase in land due to transfer of Jennings Roads between the Sewer and Compost fund. This land was appraised with a higher book value which was adjusted as part of the transfer of ownership with City departments. Both Governmental and Business Type activities had an increase in construction work in progress due to the additional cost for the tertiary treatment plant and Pelandale interchange project.

## Management's Discussion and Analysis (continued)

The City's infrastructure assets are recorded at historical cost in the government-wide financial statements. 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 39-41 of this report.

### Long-term debt and deferred inflows of resources

At June 30, 2014, the City had total long-term liabilities outstanding of \$474,789,678, net of unamortized discounts and premiums, as compared to \$436,266,219 in the prior year. This amount was comprised of \$59,475,000 of lease revenue bonds, \$49,110,643 of certificates of participation, \$180,938,554 of revenue bonds payable, \$9,308,679 of estimated compensated absences, \$59,569,740 of OPEB obligation, \$22,284,679 of claims liability, \$89,420,765 of loans payable, \$1,424,673 of developer advances, \$256,945 of capital leases, and \$3,000,000 of notes payable. The long-term debt increase was mainly due to an increase in OPEB liability and the state revolving loan. Additional information on the City's long-term debt can be found in note II.C on pages 41-51 of this report.

Modesto maintains an Employee Benefits internal service fund (EBF) to pay a portion of retiree health benefits and other employee related expenses. As of June 30, 2014, the net OPEB obligation amounts to approximately \$59.5 million. This contributes significantly to the Employee Benefit Fund's \$58.6 million deficit net position. Additional information on the City's EBF can be found in Notes II-H and III-G.

### Economic Factors and Next Year's Budget and Rates

- *Consumer Price Index* – Growth in the CPI has been relatively stable during the past nine years and serves as a measure for the growth in the cost for supplies and services used by the city. In the year ending June 30, 2014, the CPI-Western Urban Index increased by 2.2%.
- *Taxable Sales* – With the unemployment rate at 11%, sales tax revenues are continually increasing and property taxes had an increase in this fiscal year. The City continues to take action to address the City's financial situation and implement the necessary budget reductions as part of presenting the budget strategies for FY 2014-2015.
- *Utility Service Charges* - Water utility rates were increased by 2.3% for the annual CPI increase in fiscal year 2013-2014. For the Sewer utility rates, the City Council adopted a resolution approving and implementing 5 annual rate increases for Wastewater beginning with a 3% rate increase on July 1, 2010 and subsequent rate increases which for July 2012 was 7%, July 2013 was a 6%, and July 2014 was a 2% increase.

All of these factors were considered in preparing the City's budget for fiscal year 2015.

During the current fiscal year, fund balance in the General Fund increased by \$3,142,481, to \$19,914,847 which represents 19.8% of total General Fund outflows which equals City Council's target value of 8%. The budget adopted for fiscal year 2013-2014 reflects a planned reduction in the reserve level on a temporary basis, from 8% to a flat reserve amount of \$7 million.

### 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 the City's financial condition. Questions concerning any of the information provided in this report and requests for additional financial information should be addressed to the City of Modesto, Attention: Finance Department, P.O. Box 642, Modesto, CA 95353

## **BASIC FINANCIAL STATEMENTS**



**CITY OF MODOSTO**  
**STATEMENT OF NET POSITION**  
**June 30, 2014**

	Governmental Activities	Business-type Activities	Total
<u>ASSETS</u>			
Cash and cash equivalents	\$ 122,967,979	\$ 216,981,590	\$ 339,949,569
Accounts receivable, net	3,471,879	685,405	4,157,284
Interest receivable	191,174	324,935	516,109
Utility billings receivable, net	1,011,591	10,861,493	11,873,084
Taxes receivable	10,460,029	-	10,460,029
Due from governments, net	11,784,075	23,549,084	35,333,159
Notes and Loan receivable, net	57,256,913	38,705	57,295,618
Prepaid expenses	463,383	4,484,581	4,947,964
Property held for resale	784,000	630,000	1,414,000
Internal balances	3,398,037	(3,398,037)	-
Inventories	395,364	-	395,364
Investments in joint ventures	12,041,965	-	12,041,965
Capital assets:			
Land and construction in progress	99,067,703	198,236,406	297,304,109
Other capital assets, net of accumulated depreciation	311,110,356	601,114,298	912,224,654
<b>Total assets</b>	<b>634,404,448</b>	<b>1,053,508,460</b>	<b>1,687,912,908</b>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>			
Accumulated decrease in fair value of hedging derivatives	10,276,475	32,384,362	42,660,837
<b>Total assets and deferred outflows of resources</b>	<b>644,680,923</b>	<b>1,085,892,822</b>	<b>1,730,573,745</b>
<u>LIABILITIES</u>			
Accounts payable	8,785,611	16,576,952	25,362,563
Accrued salaries and benefits	1,323,726	562,595	1,886,321
Approved loans payable	3,903,719	-	3,903,719
Interest payable	87,639	2,417,662	2,505,301
Due to other governments	661,338	-	661,338
Unearned revenue	49,846,874	8,258,641	58,105,515
Refundable deposits	3,085,161	2,028,635	5,113,796
Long-term liabilities:			
Due within one year	10,997,809	9,166,592	20,164,401
Due in more than one year	120,439,214	334,186,063	454,625,277
<b>Total liabilities</b>	<b>199,131,091</b>	<b>373,197,140</b>	<b>572,328,231</b>
<u>DEFERRED INFLOWS OF RESOURCES</u>			
Bond refunding contribution	-	4,921,715	4,921,715
Advances from grantors and third parties	894,008	117,867	1,011,875
Accumulated increase in fair value of hedging derivatives	10,276,475	32,384,362	42,660,837
<b>Total deferred inflows of resources</b>	<b>11,170,483</b>	<b>37,423,944</b>	<b>48,594,427</b>
<b>Total liabilities and deferred inflows of resources</b>	<b>210,301,574</b>	<b>410,621,084</b>	<b>620,922,658</b>
<u>NET POSITION</u>			
Net investment in capital assets	347,647,419	502,684,950	850,332,369
Restricted for:			
Capital projects	40,006,694	-	40,006,694
Housing and community development	20,574,671	-	20,574,671
Debt Service	4,778,463	-	4,778,463
Other purposes	12,204,849	22,398,957	34,603,806
Unrestricted	9,167,253	150,187,831	159,355,084
<b>Total net position</b>	<b>\$ 434,379,349</b>	<b>\$ 675,271,738</b>	<b>\$ 1,109,651,087</b>

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

**CITY OF MODESTO**  
**STATEMENT OF ACTIVITIES**  
**Year ended June 30, 2014**

	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>FUNCTIONS/PROGRAMS:</b>				
Governmental activities:				
General government	\$ 11,221,704	\$ 5,825,407	\$ -	\$ -
Community development	13,002,466	4,537,984	5,197,098	50,642
Highways and streets	21,316,315	873,566	-	6,534,288
Public works	3,241,135	4,146,641	-	-
Parks and recreation	11,659,816	3,004,001	-	1,621,224
Public safety	72,301,682	3,123,758	671,586	-
Interest on long-term debt	2,958,471	-	-	-
Total governmental activities	<u>135,701,589</u>	<u>21,511,357</u>	<u>5,868,684</u>	<u>8,206,154</u>
Business-type activities:				
Parking	1,605,829	1,092,347	-	-
Water	63,498,896	60,254,110	84,462	-
Sewer	31,895,568	46,046,304	-	1,760,433
Storm Drain	6,372,418	5,831,133	-	-
Compost	4,951,441	4,853,133	366,318	960,534.00
Airport	2,291,222	634,530	289,682	40,420
Bus	19,618,547	2,989,504	12,980,717	2,210,553
Golf	2,845,109	2,196,280	-	-
Community Center	2,031,928	230,801	-	-
Abatement and Public Nuisance Fund	31,877	201,825	-	-
Total business-type activities	<u>135,142,835</u>	<u>124,329,967</u>	<u>13,721,179</u>	<u>4,971,940</u>
<b>Total</b>	<b>\$ 270,844,424</b>	<b>\$ 145,841,324</b>	<b>\$ 19,589,863</b>	<b>\$ 13,178,094</b>

General revenues:

Taxes:

Utility users tax

Property taxes, levied for general purposes

Property taxes, generated by and allocated to the airport

Transient occupancy tax

Franchise tax

Business license tax, levied for general purposes

Business license tax, levied for downtown improvement district

Sales tax

Motor vehicle license fee

Other

Unrestricted investment earnings

Connection fees

Miscellaneous

Settlements

Transfers, net

Special item - PCE legal fees

Total general revenues, transfers and special item

Change in net position

Net position, July 1

Prior year adjustments

Net position, June 30

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

Net (Expense) Revenue and  
Changes in Net Position

Governmental Activities	Business-type Activities	Total
\$ (5,396,297)	\$ -	\$ (5,396,297)
(3,216,742)	-	(3,216,742)
(13,908,461)	-	(13,908,461)
905,506	-	905,506
(7,034,591)	-	(7,034,591)
(68,506,338)	-	(68,506,338)
(2,958,471)	-	(2,958,471)
<u>(100,115,394)</u>	<u>-</u>	<u>(100,115,394)</u>
\$ -	\$ (513,482)	(513,482)
-	(3,160,324)	(3,160,324)
-	15,911,169	15,911,169
-	(541,285)	(541,285)
-	1,228,544	1,228,544
-	(1,326,590)	(1,326,590)
-	(1,437,773)	(1,437,773)
-	(648,829)	(648,829)
-	(1,801,127)	(1,801,127)
-	169,948	169,948
<u>-</u>	<u>7,880,251</u>	<u>7,880,251</u>
<u>(100,115,394)</u>	<u>7,880,251</u>	<u>(92,235,143)</u>
20,153,653	-	20,153,653
12,304,010	-	12,304,010
-	254,200	254,200
1,879,825	-	1,879,825
5,003,130	-	5,003,130
10,573,820	-	10,573,820
181,689	-	181,689
27,651,939	-	27,651,939
12,494,642	-	12,494,642
15,269,250	-	15,269,250
441,383	2,726,148	3,167,531
-	524,914	524,914
5,402,480	-	5,402,480
-	110,376	110,376
(41,312)	41,317	5.00
<u>-</u>	<u>(1,356,418)</u>	<u>(1,356,418)</u>
<u>111,314,509</u>	<u>2,300,537</u>	<u>113,615,046</u>
11,199,115	10,180,788	21,379,903
423,860,935	665,135,994	1,088,996,929
<u>(680,701)</u>	<u>(45,044)</u>	<u>(725,745)</u>
<u>\$ 434,379,349</u>	<u>\$ 675,271,738</u>	<u>\$ 1,109,651,087</u>

**CITY OF MODESTO**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**June 30, 2014**

	General	Housing and Community Development	Other Governmental	Total Governmental
<u>ASSETS</u>				
Cash and cash equivalents	\$ 9,612,271	\$ 1,235,931	\$ 63,583,476	\$ 74,431,678
Cash and cash equivalents with fiscal agent	-	-	4,935,061	4,935,061
Receivables:				
Accounts	1,327,110	42,777	114,405	1,484,292
Interest	45,406	1,312	100,431	147,149
Utilities, net	1,000,675	-	10,916	1,011,591
Taxes	10,204,445	-	255,584	10,460,029
Due from governments	1,101,047	1,854,463	8,699,465	11,654,975
Due from other funds	1,511,822	-	-	1,511,822
Notes receivable, net	-	54,975,734	2,281,179	57,256,913
Prepaid expenditures	102,152	773	3,134	106,059
Property held for resale	-	-	784,000	784,000
Restricted assets:				
Cash and cash equivalents	1,341,972	-	-	1,341,972
Advances to other funds	2,482,975	-	-	2,482,975
<b>Total assets</b>	<b>\$ 28,729,875</b>	<b>\$ 58,110,990</b>	<b>\$ 80,767,651</b>	<b>\$ 167,608,516</b>
 <u>LIABILITIES, DEFERRRED INFLOWS OF RESOURCES, AND FUND BALANCES</u>				
Liabilities:				
Accounts payable	\$ 2,294,450	\$ 1,016,533	\$ 3,463,967	\$ 6,774,950
Accrued salaries and benefits	1,009,995	13,997	170,015	1,194,007
Accrued interest payable	-	10,192	65	10,257
Approved loans payable	-	3,328,719	575,000	3,903,719
Due to other governments	-	-	661,338	661,338
Due to other funds	-	-	862,611	862,611
Unearned revenue	-	33,166,878	16,679,996	49,846,874
Refundable deposits	3,077,855	-	7,306	3,085,161
Advances from other funds	1,106,738	-	1,201,623	2,308,361
<b>Total liabilities</b>	<b>7,489,038</b>	<b>37,536,319</b>	<b>23,621,921</b>	<b>68,647,278</b>
Deferred inflows of resources:				
Advances from third parties	1,325,990	-	-	1,325,990
Fund balances:				
Non-spendable	102,152	773	3,134	106,059
Restricted	3,718,682	55,001,513	53,670,865	112,391,060
Committed	3,000,000	-	-	3,000,000
Assigned	1,024,149	-	3,700,733	4,724,882
Unassigned	12,069,864	(34,427,615)	(229,002)	(22,586,753)
<b>Total fund balances</b>	<b>19,914,847</b>	<b>20,574,671</b>	<b>57,145,730</b>	<b>97,635,248</b>
<b>Total liabilities, deferred inflows of resources, and fund balances</b>	<b>\$ 28,729,875</b>	<b>\$ 58,110,990</b>	<b>\$ 80,767,651</b>	<b>\$ 167,608,516</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 POSITION - GOVERNMENTAL ACTIVITIES**  
**June 30, 2014**

Total fund balances - total governmental funds \$ 97,635,248

Amounts reported for governmental activities in the statement of net position 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	\$ 96,900,895	
Depreciable	118,861,438	
Accumulated depreciation on general capital assets	(66,260,379)	

Infrastructure:

Depreciable	537,855,438	
Accumulated depreciation on infrastructure	<u>(297,449,526)</u>	389,907,866

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

Deferred in the governmental funds, or	\$ 431,982	
Investments in joint ventures	<u>12,041,965</u>	12,473,947

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 position. (2,519,366)

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	\$ (63,046,697)	
Accrued interest	<u>(71,649)</u>	<u>(63,118,346)</u>

Net position of governmental activities \$ 434,379,349

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

**CITY OF MODESTO**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - GOVERNMENTAL FUNDS**  
**Year ended June 30, 2014**

	General	Housing and Community Development	Other Governmental	Total Governmental
<b>REVENUES:</b>				
Taxes	\$ 48,955,221	\$ -	\$ 1,140,906	\$ 50,096,127
Licenses and permits	97,591	-	77,143	174,734
Intergovernmental	44,252,594	4,742,902	18,431,389	67,426,885
Charges for services	11,946,495	264,074	7,246,729	19,457,298
Special assessments levied	-	-	2,063,784	2,063,784
Interest and rent	447,456	(1,137)	573,038	1,019,357
Net increase in fair value of investments	(106,265)	25,780	(343,342)	(423,827)
Fines and forfeits	924,596	-	920,011	1,844,607
Miscellaneous	4,441,966	-	211,780	4,653,746
Total revenues	<u>110,959,654</u>	<u>5,031,619</u>	<u>30,321,438</u>	<u>146,312,711</u>
<b>EXPENDITURES:</b>				
Current:				
General government	11,376,142	-	267,437	11,643,579
Community development	5,075,049	4,488,728	3,026,040	12,589,817
Highways and streets	-	-	8,744,899	8,744,899
Public works	-	-	3,088,701	3,088,701
Parks and recreation	11,068,540	-	879,322	11,947,862
Public safety	72,823,265	-	1,772,268	74,595,533
Capital outlay	456,941	6,442	12,437,619	12,901,002
Debt service:				
Principal retirement	-	201,000	1,395,000	1,596,000
Interest	-	91,085	2,068,587	2,159,672
Other	-	-	872,350	872,350
Total expenditures	<u>100,799,937</u>	<u>4,787,255</u>	<u>34,552,223</u>	<u>140,139,415</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>10,159,717</u>	<u>244,364</u>	<u>(4,230,785)</u>	<u>6,173,296</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	2,015,951	-	5,946,866	7,962,817
Transfers out	(8,725,262)	(100,808)	(2,338,924)	(11,164,994)
Sale of assets	15,723	-	185,115	200,838
TOTAL OTHER FINANCING SOURCES (USES)	<u>(6,693,588)</u>	<u>(100,808)</u>	<u>3,793,057</u>	<u>(3,001,339)</u>
NET CHANGE IN FUND BALANCES	3,466,129	143,556	(437,728)	3,171,957
FUND BALANCES, July 1	16,772,366	\$ 20,171,931	\$ 57,554,189	\$ 94,498,486
PRIOR PERIOD ADJUSTMENT	<u>(323,648)</u>	<u>259,184</u>	<u>29,269</u>	<u>(35,195)</u>
FUND BALANCES, June 30	<u>\$ 19,914,847</u>	<u>\$ 20,574,671</u>	<u>\$ 57,145,730</u>	<u>\$ 97,635,248</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, 2014**

Net change in fund balances - total governmental funds \$ 3,171,957

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.

Retirement and adjustment of capital assets	(38,309)	
Capital outlay	\$ 12,901,002	
Depreciation expense	<u>(15,253,558)</u>	(2,390,865)

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 position differs from the change in fund balances by the cost of the assets sold.

586,203

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

Change in advances from grantors and third parties	\$ 34,718	
Change in investment in joint venture	<u>(335,085)</u>	(300,367)

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 position.

Principal retirement	1,596,000	
Capitalized interest	<u>69,296</u>	1,665,296

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		4,255
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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.

8,462,636

Change in net position of governmental activities	\$ <u><u>11,199,115</u></u>
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The notes to basic financial statements are an integral part of this statement.

**CITY OF MODESTO**  
**STATEMENT OF NET POSITION - PROPRIETARY FUNDS**  
**June 30, 2014**

	Enterprise					Internal Service
	Water	Sewer	Bus	Other Enterprise	Total Enterprise	
<b>ASSETS</b>						
Current assets:						
Cash and cash equivalents	\$ 80,906,093	\$ 59,139,616	\$ 10,415,593	\$ 13,974,012	\$ 164,435,314	\$ 31,948,000
Cash and cash equivalents with fiscal agent	23,217,703	4,251,770	-	649,211	28,118,684	168,015
Receivables:						
Accounts	4,052	5,058	46,152	630,143	685,405	1,987,587
Interest	162,784	120,342	17,616	24,193	324,935	44,025
Utilities, net	6,308,113	3,845,464	-	707,916	10,861,493	-
Loan	-	-	-	38,705	38,705	-
Prepaid expenses	4,471,267	9,275	-	4,039	4,484,581	357,324
Due from governments	24,993	20,553,376	2,588,445	382,270	23,549,084	129,100
Inventories	-	-	-	-	-	395,364
Property held for resale	-	-	-	630,000	630,000	-
Advances to other funds	293,352	991,800	-	-	1,285,152	856,738
Total current assets	<u>115,388,357</u>	<u>88,916,701</u>	<u>13,067,806</u>	<u>17,040,489</u>	<u>234,413,353</u>	<u>35,886,153</u>
Noncurrent assets:						
Restricted assets-cash and cash equivalents	12,097,550	12,330,042	-	-	24,427,592	10,143,253
Land and construction in progress	28,718,149	153,307,314	4,080,111	12,130,832	198,236,406	2,166,808
Other capital assets, net of accumulated depreciation	419,144,125	119,196,825	27,161,785	35,611,563	601,114,298	18,103,385
Total noncurrent assets	<u>459,959,824</u>	<u>284,834,181</u>	<u>31,241,896</u>	<u>47,742,395</u>	<u>823,778,296</u>	<u>30,413,446</u>
Total assets	<u>575,348,181</u>	<u>373,750,882</u>	<u>44,309,702</u>	<u>64,782,884</u>	<u>1,058,191,649</u>	<u>66,299,599</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>						
Accumulated decrease in fair value of hedging derivatives	32,384,362	-	-	-	32,384,362	-
Total assets and deferred outflows of resources	<u>607,732,543</u>	<u>373,750,882</u>	<u>44,309,702</u>	<u>64,782,884</u>	<u>1,090,576,011</u>	<u>66,299,599</u>
<b>LIABILITIES</b>						
Current liabilities:						
Accounts payable	\$ 4,677,773	\$ 9,478,475	\$ 2,041,106	\$ 379,598	\$ 16,576,952	\$ 2,010,661
Accrued salaries and benefits	224,791	222,316	28,809	86,679	562,595	129,719
Interest payable	2,059,448	319,093	1,485	37,636	2,417,662	5,733
Due to other funds	-	-	-	649,211	649,211	-
Due to other governments	-	-	-	-	-	-
Current portion - compensated absences	-	-	-	-	-	6,052,987
Current portion - claims liability	-	-	-	-	-	4,987,522
Current portion - capital lease	-	-	-	-	-	183,610
Current portion - long-term debt	4,587,835	2,160,000	-	310,000	7,057,835	-
Current portion - developer advances	93,112	-	-	-	93,112	-
Unearned revenue	-	-	8,258,641	-	8,258,641	-
Total current liabilities	<u>11,642,959</u>	<u>12,179,884</u>	<u>10,330,041</u>	<u>1,463,124</u>	<u>35,616,008</u>	<u>13,370,232</u>
Noncurrent liabilities:						
Payable from restricted assets - refundable deposits	1,161,146	867,489	-	-	2,028,635	-
Compensated absences	-	-	-	-	-	3,255,692
Net OPEB obligation	-	-	-	-	-	59,569,740
Claims liability	-	-	-	-	-	17,297,157
Long-term debt:						
Revenue bonds payable	137,488,000	37,320,553	-	-	174,808,553	-
Loan payable	630,292	88,014,276	-	-	88,644,568	-
Notes payable	-	-	-	-	-	-
Obligations under capital leases	-	-	-	-	-	-
Certificates of participation	44,875,643	-	-	3,585,000	48,460,643	-
Developer advances	1,331,561	-	-	-	1,331,561	-
Advances from other funds	-	-	-	2,316,504	2,316,504	-
Total noncurrent liabilities	<u>185,486,642</u>	<u>126,202,318</u>	<u>-</u>	<u>5,901,504</u>	<u>317,590,464</u>	<u>80,122,589</u>
Total liabilities	<u>197,129,601</u>	<u>138,382,202</u>	<u>10,330,041</u>	<u>7,364,628</u>	<u>353,206,472</u>	<u>93,492,821</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>						
Bond refunding contribution	4,921,715	-	-	-	4,921,715	-
Advances from grantors and third parties	922	-	-	116,945	117,867	-
Accumulated increase in fair value of hedging derivatives	32,384,362	-	-	-	32,384,362	-
Total deferred inflows of resources	<u>37,306,999</u>	<u>-</u>	<u>-</u>	<u>116,945</u>	<u>37,423,944</u>	<u>-</u>
<b>NET POSITION</b>						
Net investment in capital assets	271,123,796	156,471,863	31,241,896	43,847,395	502,684,950	20,270,193
Restricted	10,936,404	11,462,553	-	-	22,398,957	10,143,253
Unrestricted	<u>91,235,743</u>	<u>67,434,264</u>	<u>2,737,765</u>	<u>13,453,916</u>	<u>174,861,688</u>	<u>(57,606,668)</u>
Total net position	<u>373,295,943</u>	<u>235,368,680</u>	<u>33,979,661</u>	<u>57,301,311</u>	<u>699,945,595</u>	<u>(27,193,222)</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 607,732,543</u>	<u>\$ 373,750,882</u>	<u>\$ 44,309,702</u>	<u>\$ 64,782,884</u>	<u>\$ 1,090,576,011</u>	<u>\$ 66,299,599</u>
Adjustment to reflect the consolidation of internal service fund activities					(24,673,857)	
Net position of business-type activities					<u>\$ 675,271,738</u>	

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 POSITION - PROPRIETARY FUNDS**  
**Year ended June 30, 2014**

	Enterprise				Total Enterprise	Internal Service
	Water	Sewer	Bus	Other Enterprise		
<b>OPERATING REVENUES:</b>						
Charges for services	\$ 60,046,615	\$ 46,032,716	\$ 2,987,309	\$ 15,003,440	\$ 124,070,080	\$ 39,058,910
Sales	-	-	-	-	-	4,362,522
Cost of sales	-	-	-	-	-	(3,764,232)
Miscellaneous	207,495	13,588	2,195	36,609	259,887	-
Total operating revenues	<u>60,254,110</u>	<u>46,046,304</u>	<u>2,989,504</u>	<u>15,040,049</u>	<u>124,329,967</u>	<u>39,657,200</u>
<b>OPERATING EXPENSES:</b>						
Salaries and wages	7,188,050	6,631,131	1,104,145	2,943,062	17,866,388	4,170,384
Contractual services	10,273,036	3,262,551	12,204,919	4,195,067	29,935,573	3,727,386
Utilities	2,422,482	1,697,222	146,280	543,035	4,809,019	259,175
Maintenance and supplies	2,668,594	1,973,107	1,895,093	3,687,381	10,224,175	3,824,725
Water purchases	7,659,410	-	-	-	7,659,410	-
Insurance	182,281	571,002	20,732	287,813	1,061,828	17,024,608
Claims expense	-	-	-	-	-	4,662,672
Employee benefits	2,097,504	2,386,534	399,480	1,006,473	5,889,991	6,326,238
Administration services	1,822,116	2,129,754	856,235	1,898,615	6,706,720	1,588,003
Allocated indirect administrative costs	1,174,453	681,209	275,706	403,559	2,534,927	277,315
Depreciation	17,159,600	6,245,668	2,331,403	2,656,761	28,393,432	3,313,948
Total operating expenses	<u>52,647,526</u>	<u>25,578,178</u>	<u>19,233,993</u>	<u>17,621,766</u>	<u>115,081,463</u>	<u>45,174,454</u>
<b>OPERATING INCOME (LOSS)</b>	<u>7,606,584</u>	<u>20,468,126</u>	<u>(16,244,489)</u>	<u>(2,581,717)</u>	<u>9,248,504</u>	<u>(5,517,254)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>						
Operating grants	84,462	-	12,980,717	656,000	13,721,179	100,000
Gain (Loss) on disposition of capital assets	68,032	3,666	(1,994)	65,981	135,685	47,371
Tax revenue	-	-	-	254,200	254,200	-
Tax expense	(87,236)	(144,245)	-	(21,300)	(252,781)	-
Interest income	1,529,259	729,026	62,762	110,591	2,431,638	320,584
Net increase in fair value of investments	(555,066)	(311,445)	(4,626)	(71,264)	(942,401)	(139,642)
Connection fees	318,284	206,630	-	-	524,914	-
Rental income	43,797	501,671	62,216	629,225	1,236,909	-
Settlements and recoveries	-	110,376	-	-	110,376	-
Interest expense	(6,997,039)	(2,153,391)	-	(238,068)	(9,388,498)	-
Trustee fees	-	(2,050)	-	(2,950)	(5,000)	-
Amortization of costs of issuance	(14,000)	(57,208)	-	-	(71,208)	-
Total nonoperating revenues (expenses)	<u>(5,609,507)</u>	<u>(1,116,970)</u>	<u>13,099,075</u>	<u>1,382,415</u>	<u>7,755,013</u>	<u>328,313</u>
<b>INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS</b>	<u>1,997,077</u>	<u>19,351,156</u>	<u>(3,145,414)</u>	<u>(1,199,302)</u>	<u>17,003,517</u>	<u>(5,188,941)</u>
Capital contributions	-	1,760,433	2,210,553	1,000,954	4,971,940	11,150
Transfers in	268,927	131,719	1,500	2,137,514	2,539,660	3,407,584
Transfers out	(1,079,579)	(1,040,620)	(16,820)	(361,324)	(2,498,343)	(246,724)
Special item	(980,797)	(375,621)	-	-	(1,356,418)	-
<b>CHANGE IN NET POSITION</b>	<u>205,628</u>	<u>19,827,067</u>	<u>(950,181)</u>	<u>1,577,842</u>	<u>20,660,356</u>	<u>(2,016,931)</u>
<b>NET POSITION, July 1</b>	<u>372,554,692</u>	<u>216,110,969</u>	<u>34,929,842</u>	<u>55,734,780</u>		<u>(24,549,809)</u>
<b>PRIOR YEAR ADJUSTMENTS</b>	<u>535,623</u>	<u>(569,356)</u>	<u>-</u>	<u>(11,311)</u>		<u>(626,482)</u>
<b>NET POSITION, June 30</b>	<u>\$ 373,295,943</u>	<u>\$ 235,368,680</u>	<u>\$ 33,979,661</u>	<u>\$ 57,301,311</u>		<u>\$ (27,193,222)</u>
Adjustment to reflect the consolidation of internal service fund					<u>(10,479,568)</u>	
Change in net position of business-type activities					<u>\$ 10,180,788</u>	

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

**CITY OF MODESTO**  
**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS**  
Year ended June 30, 2014

	Enterprise					Internal Service
	Water	Sewer	Bus	Other Enterprise	Total Enterprise	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>						
Receipts from customers and users	\$ 61,147,347	\$ 38,843,455	\$ 1,310,061	\$ 15,551,327	\$ 116,852,190	\$ 2,093,245
Receipts from interfund services provided	55,135	586,813	-	15,810	657,758	36,268,113
Payments to suppliers	(21,864,740)	(2,321,748)	(12,350,406)	(5,756,036)	(42,292,930)	(23,989,557)
Payment of insurance claims	-	-	-	-	-	(5,061,369)
Payments to employees	(9,319,104)	(9,038,786)	(1,518,381)	(3,967,062)	(23,843,333)	(9,794,301)
Payments for interfund services used	(6,355,961)	(5,668,071)	(1,982,073)	(5,314,814)	(19,320,919)	(2,862,864)
Net cash provided (used) by operating activities	<u>23,662,677</u>	<u>22,401,663</u>	<u>(14,540,799)</u>	<u>529,225</u>	<u>32,052,766</u>	<u>(3,346,733)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>						
Operating grants received	84,462	-	12,786,498	366,318	13,237,278	100,000
Taxes received	-	-	-	254,200	254,200	-
Settlements and recoveries	-	110,376	-	-	110,376	-
Interest paid	-	-	-	-	-	573
Transfers in	268,927	131,719	1,500	2,137,514	2,539,660	3,407,584
Transfers out	(1,079,579)	(1,040,620)	(16,820)	(361,324)	(2,498,343)	(246,724)
Advances from (to) other funds	6,648	(991,800)	-	-	(985,152)	1,575,000
Due from other funds	-	-	-	991,800	991,800	-
Net cash provided (used) by noncapital financing activities	<u>(719,542)</u>	<u>(1,790,325)</u>	<u>12,771,178</u>	<u>3,388,508</u>	<u>13,649,819</u>	<u>4,836,433</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>						
Acquisition and construction of capital assets	(14,044,701)	(56,705,117)	(1,431,735)	(1,248,540)	(73,430,093)	(3,095,565)
Gain/Loss from sale of capital assets	-	-	-	65,981	65,981	47,371
Proceeds of debt issues	43,270,000	85,637,558	-	-	128,907,558	-
Payment to bond escrow agent	(654,433)	-	-	-	(654,433.00)	-
Costs of issuance paid	976,788	615,576	-	-	1,592,364	-
Principal repayments	(40,993,578)	(37,877,422)	-	(290,000)	(79,161,000)	(176,380)
Interest paid	(7,193,384)	(2,227,453)	-	(240,070)	(9,660,907)	-
Trustee fees	-	(2,050)	-	(2,950)	(5,000)	-
Capital grants received	-	-	2,210,553	51,761	2,262,314	-
Connection fees for capital purposes	318,284	206,630	-	-	524,914	-
Net cash provided (used) by capital and related financing activities	<u>(18,321,024)</u>	<u>(10,352,278)</u>	<u>778,818</u>	<u>(1,663,818)</u>	<u>(29,558,302)</u>	<u>(3,224,574)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>						
Interest received	1,638,633	804,946	69,886	122,822	2,636,287	369,329
Net increase in the fair value of investments	(555,066)	(311,445)	(4,626)	(71,264)	(942,401)	(139,642)
Net cash provided (used) by investing activities	<u>1,083,567</u>	<u>493,501</u>	<u>65,260</u>	<u>51,558</u>	<u>1,693,886</u>	<u>229,687</u>
Net increase (decrease) in cash and cash equivalents	5,705,678	10,752,561	(925,543)	2,305,473	17,838,169	(1,505,187)
CASH AND CASH EQUIVALENTS, JULY 1	109,980,045	65,538,223	11,341,136	12,329,061	199,188,465	44,390,937
PRIOR PERIOD ADJUSTMENT	535,623	(569,356)	-	(11,311)	(45,044)	(626,482)
CASH AND CASH EQUIVALENTS, JUNE 30	<u>\$ 116,221,346</u>	<u>\$ 75,721,428</u>	<u>\$ 10,415,593</u>	<u>\$ 14,623,223</u>	<u>\$ 216,981,590</u>	<u>\$ 42,259,268</u>
<b>RECONCILIATION TO STATEMENT OF NET POSITION:</b>						
Cash and cash equivalents	\$ 80,906,093	\$ 59,139,616	\$ 10,415,593	\$ 13,974,012	\$ 164,435,314	\$ 31,948,000
Cash and cash equivalents with fiscal agent	23,217,703	4,251,770	-	649,211	28,118,684	168,015
Restricted assets-cash and cash equivalents	12,097,550	12,330,042	-	-	24,427,592	10,143,253
TOTAL CASH AND CASH EQUIVALENTS	<u>\$ 116,221,346</u>	<u>\$ 75,721,428</u>	<u>\$ 10,415,593</u>	<u>\$ 14,623,223</u>	<u>\$ 216,981,590</u>	<u>\$ 42,259,268</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, 2014

	Enterprise					Internal Service
	Water	Sewer	Bus	Other Enterprise	Total Enterprise	
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</b>						
Operating income (loss)	\$ 7,606,584	\$ 20,468,126	\$ (16,244,489)	\$ (2,581,717)	\$ 9,248,504	\$ (5,517,254)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:						
Depreciation	17,159,600	6,245,668	2,331,403	2,656,761	28,393,432	3,313,948
Rental income	43,797	501,671	62,216	629,225	1,236,909	-
Taxes paid	(87,236)	(144,245)	-	(21,300)	(252,781)	-
Special item	(980,797)	(375,621)	-	-	(1,356,418)	-
Change in assets and liabilities:						
(Increase) decrease in accounts receivable	10,164	6,207	(3,126)	(35,731)	(22,486)	(1,306,175)
(Increase) decrease in utilities receivable	876,577	467,375	-	(75,274)	1,268,678	-
(Increase) decrease in loans receivable	-	2,441,426	-	-	2,441,426	-
(Increase) decrease in due from governments	(517)	(10,086,355)	-	-	(10,086,872)	(129,100)
(Increase) decrease in prepaid expenses	(3,020,371)	(5,429)	4,572	(3,649)	(3,024,877)	36,240
(Increase) decrease in inventories	-	-	-	(38,705)	(38,705)	38,537
Increase (decrease) in accounts payable and accrued expenses	2,070,075	2,850,321	1,061,914	(57,842)	5,924,468	(87,421)
Increase (decrease) in accrued salaries and benefits	(33,550)	(21,121)	(14,756)	(17,527)	(86,954)	(37,233)
Increase (decrease) in compensated absences and OPEB	-	-	-	-	-	739,731
Increase (decrease) in claims liability	-	-	-	-	-	(398,006)
Increase (decrease) in due to other governments	-	-	-	(7,984)	(7,984)	-
Increase (decrease) in due to other funds	-	-	-	73,968	73,968	-
Increase (decrease) in advances from grantors & third parties	(17,913)	-	(1,738,533)	9,000	(1,747,446)	-
Increase (decrease) in refundable deposits	36,264	53,640	-	-	89,904	-
Total adjustments	<u>16,056,093</u>	<u>1,933,537</u>	<u>1,703,690</u>	<u>3,110,942</u>	<u>22,804,262</u>	<u>2,170,521</u>
Net cash provided (used) by operating activities	<u>\$ 23,662,677</u>	<u>\$ 22,401,663</u>	<u>\$ (14,540,799)</u>	<u>\$ 529,225</u>	<u>\$ 32,052,766</u>	<u>\$ (3,346,733)</u>

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

Capital assets transferred in	\$	\$	1,760,433	\$	2,210,553	\$	1,000,954	\$	4,971,940	\$
Developer infrastructure contributions										
Amortization of bonds discount and deferred amount on refunding										

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

**CITY OF MODESTO**  
**STATEMENT OF FIDUCIARY NET POSITION -FIDUCIARY FUNDS**  
**June 30, 2014**

	<u>Private Purpose</u> <u>Trust Fund</u>	<u>Agency</u> <u>Funds</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 874,381	\$ 9,658,124
Cash and cash equivalents held with fiscal agent	1,977,050	3,682,449
Interest receivable	2,250	-
Other assets	448,613	-
Capital assets	901,297	-
Restricted cash and investments	-	-
Total assets	<u>\$ 4,203,591</u>	<u>\$ 13,340,573</u>
<u>LIABILITIES</u>		
Due to special district bondholders	\$ -	\$ 8,461,601
Deposits held as agent for others	-	4,878,972
Other payables	18,295	-
Due to other agencies	1,192,004	-
Notes payable:		
Due within one year	1,285,000	-
Due in more than one year	12,640,000	-
Total liabilities	<u>\$ 15,135,299</u>	<u>\$ 13,340,573</u>
<u>NET POSITION</u>		
Net position held in trust	<u>\$ (10,931,708)</u>	

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

**CITY OF MODESTO**  
**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION - FIDUCIARY FUNDS**  
**Year ended June 30, 2014**

	<u>Private Purpose Trust Fund</u>
<b><u>ADDITIONS:</u></b>	
Contributions:	
Redevelopment Agency Property Tax Trust Fund	\$ <u>3,571,393</u>
Total contributions	3,571,393
Interest and Investment Revenue:	
Use of money and property	<u>58,757</u>
Total interest and investment revenue	58,757
Total additions	<u><u>3,630,150</u></u>
<b><u>DEDUCTIONS:</u></b>	
Benefits paid:	
Affected taxing entities	<u>1,126,964</u>
Total benefits paid	1,126,964
Obligation retirements:	
Interest on note payable	<u>720,680</u>
Total obligation retirements	720,680
Administrative expenses:	
City administrative expenses	220,254
Depreciation Expense	<u>119,251</u>
Total administrative expenses	339,505
Total deductions	<u><u>2,187,149</u></u>
Change in net position	1,443,001
Net position held in trust - beginning	(12,289,516)
Prior year adjustment	(85,193)
Net position held in trust - ending	\$ <u><u>(10,931,708)</u></u>

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

**CITY OF MODESTO  
NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2014**

**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), 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 Modesto Public Financing Authority was established as a separate legal entity whose sole purpose is to provide financing for various City capital projects.
2. 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.
3. 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 nine active Districts, which are combined for presentation in these financial statements. Individual component unit financial statements are prepared for each District.

The Redevelopment Successor Agency (Successor Agency) operates under the auspices of a legislatively formed Oversight Board comprised of representatives of the local agencies that serve the development project area. The Oversight Board, in its fiduciary capacity, and has authority over the operations and the timely dissolution of the former RDA. It is tasked with fulfilling the obligations of the former RDA, and is also responsible for revenue collection, maintaining necessary bond reserves and disposing of excess property. This agency is reported as a private-purpose trust fund based on the statutory requirement.

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 position and the statement of activities) report information on all of the non-fiduciary 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 segments 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 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 statements. 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. Agency funds have no measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

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 Housing and Community Development accounts for various grant funds received from Federal Community Development Block grants to be used for a variety of housing related programs primarily targeted at low-income housing. Additionally, this fund accounts for the City's revolving fund which provides housing loans to low-income individuals and accounts for emergency shelter grant revenue received from Housing Urban Development agency.

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.

The Bus Fund accounts for operations, maintenance, and capital expenditures of the City's mass transportation service. This system operates pursuant to the terms of a Federal grant agreement. Buses are operated by a private contractor under the terms of a supervisory agreement with the City. A separate

contract provides Dial-a-Ride service for the elderly and handicapped.

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.

Agency funds account for cash and investments held by the City as agent for various assessment districts, governmental entities and non-public organizations. Agency funds cannot be major funds.

Private-purpose Trust fund accounts as the fiduciary fund type used by the City to report trust arrangements under which principal and income benefit other governments. The fund reports the assets, liabilities, and net position of the Successor Agency.

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 non-operating 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 non-operating 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 POSITION/FUND BALANCE

### 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

Refundable deposits of the General Fund are 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 reported as restricted assets on the proprietary funds statement of net position. In addition, certain proceeds of Water certificates of participation and Sewer revenue bonds are considered restricted assets because their use is limited by applicable debt covenants. These proceeds are reported as part of "restricted assets – cash and cash equivalents" on the proprietary funds statement of net assets. The Employee Benefits Management Fund collects funds which are restricted for future payouts for leave balances due to employees who terminate or retire from the City as well as any severance payouts.

### 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 inflow of resources. The corresponding proprietary fund revenues are recorded as non-operating 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, 2014 is \$35,333,159.

Utility service accounts receivable are \$11,873,084 net of in allowance for doubtful collections and include unbilled receivables using actual amounts billed in July for June services for all City funds. City Accounts receivable are reported net of \$4,129,216 allowance for doubtful collections, 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, intangible assets 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.

In the case of the initial capitalization of infrastructure assets reported by governmental activities, the City chose to include them regardless of their acquisition date or amount. Historical values were estimated.

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 borrowing until completion of the project, against interest earned on invested proceeds over the same period. During the fiscal year ended June 30, 2014, \$2,169,134 net interest expense on tax-exempt debt of the City's Water fund, was capitalized.

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, 5 to 15 years for intangible assets, 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. Deferred Outflows and Inflows of Resources

Pursuant to Governmental Accounting Standards Board (GASB) Statement Number 63 and GASB 65, the City recognizes deferred outflows and inflows of resources. A deferred outflow of resources is defined as a consumption of net position by the government that is applicable to a future reporting period. A deferred inflow of resources is defined as an acquisition of net position by the government that is applicable to a future reporting period. Refer to Note II. N for a detail listing of the deferred inflows of resources the City has recognized.

#### 7. 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 GASB 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 of June 30, 2014, the total estimated liability for all compensated absences, including sick leave, is \$9,308,679.

#### 8. Fund Equity

In the fund financial statements, governmental funds report fund balance as nonspendable, restricted, committed, assigned or unassigned based primarily on the extent to which the City is bound to honor constraints on how specific amounts can be spent.

- *Nonspendable fund balance* – amounts that account be spent because they are either (a) not spendable in form or (b) legally or contractually required to be maintained intact.
- *Restricted fund balance* – amounts with constraints placed on their use that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.
- *Committed fund balance* – amounts that can only be used for specific purposes determined by formal action of the City's highest level of decision-making authority (City Council) and

that remain binding unless removed in the same manner. The underlying action that imposed the limitation needs to occur no later than the close of the reporting period.

- *Assigned fund balance* – amounts that are constrained by the City's intent to be used for specific purposes. The intent can be established at either the highest level of decision making, which includes City Council or by an official designated such as the City Manager for such purpose.
- *Unassigned fund balance* – the residual classification for the City's General Fund that includes amounts not contained in other classifications. In other funds, the unassigned classification is used only if expenditures incurred for specific purposes exceed the amounts restricted, committed or assigned to those purposes.

The City establishes and modifies or rescinds fund balance commitments by passage of an ordinance or policy. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget as a designation or commitment of the fund, such as approved construction contracts. Assigned fund balance is established by the City through adoption or amendment of the budget or future year budget plan as intended for a specific purpose.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, followed by the unrestricted, committed, assigned, and unassigned resources as they are needed.

#### 9. Fund Balance Policy

The City believes that sound financial management principles require that sufficient funds be retained by the City to provide a stable financial base at all times. To retain this stable financial base, the City needs to maintain unrestricted fund balance in its City funds sufficient to fund cash flows of the City and to provide financial reserves for unanticipated expenditures and/or revenue shortfalls of an emergency nature. Committed and unassigned fund balances are considered unrestricted.

The purpose of the City's fund balance policy is to maintain a prudent level of financial resources to protect against reducing service levels or raising taxes and fees because of temporary revenue shortfalls or unpredicted one-time expenditures.

The City has adopted a policy to achieve and maintain unrestricted fund balance in the General Fund of a flat \$7 million for fiscal year 2013-2014.

### 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

#### 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.

### F. NEW ACCOUNTING STANDARDS

During the fiscal year ending June 30, 2014, the City implemented the following GASB standards:

**GASB Statement No. 65** – *Items Previously Reports as Assets and Liabilities*. The provisions of GASB Statement No. 65 are effective for financial statements beginning after December 15, 2012. The City

implemented this change for the fiscal year ended June 30, 2014.

**GASB Statement No. 66** – *Items Technical Corrections – 2012 an amendment of GASB Statements No. 10 and No. 62.* The provisions of GASB Statement No. 66 are effective for financial statements beginning after December 15, 2012.

**GASB Statement No. 67** – *Financial Reporting for Pension Plans- ad amendment of GASB Statement No. 25.* The provisions of GASB Statement No. 67 are effective for financial statements beginning after June 15, 2013. The City implemented this statement and has determined this statement has no effect to the City's financial statement.

**GASB Statement No. 70** – *Accounting and Financial Reporting for Nonexchange Financial Guarantees* – The provisions of this statement are effective for financial statements for periods beginning after June 15, 2013. The City implemented this change for the fiscal year ending June 30, 2014.

Recently released standards by GASB affecting future fiscal years are as follows:

**GASB Statement No. 67** – *Financial Reporting for Pension Plans- ad amendment of GASB Statement No. 25.* The provisions of GASB Statement No. 67 are effective for financial statements beginning after June 15, 2013. The City has not fully judged the effect of the implementation of GASB Statement No. 67 as of the date of the basic financial statements.

**GASB Statement No. 68** – *Accounting and Financial Reporting for Pensions- an amendment of GASB Statement No. 27.* The provisions of GASB Statement No. 68 are effective for financial statements beginning after June 15, 2014. The City has not fully judged the effect of the implementation of GASB Statement No. 68 as of the date of the basic financial statements.

**GASB Statement No. 69** – *Government Combinations and Disposals of Government Operations* – The provisions of this statement are effective for financial statements for periods beginning after December 15, 2013. The City has not fully judged the effect of the implementation of GASB Statement No. 69 as of the date of the basic financial statements.

**GASB Statement No. 70** – *Accounting and Financial Reporting for Nonexchange Financial Guarantees* – The provisions of this statement are effective for financial statements for periods beginning after June 15, 2013. The City has not fully judged the effect of the implementation of GASB Statement No. 70 as of the date of the basic financial statements.

**GASB Statement No. 71** – *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB No. 68.* The provisions of this statement will be applied simultaneously with the provision of GASB Statement No. 68.

## 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 position as "cash and cash equivalents." Each fund is allocated interest on average monthly cash balances held by the funds throughout the year. Certain deposits held in trust are displayed on the governmental funds balance sheet and the proprietary funds statement of net position 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.

#### Investments Authorized by the California Government Code and the City's Investment Policy

The City's investment policy and the California Government Code allow the City to invest in the following types of instruments, and the table also identifies certain provisions of the California Government Code, or the City's

investment policy where it is more restrictive:

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Minimum Credit Quality</u>	<u>Maximum Percentage Of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
Local Agency Bonds	5 years	N/A	None	None
Treasury Obligations	5 years	N/A	None	None
State of Obligations	5 years	AAA	None	None
CA Local Agency Obligations Agencies	5 years	AAA	None	None
Bankers' Acceptances	180 days	N/A	40%	Federal Reserve Eligible
Commercial Paper	180 days	Top rating category	25%	A1/P1 Rating
Collateralized Certificates of Deposit	5 years	N/A	None	None
Negotiable Certificates of Deposit	5 years	AA	30%	None
Repurchase Agreements	1 year	N/A	None	None
Reverse Repurchase Agreements	92 days	N/A	20%	None
Medium Term Notes	5 years	AA -	30%	None
Money Market Mutual Funds	N/A days	Top rating category	15%	None
Mortgage Pass-Through Securities	5 Years	AA	20%	None
Time Deposits	5 years	N/A	None	None
CAMP	N/A	N/A	None	None
Mutual Funds	N/A	N/A	15%	None
LAIF	N/A	N/A	None	None

The City is a voluntary participant in the California Asset Management Program (CAMP). CAMP is an investment pool offered by the California Asset Management Trust (the Trust). The Trust is a joint powers authority and public agency created by the Declaration of Trust and established under the provisions of the California Joint Exercise of Powers Act (California Government Code Sections 6500 et seq., or the "Act") for the purpose of exercising the common power of its participants to invest certain proceeds of debt issues and surplus funds. The Pool's investments are limited to investments permitted by subdivisions (a) to (n), inclusive, of Section 53601 of the California Government Code. At June 30, 2014 the fair value approximated the City's Cost. At June 30, 2014, these investments range from a maximum maturity of 5 years to some maturity limits of 180 days or less. The City reports its investments in CAMP at the fair value amounts provided by CAMP, which is the same as the value of the pool share.

#### Investments Authorized by Debt Agreements

The City must maintain required amounts of cash and investments with trustees or fiscal agents under the terms of certain debt issues. These funds are unexpended bond proceeds or are pledged as reserves to be used if the City fails to meet its obligations under these debt issues. The California Government Code requires these funds to be invested in accordance with City ordinance, bond indentures or State statute. All current bond indentures authorize the same investments as the City's investment policy.

#### Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates.

The following table summarizes the City's interest rate risk, based on maturity dates of various investments:

Investment Type	Remaining Time to Maturity				
	Total	Less Than 1 Year	1 – 2 Years	2 – 3 Years	Over 5 Years
U.S. Treasury Notes	\$127,879,615	\$13,747,296	\$58,612,013	\$55,520,307	-
Federal agency securities					
Notes	56,666,870	10,457,988	41,820,434	4,388,448	-
Discount Notes	-	-	-	-	-
U.S. Treasury Bills	-	-	-	-	-
CAMP	111,576,137	111,576,137	-	-	-
Cash in banks	21,709,573	21,709,573	-	-	-
Held by trustee:					
Money market funds	5,445,012	5,445,012	-	-	-
MID-Collateral Agreement	20,008,884	20,008,884	-	-	-
Federal agency securities notes	3,397,422	3,397,422	-	-	-
CAMP	10,003,762	10,003,762	-	-	-
<b>Total</b>	<b>\$356,687,275</b>	<b>\$196,346,074</b>	<b>\$100,432,447</b>	<b>\$59,908,755</b>	<b>-</b>

Maturity dates for callable notes are based on call dates. During June 30, 2014 no timing difference occurred between our trustee agent and investment reports.

#### Disclosures Related to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the rating as of June 30, 2014 for each investment type:

Investment Type	Total	Exempt from Disclosure	AAA and A-1+	Not Rated
U.S. Treasury Notes	\$127,879,615	\$127,879,615	-	-
Federal agency securities	56,666,870	-	56,666,870	-
U.S. Treasury Bills	-	-	-	-
CAMP	111,576,137	-	111,576,137	-
Held by trustee:				
Money market funds	5,445,012	-	5,445,012	-
MID-Collateral Agreement	20,008,884	20,008,884	-	-
Federal agency securities notes	3,397,422	-	3,397,422	-
CAMP	10,003,762	-	10,003,762	-
<b>Total</b>	<b>\$334,977,702</b>	<b>\$147,888,499</b>	<b>\$187,089,203</b>	<b>\$-</b>

#### Concentration of Credit Risk

The City's investment policy contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. Investments in any one issuer, other than U.S. Treasury securities, mutual funds, and external investment pools that represent 5% or more of total entity-wide investments are as follows at June 30, 2014:

Issuer	Investment Type	Reported Amount	Percent of Portfolio
Freddie Mac (FHLMC)	Federal agency securities	\$17,457,328	4.9%
Federal Home Loan Bank	Federal agency securities	15,774,678	4.4%
Fannie Mae (FNMA)	Federal agency securities	23,434,864	6.6%

## Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the City will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Under California Government Code Section 53651, depending on specific types of eligible securities, a bank must deposit eligible securities posted as collateral with its Agent having a fair value of 105% to 150% of the City's cash on deposit. All of the City's deposits are either insured by the Federal Depository Insurance Corporation (FDIC) or collateralized with pledged securities held in the trust department of the financial institution in the City's name.

The custodial credit risk for investments is the risk that, in the event of the failures of the counterparty (e.g. broker-dealer) to a transaction, the City will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The City's investment policy limits its exposure to custodial credit risk by requiring that all security transactions entered into by the City, including collateral for repurchase agreements, be conducted on a delivery-versus-payment basis. Securities are to be held by a third party custodian.

## **B. CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2014 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Prior Yr Adjustment</u>	<u>Ending Balance</u>
Governmental activities:					
Capital assets, not being depreciated:					
Land	33,632,095	25,908	-		33,658,003
Construction in Progress	55,558,284	12,949,559	(3,098,143)	-	65,409,700
Total capital assets, not being depreciated:	<u>\$ 89,190,379</u>	<u>\$ 12,975,467</u>	<u>\$ (3,098,143)</u>	<u>\$ -</u>	<u>\$ 99,067,703</u>
Capital assets being depreciated:					
Building	34,183,658	374,387	(22,908)	-	34,535,137
Improvements other than buildings	73,626,622	3,036,830	-	176,815	76,840,267
Furnishings & equipment	15,137,595	887,702	(1,198,618)	(422,534)	14,404,145
Service Animals	22,264	8,072	-	-	30,336
Intangible Assets	7,743,636	115,183	-	-	7,858,819
Equipment pool	31,085,800	2,334,451	(2,708,515)	-	30,711,736
Infrastructure					
Streets	494,306,288	-	-		494,306,288
Signals	17,341,943	-	-		17,341,943
Bridges	26,207,207	-	-		26,207,207
Total capital assets, being depreciated:	<u>\$ 699,655,013</u>	<u>\$ 6,756,625</u>	<u>\$ (3,930,041)</u>	<u>\$ (245,719)</u>	<u>\$ 702,235,878</u>
Less accumulated depreciation for:					
Buildings	(17,657,082)	(938,501)	17,158	-	(18,578,425)
Improvements	(38,066,494)	(2,903,662)	-	-	(40,970,156)
Furnishings & equipment	(12,240,780)	(905,487)	1,144,301	226,685	(11,775,281)
Service Animals	(1,387)	(5,205)	-	-	(6,592)
Intangible Assets	(2,517,355)	(514,437)	-	-	(3,031,792)
Equipment pool	(19,528,650)	(2,436,438)	2,651,338	-	(19,313,750)
Infrastructure					
Streets	(266,395,971)	(9,886,125)	-	-	(276,282,096)
Signals	(15,167,307)	(414,592)	-		(15,581,899)
Bridges	(5,061,387)	(524,144)	-		(5,585,531)
Total accumulated depreciation	<u>\$ (376,636,413)</u>	<u>\$ (18,528,591)</u>	<u>\$ 3,812,797</u>	<u>\$ 226,685</u>	<u>\$ (391,125,522)</u>
Total capital assets being depreciated, net	<u>\$ 323,018,600</u>	<u>\$ (11,771,966)</u>	<u>\$ (117,244)</u>	<u>\$ (19,034)</u>	<u>\$ 311,110,356</u>
Governmental activities capital assets, net	<u>\$ 412,208,979</u>	<u>\$ 1,203,501</u>	<u>\$ (3,215,387)</u>	<u>\$ (19,034)</u>	<u>\$ 410,178,059</u>

Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
General government	66,034
Community development	747,169
Highways and streets, including depreciation of general infrastructure assets	12,984,088
Public works	762,640
Parks and recreation	217,116
Public safety	437,596
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	3,313,948
Total depreciation expense – Gov activities	<u>\$18,528,591</u>

	Beginning <u>Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Prior Year Adjustments</u>	Ending <u>Balance</u>
Business-type activities:					
Capital Assets not being depreciated:					
Land	30,073,929	1,140,000	(111,478)	-	31,102,451
Construction in Progress	104,698,140	66,892,862	(4,457,047)	-	167,133,955
Total capital assets, not being depreciated:	<u>\$ 134,772,069</u>	<u>\$ 68,032,862</u>	<u>\$ (4,568,525)</u>	<u>\$ -</u>	<u>\$ 198,236,406</u>
Capital Assets being depreciated:					
Capitalized Interest	19,496,182	2,169,134	-	-	21,665,316
Building	99,678,123	1,183,671	-	-	100,861,794
Improvements other than buildings	238,800,367	3,546,163	-	220	242,346,750
Furnishings & equipment	9,907,423	306,630	(29,990)	44,799	10,228,862
Intangible Asset	160,605	36,922	-	-	197,527
Water Rights	358,226,691	-	-	-	358,226,691
Buses and Fareboxes	18,745,371	1,387,391	-	-	20,132,762
Pipelines	152,366,627	-	-	-	152,366,627
Total capital assets, being depreciated:	<u>\$ 897,381,389</u>	<u>\$ 8,629,911</u>	<u>\$ (29,990)</u>	<u>\$ 45,019</u>	<u>\$ 906,026,329</u>
Less accumulated depreciation for:					
Capitalized Interest	(7,348,527)	(975,106)	-	-	(8,323,633)
Buildings	(52,491,692)	(2,999,809)	-	-	(55,491,501)
Improvements	(127,081,166)	(8,546,033)	-	122	(135,627,077)
Furnishings & equipment	(5,257,946)	(759,588)	27,471	(22,687)	(6,012,750)
Intangible Asset	(160,605)	(4,307)	-	-	(164,912)
Water Rights	(35,822,669)	(11,940,890)	-	-	(47,763,559)
Buses and Fareboxes	(13,849,205)	(1,225,575)	-	-	(15,074,780)
Pipelines	(34,511,695)	(1,942,124)	-	-	(36,453,819)
Total accumulated depreciation	<u>\$ (276,523,505)</u>	<u>\$ (28,393,432)</u>	<u>\$ 27,471</u>	<u>\$ (22,565)</u>	<u>\$ (304,912,031)</u>
Total capital assets being depreciated, net	<u>\$ 620,857,884</u>	<u>\$ (19,763,521)</u>	<u>\$ (2,519)</u>	<u>\$ 22,454</u>	<u>\$ 601,114,298</u>
Business-type activities capital assets, net	<u>\$ 755,629,953</u>	<u>\$ 48,269,341</u>	<u>\$ (4,571,044)</u>	<u>\$ 22,454</u>	<u>\$ 799,350,704</u>

Business activities:	
Parking	402,046
Water	17,159,600
Sewer	6,245,668
Storm Drain	572,673
Compost	224,653
Airport	637,307
Bus	2,331,403
Golf	72,512
Community center	747,570
Total depreciation expense – business-type activities	<u>\$28,393,432</u>

C. LONG-TERM DEBT

Loans Payable

Governmental activities:

No-interest loan payable to the Stanislaus County Economic Development Bank loan program, to pay costs incurred by the City for the Kiernan Business Park East Project; loan intended to be repaid within five years of project completion, provided funds are available from revenue stream. As of 6/30/14, no payments have been made to the County as no funds are available. According to the agreement, the Project will be completed as of the date the city first issues building permits within the Kiernan Business Park East area. To date, no building permits have been issued; The authorized loan amount is up to \$500,000. Currently, there is a balance of \$498,362; outstanding amount will increase as more eligible costs are incurred and more loan proceeds are borrowed.

\$ 498,362

Total principal balances – Governmental activities

\$498,362

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 \$132,360, including interest, through October 1, 2015

\$384,777

Loan payable to Modesto Irrigation District for the purposes of certain repairs and maintenance for the Exterior Insulation Finish System (“EIFS”) and gutter systems, and certain low sloped roofing replacement, collectively referred to for convenience as “Project”, and are necessary for the Modesto Regional Water Treatment Plant facilities. Payments are to be made in five annual installments due no later than July 31, 2014. This loan was paid off in Fiscal Year 13/14.

\$ -

Loan payable to California State Water Resources Control Board, State Revolving Fund. The Project, commonly known as Tertiary Treatment Phase 1B Project generally consists of constructing a 12.6 million gallon per day tertiary treatment plant. Completion of Construction date is hereby established as June 1, 2015. Project Completion date is hereby established as June 1, 2016. The Recipient agrees to repay all Project Funds at an interest rate of two and six tenths percent (2.6%) per annum and an Administrative Service Charge of zero percent (0%) per annum. The loan payable balance only reflects the current bond reimbursements as of June 30, 2014. The total loan approved by the State Water Resources board is \$125 million.

\$88,014,276

Loan payable to State of California Department of Public Health, also known as ARRA Water Grant. This Agreement constitutes funding in the form of a loan with forgiveness of principal made by State under the provisions of California Safe Drinking Water State Revolving Fund Law of 1997, and the American Recovery and Reinvestment Act of 2009 (ARRA) Public Law 11 1-5. The purpose of the funding is to assist in financing construction of a project which will enable the city to meet safe drinking water standards or to address other health concerns, herein referred to as the "Project". The maximum loan amount of \$800,000 of which fifty percent (50%), or an estimated \$400,000 will not need to be repaid. The loan repayment term is 20 years at 2.5017 % interest rate.

\$523,350

Total principal balances – Business Type Activities

\$88,922,403

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

Year Ending June 30,	Governmental Activities		Business Activities	
	Principal	Interest	Principal	Interest
2015	\$-	\$-	\$277,835	\$23,172
2016	-	-	487,071	8,090,722
2017	-	-	5,188,124	3,257,310
2018	-	-	5,322,995	3,122,438
2019	-	-	5,461,373	2,984,061
2020-2024	498,362	-	29,511,746	12,715,421
2025-2029	-	-	33,552,392	8,674,776
2030-2032	-	-	9,120,867	1,452,426
<b>Total</b>	<b>\$498,362</b>	<b>\$-</b>	<b>\$88,922,403</b>	<b>\$40,320,326</b>

Certification of Participation

Business-Type Activities:

Golf Enterprise Fund:

1993 Refunding Certificates of Participation issued to refund earlier certificates for the Creekside Golf Course capital project; serial certificates with annual maturities on November 1, in amounts from \$225,000 to \$235,000; interest rate of 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. The certificates are repayable from any source of available funds of the City. However, the City has elected to repay the certificates from revenues of the Golf enterprise fund. \$3,895,000

2008 Water Refunding Revenue Certificates of Participation issued to refund the 2006 issue, to provide funding for construction of new downstream water facilities and various water distribution system improvements in connection with Modesto Irrigation District's expansion of the regional water treatment plant; variable rate securities maturing October 1, 2036, with interest initially calculated weekly, fluctuating according to market conditions. The Certificates may be converted to a daily, term, flexible, or fixed rate.

The City entered into a 30 year interest rate swap agreement as discussed below. The combination of the variable rate 2008 COPs and the floating rate swap creates a synthetic fixed-rate debt for the City. The synthetic fixed rate was 3.48% at June 30, 2014. \$45,860,000

Total principal balances – Business-Type Activities \$49,755,000

Less:

Unamortized bond discount – 2008 Water Refunding Certificates of Participation (120,939)

Deferred amount on refunding – 2008 Water Refunding Certificates of Participation (523,418)

Total Business Type Activities – Certificates of Participation \$49,110,643

The City has pledged future Water Enterprise Fund revenues, net of specified operating expenses, to repay the 2008 Certificates of Participation, the loan from the State of California Department of Water Resources and Modesto Irrigation District, along with the its commitments to the Modesto Irrigation District via its Treatment and Delivery Agreement discussed in Note III F, through 2036. The Water Fund's total principal and interest remaining to be paid on the certificates and loans is \$84,852,732. The Water Fund's principal and interest paid on certificates and loans for the current year, along with payments to Modesto Irrigation District under the Treatment and Delivery Agreement, totaled \$8,865,208, and net revenues of the Fund were \$23,219,162, which represented coverage of 196%.

Annual debt service requirements to maturity for Certificates of Participation, for 2008 Water and Golf, are as follows:

Year Ending June 30,	Business-Type Activities	
	Principal	Interest
2015	\$650,000	\$2,369,310
2016	665,000	2,329,904
2017	705,000	2,295,098
2018	720,000	2,260,474
2019	775,000	2,223,801
2020-2024	6,150,000	10,458,723
2025-2029	13,035,000	7,936,953
2030-2034	15,910,000	4,489,328
2035-2037	11,145,000	734,141
<b>Total</b>	<b>\$49,755,000</b>	<b>\$35,097,732</b>

Lease Revenue Bonds – Governmental activities:

2008 Lease Revenue Refunding Bonds in the amount of \$65,170,000 issued to refund the balance of the 1998 Lease Revenue Bonds and the 2007 Lease Revenue Refunding and Capital Improvement Bonds; variable rate securities maturing September 1, 2033, with interest initially calculated weekly, fluctuating according to market conditions. The bonds may be converted to a daily, term, flexible, or fixed rate. The combination of the variable rate bonds and a floating swap rate creates a synthetic fixed-rate debt for the City. The synthetic fixed rate was 3.61% at June 30, 2014.

\$59,475,000

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

Year Ending June 30,	Governmental-Type Activities	
	Principal	Interest
2015	\$1,505,000	\$2,977,413
2016	1,665,000	2,912,388
2017	1,835,000	2,818,538
2018	1,695,000	2,729,809
2019	1,860,000	2,636,488
2020-2024	11,930,000	11,484,442
2025-2029	17,245,000	7,679,695
2030-2034	21,740,000	2,609,573
<b>Total</b>	<b>\$59,475,000</b>	<b>\$35,848,346</b>

Revenue Bonds – Business-type activities:

Sewer Enterprise Fund:

Wastewater Treatment Facility Revenue Bonds, Series 2005 Series A and B; Series A (non-taxable) interest payable on November 1 and May 1; serial certificates with annual maturities on November 1, in amounts from \$1,660,000 to \$3,230,000, with interest rates from 3.0% to 5.25%; Series B (taxable) paid in full during 2008 fiscal year. \$ 23,890,000

Wastewater Revenue Bonds, Series 2006A; interest payable on November 1 and May 1; serial certificates with annual maturities on November 1, in amounts from \$880,000 to \$1,005,000, with interest rates from 4.2% to 4.5%; term certificates in the amount of \$5,710,000 maturing in 2031 and \$7,060,000 maturing in 2036, bearing interest at 4.25%, with annual payments beginning in 2024. \$16,535,000

Total principal balances – business-type activities \$ 40,425,000

Plus: Unamortized bond premium - 2005 Bonds 1,150,205

Less:

Unamortized bond discount – 2006 Bonds (240,291)

Deferred amount on refunding – 2005 Bonds (1,854,361)

Total business-type activities revenue bonds \$ 39,480,553

The 2005 and 2006 bonds were issued to fund a variety of Sewer Enterprise Fund wastewater capital improvements.

The City has pledged future Sewer Enterprise Fund revenues, net of specified operating expenses, to repay the 2005 and 2006 bonds through 2036. The Sewer Fund's total principal and interest remaining to be paid on the bonds is \$58,131,545. The Sewer Fund's principal and interest paid for the current year and total customer net revenues were \$4,240,005 and \$18,419,509 respectively.

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

Year Ending June 30,	Principal	Interest
2015	\$2,160,000	\$1,859,183
2016	2,270,000	1,748,433
2017	2,385,000	1,643,983
2018	2,485,000	1,531,051
2019	2,625,000	1,396,913
2020-2024	11,965,000	4,807,670
2025-2029	4,810,000	2,811,700
2030-2034	5,960,000	1,620,843
2035-2039	5,765,000	286,769
<u>Total</u>	<u>\$40,425,000</u>	<u>\$17,706,545</u>

Notes Payable – Governmental activities:

Note payable to the Federal Housing and Urban Development Department for the purpose of constructing the Neighborhood Center at Marshall Park and the expansion of the Maddux Youth Center; to be repaid using future Community Development Block Grant revenue; interest rates from 4.00% to 6.01%; semi-annual installments on August 1 and February 1 through August 2024.

\$3,000,000

Total Notes Payable

\$3,000,000

Annual debt service requirements to maturity for these notes payable are as follows:

<u>Year Ending June</u> <u>30,</u>	<u>Principal</u>	<u>Interest</u>
2015	\$211,000	\$166,483
2016	221,000	155,085
2017	233,000	142,778
2018	245,000	129,546
2019	256,000	115,428
2020-2024	1,489,000	332,430
2025-2029	345,000	10,367
<u>Total</u>	<u>\$3,000,000</u>	<u>\$1,052,117</u>

Interest Rate Swap Agreements

Objective of the swaps – The primary objective of the swaps is to mitigate the effect of fluctuations in variable interest rates by paying a fixed rate and receiving a floating rate on the swap. Combining a pay-fixed receive-variable rate swap with variable debt results in what is termed “synthetic” fixed rate debt. It is called synthetic because the economics are similar to fixed rate debt, but another instrument is involved unlike regular fixed rate debt. Each time the City created synthetic fixed rate debt a comparison and determination was made that the fixed rate on regular debt would have been higher than the fixed rate on the swap.

During fiscal year 2007, the City entered into an interest swap agreement in connection with the 2006 Water Revenue Certificates of Participation. This transaction was updated due to the refunding of the 2006 Certificates by the 2008 Water Refunding Revenue Certificates of Participation. The swap agreement allows the City to create a synthetic fixed rate on the COPs, protecting it against increases in short-term interest rates. During fiscal year 2008, the City entered into an interest swap agreement in connection with the 1998 and 2007 Lease Revenue Bonds. The swap agreement allows the City to create a synthetic fixed rate on the Lease Revenue Bonds, protecting it against increases in short-term interest rates. The terms, fair value and credit risk of these swap agreements are disclosed below.

Additionally, in May 2007, the City approved the issuance of revenue bonds by the Modesto Irrigation District Financing Authority related to the financing of Phase 2 of the Domestic Water Treatment and Delivery System of the Modesto Irrigation District. This debt was issued as an interest swap feature with Bear Sterns, which was subsequently acquired by JP Morgan. Under the current agreement with JP Morgan, the City must post collateral when our negative position exceeds the Pledgor’s Threshold of \$20 million. This negative position represents the present value of declining interest rates to date from issuance of bonds. In June 2010, the City Council authorized the City to post collateral up to \$18 million which would support a negative position of \$38 million. At the end of fiscal year 2014, the City had posted a cumulative total of \$20.0 million of collateral posting.

Terms – The terms, including the counterparty credit rating of the outstanding swaps, as of June 30, 2014 are

shown in the table below. The swap agreements contain scheduled reductions to the outstanding notional amounts that are expected to follow scheduled principal reductions in the associated debt issues.

<u>Related Debt Issue</u>	<u>Current Notional Amount</u>	<u>Effective Date</u>	<u>Counterparty</u>	<u>Credit Rating (S&amp;P)</u>	<u>Fixed Rate Paid</u>	<u>Variable Rate Received</u>	<u>Termination Date</u>
2008 Water Refunding Revenue COPs	\$45,860,000	5/30/2008	Bank of America	A	3.47%	63.7% of USD-LIBOR, plus .154%	10/1/2036
2008 Lease Revenue Refunding and Capital Improvement	59,475,000	8/28/2008	Bank of America	A	3.61%	63.7% of USD-LIBOR, plus .154%	9/1/2033
2007 MID Water Refunding Revenue Bonds 2007F	\$23,370,000	6/26/2007	JP Morgan Chase Bank	A+	4.38%	67% of 3 Month LIBOR + 0.58%	9/1/2027
2007 MID Water Revenue Bonds Series 2007F	69,820,000	6/26/2007	JP Morgan Chase Bank	A+	4.44%	67% of 3 Month LIBOR + 0.63%	9/1/2037

Based on the swap agreement the City owes interest calculated at a fixed rate to the counterparty (Bank of America) and (JP Morgan). In return, the counterparty owes the City interest based on the variable rate that approximates the rate required by the associated COPs and lease revenue bonds. Debt principal is not exchanged; it is only the basis on which the swap receipts and payments are calculated.

In June 2008 the GASB issued Statement 53 Accounting and financial Reporting for Derivative Instruments (GASB 53). GASB 53 addresses the recognition measurement and disclosure of information regarding derivative instruments entered into by state and local governments. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2009. The City adopted GASB 53 in Fiscal Year 2010. All derivatives are to be reported on the statement of net assets at fair value and all hedges must be tested for effectiveness to qualify for hedge accounting. The tests are outlined in GASB 53. Depending on the test results, the changes in fair value are either reported on the statement of net position as a deferral or in the statement of activities as investment revenue or loss.

Fair value – Fair value takes into consideration the prevailing interest rate environment, the specific terms and conditions of each transaction and any upfront payments that may have been received. Fair value was estimated using the zero-coupon discounting method, which calculates the future payments required by the swap, assuming that the current forward rates implied by the LIBOR swap yield curve are the market’s best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement on the swaps. As of June 30, 2014 (December 31, 2013 for MID bonds), the fair value of the swaps was in favor of the counter party as shown in the following table:

<u>Bond Issue</u>	<u>Fair Value</u>
2008 Water Refunding Revenue Certificates of Participation	(\$8,523,884)
2008 Lease Revenue Bonds	(\$10,276,475)
2007 MID Water Refunding Revenue Bonds	(\$23,860,478)

Credit risk – As of June 30, 2014, the City was not exposed to credit risk on the swaps because the swaps had negative fair value. However, if interest rates increase and the fair value becomes positive, the City would be exposed to credit risk. The City will be exposed to interest rate risk only if the counterparty to the swap defaults or if the swap is terminated.

Basis risk - Basis risk is the risk that the interest rate paid by the City to the bondholders on the underlying variable rate bonds temporarily differs from the variable swap rates received from the counterparty. The swaps have basis risk since the City receives a percentage of the LIBOR Index to offset the actual variable bond rates the City pays on the underlying certificates of participation. The City is exposed to basis risk should the floating rate

that it receives on the swap be less than the actual variable rate the City pays on the bonds. Depending on the magnitude and duration of any basis risk shortfall, the expected cost of the basis risk may vary.

A portion of this basis risk is tax risk. The City is exposed to tax risk when the relationship between the taxable LIBOR based swaps and tax-exempt variable rate bonds changes as a result of a reduction in federal and state income tax rates. Should the relationship between LIBOR and the underlying tax-exempt variable rate bonds converge the City is exposed to this basis risk.

Termination risk - The City may terminate the swap contracts if the other party fails to perform under the terms of the contracts. The City will be exposed to variable rates if the counterparty defaults or if the swap contract is terminated. A termination of the swap contract may also result in the City's making or receiving a termination payment based on market interest rates at the time of the termination. If at the time of termination the swap has a negative fair value, the City would be liable to the counterparty for a payment equal to the swap's fair value.

Swap payments and associated debt – Using rates as of June 30, 2014, debt service requirements of the 2008 Water Refunding Revenue Certificates of Participation and the 2008 Lease Revenue Refunding Bonds including net swap payments and broker fees, are as shown in the following table assuming current interest rates remain the same for their term. These payments are also included in the tables of debt service requirements accompanying the Certificates of Participation and Lease Revenue Bonds disclosures above. The bond interest payments and net swap payments will vary as interest rates vary.

Year Ending June 30,	Variable-Rate Bonds		Interest Rate SWAP, Net and	Total
	Principal	Interest	Broker Fees	
2015	\$1,845,000	\$1,563,544	\$3,595,250	\$7,003,794
2016	2,005,000	1,534,069	3,537,098	7,076,167
2017	2,200,000	1,501,800	3,457,336	7,159,136
2018	2,060,000	1,470,375	3,382,783	6,913,158
2019	2,255,000	1,437,281	3,304,258	6,996,539
2020-2024	15,895,000	6,576,206	15,083,334	37,554,540
2025-2029	30,280,000	4,749,900	10,866,748	45,896,648
2030-2034	37,650,000	2,174,963	4,923,938	44,748,901
2035-2037	11,145,000	226,293	507,848	11,879,141
Total	<u>\$105,335,000</u>	<u>\$21,234,431</u>	<u>\$48,658,593</u>	<u>\$175,228,024</u>

The debt scheduled related to the MID Water Refunding bonds are provided below:

Year Ending June 30,	Principal	Interest
2015	\$3,970,000	\$6,127,847
2016	4,110,000	5,985,396
2017	4,320,000	5,774,647
2018	4,535,000	5,553,271
2019	4,760,000	5,320,897
2020-2024	25,850,000	22,745,278
2025-2029	24,435,000	17,101,280
2030-2034	30,605,000	11,042,169
2035-2039	33,875,000	3,339,435
<b>Total</b>	<b>\$136,460,000</b>	<b>\$82,990,220</b>

Changes in Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2014, was as follows:

<b>Note - Changes in Long-Term Liabilities FYE 6/30/14</b>						
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Adjustments</b>	<b>Ending Balance</b>	<b>Due Within One Year</b>
<b>Governmental activities:</b>						
Loans Payable	\$498,362	-	-	-	\$498,362	-
Lease Revenue Bonds:	60,870,000	-	1,395,000	-	59,475,000	1,505,000
Notes Payable	3,201,000	-	201,000	-	3,000,000	211,000
Obligations under Capital Leases	502,622	-	245,677	-	256,945	256,945
Compensated Absences	6,830,060	3,048,360	3,672,217	-	6,206,203	4,037,342
Net OPEB	48,315,147	-	8,599,313	-	39,715,834	-
Claims liability	22,682,685	4,264,665	4,662,671	-	22,284,679	4,987,522
<b>Total governmental activities LTL</b>	<b>\$142,899,876</b>	<b>\$7,313,025</b>	<b>\$18,775,877</b>	<b>-</b>	<b>\$131,437,023</b>	<b>\$10,997,809</b>

<b>Business-type activities:</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Adjustments</b>	<b>Ending Balance</b>	<b>Due Within One Year</b>
Loans Payable	41,921,784	49,721,448	1,252,181	(1,468,648)	88,922,403	277,835
Compensated Absences	3,411,014	1,527,199	1,835,737	-	3,102,476	2,015,645
Net OPEB	9,582,467	11,833,006	1,561,567	-	19,853,906	-
Certificates of participation:	50,355,000	-	600,000	-	49,755,000	650,000
Unamortized Discounts	(126,434)	-	(5,496)	-	(120,938)	-
Deferred amount on refunding	(547,209)	-	(23,791)	-	(523,418)	-
MID Variable Bonds	145,810,000	43,270,000	4,175,000	(48,445,000)	136,460,000	3,970,000
Unamortized Discount	-	(153,929)	(15,393)	-	(138,536)	-
Unamortized Premium	-	5,707,262	570,726	-	5,136,536	-
Sewer Bonds:	42,475,000	-	2,050,000	-	40,425,000	2,160,000
Unamortized Premium	1,278,005	-	127,800	-	1,150,205	-
Unamortized Discount	(250,738)	-	(10,447)	-	(240,291)	-
Deferred amount on refunding	(2,060,402)	-	(206,041)	-	(1,854,361)	-
Developer advances	1,517,856	-	93,183	-	1,424,673	93,112
<b>Business-type activities LTL</b>	<b>\$293,366,343</b>	<b>\$111,904,986</b>	<b>\$12,005,026</b>	<b>(\$49,913,648)</b>	<b>\$343,352,655</b>	<b>\$9,166,592</b>

Principal balances are reported on the government-wide and enterprise funds statements of net position net of unamortized issuance discounts and premiums, 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, internal service funds obligations were zero under notes payable, and \$183,610 in 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.

#### Redevelopment Agency (RDA) Debt Service

The RDA Debt Service Fund Accounts for the accumulation of resources for, and payment of, general long-term principal and interest incurred for the purchase of real property within the area of RDA. On February 1, 2012, pursuant to the provisions of the Redeveloped Restructuring Act, these resources and obligations were transferred to the City of Modesto Redevelopment Successor Agency, Private Purpose Trust Fund. For more information about the RDA, refer to Note II Section J.

#### Prior Year Defeasance of Debt

On August 14, 2013, the Modesto Irrigation District Financing Authority Domestic Water Project Refunding Revenue Bonds issued refunding Revenue Bonds series 2013 G to refund series 1998 D. As of June 30, 2014, \$53,791,401 of the 1998 D Domestic Water Project Refunding Revenue Bonds are considered defeased and are not included in the MID Water Refunding Bonds.

#### D. OBLIGATIONS UNDER CAPITAL LEASES

##### Internal Service Funds

A software license valued at \$893,110, less \$0 accumulated depreciation, is being leased under a capital lease arrangement. The following is a schedule of the future minimum lease payments on this capital lease as of June 30, 2014:

Year Ending June 30,	
2015	<u>\$190,674</u>
Total minimum lease payments	\$190,674
Less: amount representing interest	<u>(7,064)</u>
Present value of minimum lease payments	<u><u>\$183,610</u></u>

##### Governmental Funds

One Pierce Quantum 1500GPM Fire Apparatus valued at \$502,951 less \$386,271 accumulated depreciation, is being leased under a capital lease arrangement. The following is a schedule of the future minimum lease payments on this capital lease as of June 30, 2014

<u>Year Ending June 30,</u>	
2015	<u>\$77,610</u>
Total minimum lease payments	\$77,610
Less: amount representing interest	<u>(4,275)</u>
Present value of minimum lease payments	<u><u>\$73,335</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, 2014, the total outstanding balance due under the agreements is \$1,424,673. The total annual payments fluctuate depending on the ending date of each agreement. At June 30, 2014, the amount of \$93,112 due during fiscal year 2015 has been reported as "current portion-developer advances" on the Proprietary Funds statement of net position. The remaining \$1,331,561 of outstanding principal has been reported under noncurrent liabilities, as "developer advances."

F. INTERFUND BALANCES

Interfund balances as of June 30, 2014 consist of the following:

Due to General Fund from:

Other governmental funds – total due to/due from	\$ 862,611
Other enterprise funds - total due to/due from	<u>649,211</u>

Total Due to/from General Fund	<u>\$ 1,511,822</u>
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Total Due to/Due From:	<u>\$ 1,511,822</u>
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Advances from General Fund to:

Other governmental funds	\$1,158,271
Other enterprise funds	<u>1,324,704</u>

Advances from General Fund	<u>\$2,482,975</u>
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Advances from Water Fund to:

General fund	\$250,000
Other governmental fund	<u>\$43,352</u>

Advances from Water Fund	<u>\$293,352</u>
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Advances from Sewer to Other Enterprise Fund	<u>\$991,800</u>
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Advance from Internal Service Fund to General Fund	<u>\$ 856,738</u>
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Total Advances from/Advances to	<u>\$4,624,865</u>
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All balances reported as “due to/due from” are short-term loans to cover temporary fund cash shortages as of June 30, 2014, and were repaid early in fiscal year 2015. 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.

## G. Fund Balance

Detailed classifications of the City's Fund Balances, as of June 30, 2014, are provided below:

	General Fund	Housing and Community Development	Other Governmental	Total Governmental Funds
<b>Non-spendable</b>				
Prepaid Items	\$ 102,152	\$ 773	\$ 3,134	\$ 106,059
Total non-spendable fund balance	<u>102,152</u>	<u>773</u>	<u>3,134</u>	<u>106,059</u>
<b>Restricted</b>				
Advances to Other Funds	2,482,975	-	-	2,482,975
Capital Facility Fees	-	-	26,549,772	26,549,772
Cash with Fiscal Agent	-	-	4,935,061	4,935,061
Community Facilities District	-	-	12,197,285	12,197,285
Grants and Donations	-	-	4,972,018	4,972,018
Investment FV Adj	(106,265)	25,779	(250,588)	(331,074)
Notes Receivable	-	54,975,734	2,281,179	57,256,913
Property Held for Resale	-	-	784,000	784,000
Restricted deposits	1,341,972	-	-	1,341,972
Traffic Fines	-	-	2,202,138	2,202,138
Total restricted fund balance	<u>3,718,682</u>	<u>55,001,513</u>	<u>53,670,865</u>	<u>112,391,060</u>
<b>Committed</b>				
General Fund set-aside	3,000,000	-	-	3,000,000
Total committed fund balance	<u>3,000,000</u>	<u>-</u>	<u>-</u>	<u>3,000,000</u>
<b>Assigned</b>				
Encumbrances	1,024,149	-	-	1,024,149
Downtown Improvement District	-	-	12,508	12,508
Gas Tax Funding	-	-	2,979,110	2,979,110
Public Financing Authority - Debt	-	-	-	-
Strategic Planning and Development	-	-	709,115	709,115
Total assigned fund balance	<u>1,024,149</u>	<u>-</u>	<u>3,700,733</u>	<u>4,724,882</u>
Unassigned - General Fund	12,069,864	-	-	12,069,864
Unassigned - Special revenue funds	-	(34,427,615)	-	(34,427,615)
Unassigned - Debt service funds	-	-	(874)	(874)
Unassigned - Capital project funds	-	-	(228,128)	(228,128)
Total unassigned fund balance	<u>12,069,864</u>	<u>(34,427,615)</u>	<u>(229,002)</u>	<u>(22,586,753)</u>
Total fund balance	<u>\$ 19,914,847</u>	<u>\$ 20,574,671</u>	<u>\$ 57,145,730</u>	<u>\$ 97,635,248</u>

## H. DEFICIT FUND EQUITY

The Special Fund for Capital Outlays had a deficit fund balance, respectively of \$38,759. The future recognition of currently deferred revenue is expected to resolve this deficit and the negative balance for the Special Fund for Capital Outlays is generated from the fair market value adjustment.

The Golf Enterprise Fund has a net position deficit of \$2,435,260, due to a change in accounting policy several years ago, as well as revenues not keeping up with expenses. 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 Golf Fund also has struggled due to competition and lagging revenues. Depreciation expense further contributes to the deficit. The City is looking at various options to resolve this funding deficit.

The Employee Benefits Management Internal Service Fund has a net position deficit of \$58,632,374. It exists partially because the total compensated absences and other post-employment benefit balance previously classified as debt of the governmental funds was included in this fund at its inception several years ago, and has never been fully funded. The City is continuing to charge a higher benefit rate to help reduce this deficit. In addition, one-time revenues having to do with employee benefits are deposited to this fund.

The Insurance Funds have a net position deficit of \$3,202,065, due mainly to the recognition of settlements that were reached in the prior fiscal year which have been reported as liabilities of the Liability Insurance Fund. Both settlements involved matters that represented city-wide policies and practices and therefore are allocable to all of the funds that make annual contributions to the liability insurance program. The Liability Insurance program will recover the full amount of the settlement from charges to the funds that participate in the liability insurance program over a period of 5 years.

I. INTERFUND TRANSFERS

The following is a schedule of interfund transfers.

Transfers (in) to:	Transfers from (out):								
	General Fund	Housing & Community Development	Other Govern-mental	Water	Sewer	Bus	Other Enterprise Funds	Internal Service	Total
General Fund	\$ -	\$ -	\$1,474,487	\$65,000	\$233,464	\$ -	\$ 243,000	\$ -	\$ 2,015,951
Other Governmental	5,297,889	100,808	310,000	36,149	36,149	-	23,511	142,360	5,946,866
Sewer	114,000	-	-	-	-	-	17,719	-	131,719
Water	267,500	-	1,427	-	-	-	-	-	268,927
Bus	1,500	-	-	-	-	-	-	-	1,500
Other Enterprise	1,437,514	-	-	700,000	-	-	-	-	2,137,514
Internal Service	1,606,859	-	553,010	278,430	771,007	16,820	77,094	104,364	3,407,584
<b>Grand Total</b>	<b>\$8,725,262</b>	<b>\$ 100,808</b>	<b>\$ 2,338,924</b>	<b>\$1,079,579</b>	<b>\$ 1,040,620</b>	<b>\$16,820</b>	<b>\$ 361,324</b>	<b>\$246,724</b>	<b>\$13,910,061</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. SUCCESSOR AGENCY TRUST FOR ASSETS OF FORMER REDEVELOPMENT AGENCY

On December 29, 2011, the California Supreme Court upheld Assembly Bill 1X 26 (Bill) that provides for the dissolution of all redevelopment agencies in the State of California. This action impacted the reporting entity of the City that previously had reported a redevelopment agency blended component unit. The Bill provides that upon dissolution of a redevelopment agency, either the City or another unit of local government will agree to serve as the “successor agency” to hold the assets until they are distributed to other units of state and local government. On January 24, 2012, the City Council elected to become the Successor Agency for the former Redevelopment Agency (RDA) in accordance with the Bill as part of County Resolution number 12-7.

After enactment of the law, which occurred on June 28, 2011, redevelopment agencies in the State of California cannot enter into new projects, obligations or commitments. Subject to the control of a newly established oversight board, remaining assets can only be used to pay enforceable obligations in existence at the date of dissolution (including the completion of any unfinished projects that were subject to legally enforceable contractual commitments).

In future fiscal years, successor agencies will only be allocated revenue in the amount that is necessary to pay the estimated annual installment payments on enforceable obligations of the former redevelopment agency until all enforceable obligations of the prior redevelopment agency have been paid in full and all assets have been liquidated.

The Bill directs the State Controller to review the propriety of any transfers of assets between redevelopment agencies and other public bodies that occurred after January 1, 2011. If the public body that received such transfers is not contractually committed to a third party for the expenditure or encumbrance of those assets,

the State Controller is required to order the available assets to be transferred to the public body designated as the successor agency by the Bill.

Management believes, in consultation with legal counsel, that the obligations of the former RDA due to the City are valid enforceable obligations payable by the Successor Agency trust under the requirements of the Bill. The City's position on this issue is not a position of settled law and there is considerable legal uncertainty regarding this issue. It is reasonably possible that a legal determination may be made at a later date by an appropriate judicial authority that would resolve this issue unfavorably to the City.

In accordance with the timeline set forth in the Bill (as modified by the California Supreme Court on December 29, 2011), all redevelopment agencies in the State of California were dissolved and ceased to operate as a legal entity as of February 1, 2012.

Prior to that date, the final seven months of the activity of the RDA are reported in the governmental funds of the City. After the date of dissolution, as allowed under Section 34176(a) of the Bill, the City elected to retain the housing assets and functions previously performed by the former RDA. The assets and activities for the Successor Agency Housing fund continue to be reported in the City's governmental fund financial statements. The remaining assets, liabilities, and activities of the dissolved RDA, are reported in the Successor Agency fiduciary fund (private purpose trust fund) in the financial statements of the City.

The transfer of the assets and liabilities of the former RDA as of February 1, 2012 (effectively the same date as January 31, 2012) from governmental funds of the City to fiduciary funds was reported as an extraordinary gain in the governmental fund financial statements during the fiscal year ending June 30, 2012. The receipt of these assets and liabilities as of January 31, 2012 was reported in the private-purpose trust fund financial statements as an extraordinary loss.

Future debt service requirements to maturity for loans payable, as of June 30, 2014, are as follows:

<u>Year Ended June 30<sup>th</sup></u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	<u>\$ 405,000</u>	<u>\$ 0.00</u>	<u>\$ 405,000</u>
Total	<u>\$ 405,000</u>	<u>\$ 0.00</u>	<u>\$ 405,000</u>

Future debt service requirements to maturity for the Certificates of Participation, as of June 30, 2014, are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$1,285,000	\$647,730	\$1,932,730
2016	1,340,000	578,250	1,918,250
2017	1,135,000	516,375	1,651,375
2018	1,195,000	458,125	1,653,125
2019	1,260,000	396,750	1,656,750
2020-2024	7,305,000	949,625	8,254,625
<u>Total</u>	<u>\$13,520,000</u>	<u>\$3,546,855</u>	<u>\$17,066,855</u>

Additionally, the former RDA entered into a Reimbursement Agreement with the City of Modesto related to the

City's 2008 Lease Revenue bonds. The debt service requirement for the principal is equivalent to \$13,520,000. The Redevelopment Agency also has a few outstanding obligations related to reimbursements for parking expenses with Westland Development Company and payments to the Tenth Street Joint Power Agency for maintenance for common areas in the Tenth Street Place. These amounts are all reported in the Successor's agency recognized obligation payment schedules.

**K. NOTES RECEIVABLE**

The notes receivable in the Housing and Community Development and Other Governmental Funds of \$57,256,913 net of \$951,603 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 bearing annual interest at 3 or 5 percent and a small number of direct loans are interest free, with a few exceptions, require no repayment of principal until the loans reach maturity.

**L. APPROVED LOANS PAYABLE**

The approved loans payable in the Housing and Community Development Special Revenue Fund and other governmental funds of \$3,903,719 consist of amounts being held for rehabilitation of properties using funds provided by federal grants.

The approved loans payable in the Successor Redevelopment Housing Agency of \$575,000 consists of amounts being held for affordable housing. The liability is expected to be liquidated within a couple years.

**M. 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 initiated litigation with the manufacturers. In the current year the City made payments related to insurance from the Sewer and Water fund in the amount of \$375,621 and \$980,797.

**N. DEFERRED INFLOWS/OUTFLOWS OF RESOURCES**

Pursuant to GASB Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position", the City recognized deferred inflows of resources in the entitywide and government wide fund statements. These items are an acquisition of net position by the City that is applicable to a future reporting period. Previous financial reporting standards do not include guidance for reporting these financial statements, which are distinct from assets and liabilities.

<b>Deferred Outflows of Resources</b>	<b>Governmental Activities</b>	<b>Business Activities</b>
Accumulated decreases in fair value of hedging derivatives	\$10,276,475	\$32,384,362
<b>Deferred Inflows of Resources</b>	<b>Governmental Activities</b>	<b>Business Activities</b>
Bond contributions	\$-	\$4,921,715
Advances from grantors and third parties	\$894,008	\$117,867
Accumulated increase in fair value of hedging derivatives	<u>\$10,276,475</u>	<u>\$32,384,362</u>
Total	\$11,170,483	\$37,423,944

### 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/occurrence as follows: workers' compensation \$500,000; liability \$1,000,000. 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 \$5,000,000. 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 \$5,000,000 in three excess layers, of \$10,000,000 each; for additional coverage of \$35,000,000 per claim. Settled claims have not exceeded this commercial coverage in any of the past five 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, 2014 is \$22,284,679 consisting of \$18,041,260 workers' compensation, \$4,024,128 general liability, \$173,790 dental, and \$45,501 vision. Workers' compensation and general liability claims liabilities are estimated on an actuarial basis, and are reported at their net present value using an expected future investment yield assumption of 4.0%. The undiscounted worker's compensation and liability claims totaled \$21,556,000 and \$4,255,000 respectively. The actuarial liability for workers compensation and general liability were based on June 30, 2013 and June 30, 2014 actuarial reports.

The current portion of the total claims liability is estimated to be \$4,987,522 and the balance of \$17,297,157 is reported as a long-term liability on the statement of net position. 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, 2014 for General Liability and Workers Compensation. Changes in the Insurance Fund claims liability during the fiscal years ended June 30, 2012 through June 30, 2014 were:

	<u>Claims Liability July 1</u>	<u>Current-Year Claims and Changes in Estimates</u>	<u>Current-Year Claim Payments</u>	<u>Claims Liability June 30</u>
2011-12	21,077,038	8,089,359	(5,950,490)	23,215,907
2012-13	23,215,907	5,880,326	(6,413,548)	22,682,685
2013-14	22,682,685	5,306,792	(5,704,798)	22,284,679

#### B. COMMUNITY FACILITIES DEBT WITHOUT CITY COMMITMENT

Special assessment and community facilities 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, 2014, the balance of these districts' outstanding debt was as follows:

Issue	Outstanding Amount
Village One #2 Community Facilities District	\$29,925,000
Fairview Village Community Facilities District	4,725,000

#### 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, 2014, there were two series of conduit revenue bonds outstanding. The aggregate principal amount payable for these multiple-family housing bond issues, issued between 1994 and 2002, was \$8,975,000.

#### 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. The City is a defendant in various matters of litigation.

In the 1950's and 1960's, the City operated a landfill facility outside the city limits. This facility was closed in 1968, to the standards in effect at that time. State and federal laws and regulations require that the City perform certain maintenance and monitoring functions. Testing performed during fiscal year 2007 indicated that methane emissions in the area had exceeded State standards, however, quarterly groundwater monitoring at the site has determined that the landfill has experienced a "release" that measurably affects groundwater. The City has to develop a plan to monitor the release and determine the nature and extent of impacts. An engineering feasibility study must be completed to determine if the City should remove/treat the release, or just continue to monitor the release. To conclude, depending on the results of the engineering feasibility study, the City will need to implement the recommended action, which could involve construction and operation of a groundwater treatment system. If additional post closure care requirements are determined (due to changes in technology or applicable laws or regulations, for example), these costs may result in increased charges to future landfill users. As of June 30, 2014, the future post closure care cost of monitoring the landfill was calculated to be immaterial for presentation purposes which include the agreement cost for the study.

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 \$38,892,914 for the City's governmental funds as of June 30, 2014 for contracts awarded but not completed and other outstanding purchase requisitions and orders. This amount consists of \$1,024,149 in the General Fund, \$22,465 in the Housing and Community Development, and \$37,846,300 in other governmental funds. Commitments of the governmental funds are recorded in one of the classifications of fund balance based on the various funding restrictions on the balance sheet. As of June 30, 2014, there are major contracts and other purchase orders outstanding for water and sewer system improvements, bus and vehicle purchases, sewer tertiary plan construction, comprehensive update to the City's general plan, and major street improvements.

## 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 \$158,462 for the fiscal year ended June 30, 2014. As of June 30, 2014 the City's investment in this joint venture was \$1,012,191, and is included in governmental activities on the statement of net position. 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, Hughson, Waterford 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 cash contribution to the SDEA for the fiscal year ended June 30, 2014 was \$361,665. The City's investment in this joint venture was estimated to be \$740,191 as of June 30, 2014, based on the most recent available information. This amount is reported in governmental activities in the statement of net position. Financial statements of the SDEA are prepared by the City of Modesto Finance Department.

### 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 was the fiscal administrator during the construction phase, which was finalized at the end of June 2003. Starting in July 1, 2010 the County Auditor Controller became the fiscal administrator. For the fiscal year ended June 30, 2014, the City's payments to the Agency were \$642,327 for operations and capital reserve. The City's equity interest in the Agency is \$10,289,583, equal to its capital asset contributions to date net of depreciation, and is reported in governmental activities as investments in joint ventures in the Statement of Net Position. Financial statements of the Agency will be available from the Agency after the initial audit of the Agency's books has been completed.

### 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, 2014, 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.

#### Modesto Regional Fire Authority

The City participates in the newly formed Modesto Regional fire Authority which was established by the City of Modesto, the Salida Fire Protection District, and the County of Stanislaus on January 17, 2011. The purpose of the authority is to provide fire suppression, protection and prevention, emergency management and related services including but not limited to technical rescue, emergency medical and transport services, and hazardous materials mitigation, as well as providing facilities and personnel for such services. For the fiscal year ended June 30, 2014, the City's payments to the Agency were \$24,090,642.

#### Stanislaus Regional Water Authority

The City participates in the newly formed Stanislaus Regional Water Authority which was established between the City of Ceres, Modesto and Turlock on September 27, 2011. The purpose of the authority is direct the future of the proposed Regional Surface Water Supply Project (RSWSP). The authority would purchase water from the Turlock Irrigation District, would treat such water, and make treated water available "at cost" to the participating agencies. For the fiscal year ended June 30, 2014, the City's payments to the Agency were \$20,884.

### 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 2008 Water Revenue 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 \$11,897,047. 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 City and MID have agreed upon an expansion of the initial Domestic Water Project facilities beyond the existing design capacity of 36 million gallons per day ("mgd") to a design capacity of 72 mgd. In June 2007, the MID issued \$93,190,000 Domestic Water Project revenue bonds pursuant to the terms of the existing treatment and delivery agreement. On August 14, 2013, Modesto Irrigation District Financing Authority refunded the 1998 D Bonds, with 2013 G Bonds. As of June 30, 2014, the total outstanding on the MID bonds is: \$43,270,000 for the 2013 G Bonds and \$93,190,000 for the 2007 F Bonds, for a total of \$136,460,000. Refer to the long term debt section (Note C) with more information about the debt schedule.

### G. POST-RETIREMENT HEALTH CARE DEFINED BENEFIT PLAN

#### Plan Description

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 hired before January 1, 2011, 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 the health insurance allowance for retirees with no accumulated sick leave. As of June 30, 2014 there were 494 retirees receiving

these health care benefits.

The OPEB Plan provisions and benefits in effect at June 30, 2014, are summarized as follows:

Benefit Types Provided	Police (including Management)	General Employees	Management	Fire	Fire Management
Duration of Benefits	One month per eight hours of converted sick leave	One month per eight hours of converted sick leave	One month per eight hours of converted sick leave	Lifetime	One month per eight hours of converted sick leave
City Health Allowance per month	\$621.00 for single \$1,100.00 with dependents	\$621.00 for single \$1,100.00 with dependents	\$621.00 for single \$1,100.00 with dependents	\$119.00	\$621.00 for single \$1,100.00 with dependents

Except for the Fire group, the City health allowance amounts may increase each year based on the health allowance for active employees but for some union groups newly retired employees will not have this option due to these health allowances being frozen. For the Fire group, the City health allowance amounts increase each year in accordance with Government Code Section 22825.

Funding Policy and Actuarial Assumptions

The City's funding policy for the Plan is to fund benefits on a pay-as-you-go basis. The annual required contribution was determined as part of the January 1, 2013 actuarial valuation using the entry age normal actuarial cost method. This is a projected benefit cost method, which takes into account those benefits that are expected to be earned in the future as well as those already accrued. The actuarial assumptions included (a) 4% investment rate of return, (b) 8.5% graded down to ultimate 5% rate over 7 years Medical cost trend rate; 5% Dental/Vision cost trend rate (c) Projected salary increases are based on California Public Employee Retirement System (CalPERS) experience study 1997 to 2007 for miscellaneous, police and fire (refer to chart below). The actuarial methods and assumptions used include techniques that are designed to reduce the short-term volatility in actuarial accrued liabilities. Actuarial calculations reflect a long-term perspective and actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as results are compared to past expectations and new estimates are made about the future. The City's OPEB 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, 2014 was 30 years.

Projected Salary Increases  
(CalPERS experience study 1997 to 2007)

Service	Miscellaneous	Police	Fire
0	12.65%	11.15%	10.71%
3	8.26%	7.25%	7.74%
5	6.71%	5.76%	6.49%
10	4.89%	4.43%	4.83%
15	4.38%	4.13%	4.19%
20	4.00%	3.84%	3.84%
25	3.78%	3.66%	3.67%
30	3.78%	3.66%	3.67%

The City has set aside \$10,143,253 of Employee Benefits Management Internal Service Fund cash and investments to be used to fund the above benefits. Generally accepted accounting principles permit assets to be treated as OPEB assets and deducted from the Actuarial Accrued Liability when such assets are placed in an irrevocable trust or equivalent arrangement. Since the City's Internal Service Fund does not meet this

requirement, the assets have been excluded from the actuarial study and calculation. This funding policy means that the City contributions are considered to be on a pay-as-you-go basis. As a result, the City has calculated and recorded the Net OPEB Obligation, representing the difference between the ARC and the pay-as-you-go contributions, as presented below.

In prior years, the City estimated and recorded an accrued liability representing unfunded retiree pension costs in its Employee Benefits Management Internal Service Fund. In accordance with GASB 45, municipalities are permitted to retain an estimated liability for prior years unfunded OPEB costs (liability at transition), so long as it is calculated in a manner consistent with GASB Statement 27, which employed methodologies consistent with those now required under GASB 45.

The Plan annual required contributions and actual contributions for the year ended June 30, 2014 is set forth below:

Fiscal Year	Annual Required Contribution (ARC)	Interest on Net OPEB Obligations	ARC Adjustments	Annual OPEB Cost	Actual Contribution	Net OPEB Obligation
6/30/2010	\$5,627,617	-	(\$1,309,782)	\$4,317,835	\$2,573,072	\$40,091,418
6/30/2011	\$12,170,874	1,821,083	(\$1,749,474)	\$12,242,483	\$3,822,097	\$48,511,804
6/30/2012	\$12,170,874	2,157,898	(\$2,073,045)	\$12,255,727	\$4,436,224	\$56,331,307
6/30/2013	\$8,564,803	2,470,678	(\$4,544,921)	\$6,490,560	\$4,924,253	\$57,897,614
6/30/2014	\$8,564,803	2,470,678	(\$4,544,921)	\$6,490,560	\$4,818,434	\$59,569,740

The Schedule of Funding Progress presents multi-year trend information about whether the actuarial accrued liabilities are increasing or decreasing over time.

Actuarial Valuation Date	Actuarial Value of Assets (A)	Entry Age Actuarial Accrued Liability (B)	Overfunded (Underfunded) Actuarial Accrued Liability (A-B)	Funded Ratio (A/B)	Covered Payroll (C)	Overfunded (Underfunded) Actuarial Liability as Percentage of Covered Payroll [(A-B)/C]
12/1/2008	\$0	\$53,361,991	(\$53,361,991)	0.00%	\$82,049,847	-65.04%
6/30/2010	\$0	\$104,399,231	(\$104,399,231)	0.00%	\$81,027,934	-128.84%
01/01/2013	\$0	\$78,245,964	(\$78,245,964)	0.00%	\$77,058,743	-101.54%

Annual OPEB Cost for Fiscal Year Ending June 30, 2014.

	Amount
Annual Required Contribution	\$8,564,803
Interest on Net OPEB Obligation	2,470,678
ARC Adjustments	<u>-4,544,921</u>
Total Annual OPEB Cost	\$6,490,560

H. DEFINED BENEFIT PENSION PLAN

Plan Description

The City contributes to the (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 for some union groups the employee pays the majority or at least close to half of this contribution. The City is required to contribute at an actuarially determined rate; the current rate is 11.984% of annual covered payroll for non-safety employees and 30.607% for safety employees. The contribution requirements of plan members and the City are established and may be amended by CalPERS.

Annual Pension Cost

For 2014, the City's annual pension cost of \$14,956,571 for CalPERS was equal to the City's required and actual contributions. Additionally, the City's annual pension cost for 2013 has been updated to reflect some additional adjustments made that were not reflected in 2013. The required contribution was determined as part of the June 30, 2013 actuarial valuation using the entry age normal actuarial cost method. This is a projected benefit cost method, which takes into account those benefits that are expected to be earned in the future as well as those already accrued. The actuarial assumptions included (a) 7.5% 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 2.75%. 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, 2014 was 30 years for both the miscellaneous and safety plans. The schedule of funding progress presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

**THREE-YEAR TREND INFORMATION FOR PERS – MISCELLANEOUS PLAN**

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/12	4,737,318	100%	-
6/30/13	4,413,443	100%	-
6/30/14	5,122,173	100%	-

**THREE-YEAR TREND INFORMATION FOR PERS – SAFETY PLAN**

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/12	9,160,135	100%	-
6/30/13	8,285,448	100%	-
6/30/14	9,834,398	100%	-

I. PRIOR YEAR ADJUSTMENTS

Governmental Activities

A prior year adjustment was reported in the General Fund in the amount of (\$323,648) to account for revenue receipt to the General Fund in error, an interfund loan payment and a prepaid expense was accounted for incorrectly. The Housing and Community Development reported a prior year adjustment in the amount of \$259,184 to correct the loan payable balance based on some loans which had been disbursed in a prior year. The prior year adjustments reported in other governmental funds was to correct revenue receipts miscoded in error and correction to prior year accruals which were miscalculated in the amount of \$29,269. The total amount for the

prior year adjustment for all governmental funds total is (\$35,195).

The governmental activity prior year adjustment was from the internal service funds to account for the prior year Employee Benefits Management contributions made by the Modesto Regional Fire Authority (MRFA) that were transferred to the MRFA Employee Benefits Management Fund. Additionally, there were some corrections to some governmental capital assets that were identified as part of the annual inventory review. The total amount reported for the governmental activities is (\$680,701).

Business-type Activities

The Water fund had a prior year adjustment to correct a loan payable accounted for incorrectly and a construction in progress correction in the amount of \$535,623.

In the Sewer a prior year adjustment was to correct construction projects that were capitalized in error and capital cost that were not capitalized in the amount of (\$569,356).

Additionally, for other Enterprise funds, a correction was made to account for annual passes that were not deferred correctly in the prior year. The total for the other Enterprise funds were (\$11,311). The total amount reported for the business-type activities is (\$45,044).

J. DEFICIENCY OF EXPENDITURES OVER APPROPRIATIONS

For the year ended June 30, 2014, expenditures exceeded appropriations as follows:

General Fund

<u>Expenditures</u>	<u>Amount</u>
Parks and recreation- Recreation division	\$123,871

J. SUBSEQUENT EVENTS

On July 1, 2014, the City Council approved the issuance of the City of Modesto Community Facilities District No. 2004-1 (Village One #2) 2014 Special Tax Refunding bonds, in aggregate principal amount not to exceed \$31 million. The refunding of the 2005 bonds will result in a net present value savings of 4.64% of the refunded part amount which will result in \$216,370.44 of savings for the district.

On October 14, 2014, the City Council approved the issuance of the City of Modesto Community Facilities District No. 2003-1 (Fairview Village) 2014 Special Tax Refunding bonds, in an aggregate principal amount not to exceed \$5 million. The refunding of the 2006 bonds will result in a net present value savings of 3% of the refunded part amount which will result in \$902,000 of savings for the district.

**DIVIDER**

**REQUIRED  
SUPPLEMENTARY  
INFORMATION**



## **REQUIRED SUPPLEMENTARY INFORMATION**



## **SCHEDULE 1 - SCHEDULE OF FUNDING PROGRESS FOR PERS**

Actuarial Valuation Date**	Actuarial Value of Assets (A)	Entry Age Actuarial Accrued Liability (B)	Overfunded (Underfunded) Actuarial Accrued Liability (A - B)	Funded Ratio (A/B)	Covered Payroll (C)	Unfunded Actuarial Liability as Percentage of Covered Payroll [(A - B)/C]
<b>6/30/08:</b>						
Misc.	\$273,210,580	\$288,300,448	\$(15,089,868)	94.8%	47,469,554	31.8%
Safety	303,140,879	343,910,847	(40,769,968)	88.1%	34,990,413	116.5%
<b>6/30/09:</b>						
Misc.	\$285,106,834	\$313,072,676	\$(27,965,842)	91.1%	45,995,050	60.8%
Safety	317,429,425	373,587,194	(56,157,769)	85.0%	33,646,382	166.9%
<b>6/30/10:</b>						
Misc.	\$295,173,127	\$324,144,575	\$(28,971,448)	91.1%	\$45,266,607	64.0%
Safety	331,652,327	389,471,746	(57,819,419)	85.2%	34,150,658	169.3%
<b>6/30/11:</b>						
Misc.	\$306,459,646	\$343,774,527	\$(37,314,881)	89.1%	\$44,835,279	83.2%
Safety	347,820,127	414,530,888	(66,710,761)	83.9%	31,860,655	209.4%
<b>6/30/12:</b>						
Misc.	\$313,294,788	\$355,854,519	\$(42,559,731)	88.0%	\$43,198,704	98.5%
Safety	360,067,639	434,393,156	(74,325,517)	82.9%	30,442,049	244.1%
<b>6/30/13</b>						
Misc.	\$284,101,120	\$364,661,204	\$(80,560,084)	77.9%	\$42,840,741	188.0%
Safety	327,896,977	456,987,023	(129,090,046)	71.8%	30,185,001	427.7%

\*\* Most recent actuarial dated information is for June 30, 2013.

### SUMMARY ACTUARIAL INFORMATION FOR PENSION PLAN

Valuation Date	June 30, 2013
Actuarial Cost Method	Entry Age Normal Cost Method
Amortization Method	Level percent of Payroll
Average Remaining Period	26 Years (Misc) and 28 Years (Safety) as of the Valuation Date
Asset Valuation Method	15 Year Smoothed Market

### ACTUARIAL ASSUMPTIONS

Investment Rate of Return	7.5% (net of administrative expenses)
Overall Payroll Growth	3.30% to 14.20% depending on Age, Service, and type of employment
Inflation Rate	2.75%
Payroll Growth	3.00%
Individual Salary Growth	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 2.75% and an annual production growth of 0.25%.

## SCHEDULE 2 - SCHEDULE OF FUNDING PROGRESS FOR OPEB

Actuarial Valuation Date**	Actuarial Value of Assets (A)	Entry Age Actuarial Accrued Liability (B)	Overfunded (Underfunded) Actuarial Accrued Liability (A-B)	Funded Ratio (A/B)	Covered Payroll (C)	Overfunded (Underfunded) Actuarial Liability as Percentage of Covered Payroll [(A-B)/C]
12/1/2008	\$0	\$53,361,991	(\$53,361,991)	0.00%	\$82,049,847	-65.04%
6/30/2010	\$0	\$104,399,231	(\$104,399,231)	0.00%	\$81,027,934	-128.84%
1/01/2013	\$0	\$78,245,964	(\$78,245,964)	0.00%	\$77,058,743	-101.54%

\*\* The valuation date available is through 2013.

## SCHEDULE 3- EMPLOYER CONTRIBUTIONS (OPEB)

Fiscal Year	Annual Required Contribution (ARC)	Actual Contribution	Percentage of ARC Contributed
6/30/2009	\$5,627,617	\$2,862,583	50.8%
6/30/2010	\$5,627,617	\$2,573,072	45.7%
6/30/2011	\$12,170,874	\$3,822,097	31.4%
6/30/2012	\$12,170,874	\$4,436,224	36.4%
6/30/2013	\$8,564,803	\$4,924,253	57.4%

Annual OPEB Cost for Fiscal Year Ending June 30, 2014.

	Amount	Percentage of Compensation
Annual Required Contribution	\$8,564,803	11.11%
Interest on Net OPEB Obligation	2,470,678	3.21%
ARC Adjustments	<u>-4,544,921</u>	<u>-5.90%</u>
Total Annual OPEB Cost	\$6,490,560	8.42%

## SUMMARY ACTUARIAL INFORMATION FOR OPEB

Valuation Date	January 1, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Over 20-year period, level dollar payment
Amortization Period	20 years for initial base as of January 1, 2013

## ACTUARIAL ASSUMPTIONS

Investment Rate of Return	4.00%
Medical cost trend rate	8.50% graded down to ultimate 5.00% rate over 7 years
Dental/Vision trend rate	5.00%
Projected Payroll Increases	N/A, level dollar amortization

**CITY OF MODESTO**  
**SCHEDULE OF REVENUES - BUDGET AND ACTUAL - GENERAL FUND (GAAP BASIS)**  
**Year ended June 30, 2014**

	Budget		Actual	Variance with Final Budget
	Original	Final		
<b><u>TAXES:</u></b>				
Utility users tax	\$ 19,000,000	\$ 19,500,000	\$ 20,153,653	\$ 653,653
Property tax	11,575,213	12,147,318	12,304,010	156,692
Transient occupancy tax	1,650,000	1,800,000	1,879,825	79,825
Franchise tax	3,924,649	4,100,000	4,043,913	(56,087)
Business license tax	9,712,420	10,000,000	10,573,820	573,820
<b>Total taxes</b>	<b>45,862,282</b>	<b>47,547,318</b>	<b>48,955,221</b>	<b>1,407,903</b>
<b>LICENSES AND PERMITS</b>	<b>70,016</b>	<b>70,016</b>	<b>97,591</b>	<b>27,575</b>
<b><u>INTERGOVERNMENTAL:</u></b>				
Sales tax	20,023,407	20,023,407	20,272,367	248,960
In-lieu sales tax	7,789,237	7,789,237	7,379,572	(409,665)
Motor vehicle license fees	12,135,383	12,135,383	12,494,642	359,259
State	620,000	620,000	883,804	263,804
County	126,410	126,410	213,344	86,934
Federal	-	115,342	129,074	13,732
Other intergovernmental	1,886,500	1,907,326	2,879,791	972,465
<b>Total intergovernmental</b>	<b>42,580,937</b>	<b>42,717,105</b>	<b>44,252,594</b>	<b>1,535,489</b>
<b><u>CHARGES FOR SERVICES:</u></b>				
General government	2,627,923	2,631,279	2,487,612	(143,667)
Community development	2,589,662	2,589,662	2,559,849	(29,813)
Parks and recreation	2,451,304	2,682,196	2,607,713	(74,483)
Public safety	718,484	1,029,485	1,157,778	128,293
Indirect cost recovery	3,133,543	3,133,543	3,133,543	-
<b>Total charges for services</b>	<b>11,520,916</b>	<b>12,066,165</b>	<b>11,946,495</b>	<b>(119,670)</b>
<b><u>INTEREST AND RENT</u></b>	<b>280,360</b>	<b>280,360</b>	<b>447,456</b>	<b>167,096</b>
<b><u>NET INCREASE (DECREASE) IN FAIR VALUE OF INVESTMENTS</u></b>	<b>-</b>	<b>-</b>	<b>(106,265)</b>	<b>(106,265)</b>
<b><u>FINES AND FORFEITURES</u></b>	<b>791,610</b>	<b>791,610</b>	<b>924,596</b>	<b>132,986</b>
<b><u>MISCELLANEOUS:</u></b>				
Mandated cost recovery	120,000	120,000	79,000	(41,000)
Other	1,916,798	1,915,239	4,362,966	2,447,727
<b>Total miscellaneous</b>	<b>2,036,798</b>	<b>2,035,239</b>	<b>4,441,966</b>	<b>2,406,727</b>
<b>Total revenues</b>	<b>\$ 103,142,919</b>	<b>\$ 105,507,813</b>	<b>\$ 110,959,654</b>	<b>\$ 5,451,841</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, 2014**

	Budget		Actual	Variance with Final Budget
	Original	Final		
General government:				
City council	\$ 389,412	\$ 388,829	\$ 379,609	\$ 9,220
Personnel/training	1,303,803	1,326,723	1,179,771	146,952
City manager	1,466,126	1,521,170	1,365,557	155,613
City attorney	2,282,224	2,982,023	2,310,369	671,654
City clerk/auditor	838,038	836,024	702,365	133,659
Finance	4,623,174	4,630,435	4,198,855	431,580
Other	914,500	1,677,792	1,239,616	438,176
Total general government	<u>11,817,277</u>	<u>13,362,997</u>	<u>11,376,142</u>	<u>1,986,855</u>
Community development	<u>5,459,177</u>	<u>5,701,051</u>	<u>5,084,074</u>	<u>616,977</u>
Parks and recreation:				
Operations and Maintenance Dept:				
Service and maintenance	8,162,661	8,443,526	7,385,207	1,058,319
Community Services & Neighborhood Connection:				
Administration	2,498,485	2,567,240	1,336,966	1,230,274
Planning and development	253,867	289,241	283,271	5,970
Culture	466,144	495,161	485,510	9,651
Recreation division	1,591,475	1,514,980	1,638,851	(123,871)
Facilities	290,120	290,305	279,096	11,209
Total parks and recreation	<u>13,262,752</u>	<u>13,600,453</u>	<u>11,408,901</u>	<u>2,191,552</u>
Public safety:				
Fire protection	24,590,642	24,109,485	24,109,485	-
Police protection	49,616,684	50,161,087	48,821,335	1,339,752
Total public safety	<u>74,207,326</u>	<u>74,270,572</u>	<u>72,930,820</u>	<u>1,339,752</u>
Total expenditures by department	<u>104,746,532</u>	<u>106,935,073</u>	<u>100,799,937</u>	<u>6,135,136</u>
Total expenditures	<u>\$ 104,746,532</u>	<u>\$ 106,935,073</u>	<u>\$ 100,799,937</u>	<u>\$ 6,135,136</u>

NOTE: The expenditures by function amounts listed above include the capital outlay expenditures within each department.

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 - HOUSING**  
**AND COMMUNITY DEVELOPMENT SPECIAL REVENUE FUND**  
**Year ended June 30, 2014**

	Budget		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Intergovernmental - federal grants	\$ 2,170,871	\$ 2,170,871	\$ 4,742,902	\$ 2,572,031
Charges for services	262,096	262,096	264,074	1,978
Interest and rent - interest	-	-	(1,137)	(1,137)
Net increase in fair value of investments	-	-	25,780	25,780
Miscellaneous	-	-	-	-
Total revenues	<u>2,432,967</u>	<u>2,432,967</u>	<u>5,031,619</u>	<u>2,598,652</u>
<b>EXPENDITURES</b>				
Community development	6,381,417	6,406,558	4,495,170	1,911,388
Debt service:				
Principal retirement	201,000	201,000	201,000	-
Interest	177,064	177,064	91,085	85,979
Total expenditures	<u>6,759,481</u>	<u>6,784,622</u>	<u>4,787,255</u>	<u>1,997,367</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>(4,326,514)</u>	<u>(4,351,655)</u>	<u>244,364</u>	<u>4,596,019</u>
<b>OTHER FINANCING USES:</b>				
Transfers in	-	-	-	-
Transfers out	-	-	(100,808)	(100,808)
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>-</u>	<u>(100,808)</u>	<u>(100,808)</u>
NET CHANGE IN FUND BALANCE	(4,326,514)	(4,351,655)	143,556	4,495,211
FUND BALANCES, JULY 1	20,171,931	20,171,931	20,171,931	-
PRIOR PERIOD ADJUSTMENT	-	-	259,184	259,184
FUND BALANCES, JUNE 30	<u>\$ 15,845,417</u>	<u>\$ 15,820,276</u>	<u>\$ 20,574,671</u>	<u>\$ 4,754,395</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, 2014**

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. Authority to approve any adjustment in the amount of \$25,000 or less is delegated to the Director of Finance.
  - b. Authority to approve any adjustment in an amount between \$25,000 and \$50,000 is delegated to the City Manager.
  - c. Authority for any budget adjustment more than \$50,000 is delegated to the parties described below:
    - a. Items requiring City Council Action – appropriation of undesignated reserves; appropriation of new revenues; transfers of appropriations between funds (inter-fund transfers); creation of inter-fund loans; creation of, or increase in, any multi-year appropriation.
    - b. Items delegated to the City Manager – transfer appropriations between departments within a fund; changing any capital equipment appropriation; appropriation of reserves for litigation on a case-by-case basis; appropriation of developer payments not previously budgeted.
    - c. Items delegated to the Director of Finance – appropriation of grant interest; revise the allocation of Internal Service Fund charges between departments provided that the total allocated amount does not increase; changing any CIP line item appropriation; make technical budget corrections to implement the intent of Council approved actions and resolutions.
    - d. Items delegated to Department Directors – transfer appropriations within a department, within a single fund.
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.

**CITY OF MODESTO**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (CONT)**  
**YEAR ENDED JUNE 30, 2014**

7. For each legally adopted operating budget, expenditures may not exceed budgeted appropriations at the appropriation unit 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 complete 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.

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**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.

**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.

**SPECIAL GAS TAX STREET IMPROVEMENTS FUND** – To account for State-collected, locally-shared gas tax monies. These funds may be used for all street and traffic purposes including construction, purchase of rights-of-way, and maintenance.

### 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.

**SECURITIES FOR FUTURE IMPROVEMENTS FUND** – To account for the collection of impact fees for approved development projects to construct facilities needed for future development.

**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.

**SUCCESSOR REDEVELOPMENT HOUSING AGENCY FUND** – To account for the housing redevelopment capital projects financed by the Successor Redevelopment Housing Agency of the City of Modesto.

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

### **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:

**PUBLIC FINANCING AUTHORITY FUND** – To account for payment of debt issued to finance projects authorized by the Modesto Public Financing Authority.

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**CITY OF MODESTO**  
**COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS**  
**June 30, 2014**

	Special Revenue					
	Operating Grants	Local Transportation	Traffic Safety	Downtown Improvement District	Strategic Planning and Development	Special Gas Tax Street Improvement
<b>ASSETS</b>						
Cash and cash equivalents	\$ 3,778,798	\$ 1,418,075	\$ 2,221,182	\$ 12,488	\$ 709,151	\$ 15,532,881
Cash and cash equivalents with fiscal agent	-	-	-	-	-	-
Receivables:						
Accounts	83,878	-	-	-	-	28,680
Interest	5,224	1,125	-	20	347	24,989
Utilities, net	10,916	-	-	-	-	-
Taxes	-	-	-	-	-	255,584
Due from governments	280,809	2,196,221	54,271	-	-	1,126,413
Notes receivable, net	70,179	-	-	-	-	-
Prepaid expenditures	75	-	-	-	-	3,059
Property held for resale	-	-	-	-	-	-
<b>Total assets</b>	<b>\$ 4,229,879</b>	<b>\$ 3,615,421</b>	<b>\$ 2,275,453</b>	<b>\$ 12,508</b>	<b>\$ 709,498</b>	<b>\$ 16,971,606</b>
<b>LIABILITIES AND AND FUND BALANCES</b>						
Liabilities:						
Accounts payable	\$ 125,837	\$ 294	\$ 70,122	-	\$ 383	\$ 1,330,236
Accrued salaries and benefits	79,336	-	3,193	-	-	82,333
Interest Payable	65	-	-	-	-	-
Due to other funds	-	-	-	-	-	-
Due to other governments	-	-	-	-	-	-
Approved loans payable	-	-	-	-	-	-
Unearned revenue	593,906	3,509,222	-	-	-	12,576,868
Refundable deposits	-	-	-	-	-	-
Advances from other funds	43,352	-	-	-	-	-
<b>Total liabilities</b>	<b>842,496</b>	<b>3,509,516</b>	<b>73,315</b>	<b>-</b>	<b>383</b>	<b>13,989,437</b>
Fund balances:						
Non-spendable	75	-	-	-	-	3,059
Restricted	3,387,308	105,905	2,202,138	-	-	-
Committed	-	-	-	-	-	-
Assigned	-	-	-	12,508	709,115	2,979,110
Unassigned	-	-	-	-	-	-
<b>Total fund balances</b>	<b>3,387,383</b>	<b>105,905</b>	<b>2,202,138</b>	<b>12,508</b>	<b>709,115</b>	<b>2,982,169</b>
<b>Total liabilities and fund balances</b>	<b>\$ 4,229,879</b>	<b>\$ 3,615,421</b>	<b>\$ 2,275,453</b>	<b>\$ 12,508</b>	<b>\$ 709,498</b>	<b>\$ 16,971,606</b>

Capital Projects						
Special Fund for Capital Outlays	Parks	Securities for Future Improvements	Capital Grants	Community Facilities Districts	Successor Revelopment Housing Agency	Capital Facility Fees
\$ -	\$ 278,358	\$ 66,397	\$ -	\$ 12,669,284	\$ 2,000	\$ 26,893,236
-	77,692	-	-	6,383	-	-
1,847	-	-	-	-	-	-
-	401	-	-	20,020	-	48,305
-	-	-	-	-	-	-
-	127,917	-	3,033,342	14,702	1,192,004	673,786
-	-	-	-	-	2,211,000	-
-	-	-	-	-	-	-
-	-	-	-	-	784,000	-
<u>\$ 1,847</u>	<u>\$ 484,368</u>	<u>\$ 66,397</u>	<u>\$ 3,033,342</u>	<u>\$ 12,710,389</u>	<u>\$ 4,189,004</u>	<u>\$ 27,615,327</u>
\$ 1,478	\$ 7,419	-	\$ 1,376,984	\$ 494,395	\$ 1,308	53,011
133	-	-	-	5,020	-	-
-	-	-	-	-	-	-
38,995	-	-	823,616	-	-	-
-	-	-	-	-	661,338	-
-	-	-	-	-	575,000	-
-	-	-	-	-	-	-
-	-	-	-	7,306	-	-
-	-	-	-	-	145,727	1,012,544
<u>40,606</u>	<u>7,419</u>	<u>-</u>	<u>2,200,600</u>	<u>506,721</u>	<u>1,383,373</u>	<u>1,065,555</u>
-	-	-	-	-	-	-
-	476,949	66,397	832,742	12,203,668	2,995,000	26,549,772
-	-	-	-	-	-	-
(38,759)	-	-	-	-	(189,369)	-
<u>(38,759)</u>	<u>476,949</u>	<u>66,397</u>	<u>832,742</u>	<u>12,203,668</u>	<u>2,805,631</u>	<u>26,549,772</u>
<u>\$ 1,847</u>	<u>\$ 484,368</u>	<u>\$ 66,397</u>	<u>\$ 3,033,342</u>	<u>\$ 12,710,389</u>	<u>\$ 4,189,004</u>	<u>\$ 27,615,327</u>

	<u>Debt Service</u> <u>Public</u> <u>Financing</u> <u>Authority</u>	<u>Total</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 1,626	\$ 63,583,476
Cash and cash equivalents with fiscal agent	4,850,986	4,935,061
Receivables:		
Accounts	-	114,405
Interest	-	100,431
Utilities, net	-	10,916
Taxes	-	255,584
Due from governments	-	8,699,465
Notes receivable, net	-	2,281,179
Prepaid expenditures	-	3,134
Property held for resale	-	784,000
	<u>          </u>	<u>          </u>
Total assets	<u>\$ 4,852,612</u>	<u>\$ 80,767,651</u>
 <u>LIABILITIES AND FUND</u> <u>BALANCES</u>		
Liabilities:		
Accounts payable	\$ 2,500	\$ 3,463,967
Accrued salaries and benefits	-	170,015
Interest payable	-	65
Due to other funds	-	862,611
Due to other governments	-	661,338
Approved loans payable	-	575,000
Unearned revenue	-	16,679,996
Refundable deposits	-	7,306
Advances from other funds	-	1,201,623
	<u>          </u>	<u>          </u>
Total liabilities	<u>2,500</u>	<u>23,621,921</u>
Fund balances:		
Non-spendable	-	3,134
Restricted	4,850,986	53,670,865
Committed	-	-
Assigned	-	3,700,733
Unassigned	(874)	(229,002)
	<u>          </u>	<u>          </u>
Total fund balances	<u>4,850,112</u>	<u>57,145,730</u>
	<u>          </u>	<u>          </u>
Total liabilities and fund balances	<u>\$ 4,852,612</u>	<u>\$ 80,767,651</u>

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**CITY OF MODESTO**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS**  
**Year ended June 30, 2014**

	Special Revenue					
	Operating Grants	Local Transportation	Traffic Safety	Downtown Improvement District	Strategic Planning and Development	Special Gas Tax Street Improvement
<b>REVENUES:</b>						
Taxes	\$ -	\$ -	\$ -	\$ 181,689	\$ -	\$ 959,217
Licenses and permits	61,541	-	-	-	-	15,602
Intergovernmental	1,905,315	204,932	-	-	-	7,455,110
Charges for services	4,723,635	-	238,188	-	67,927	1,198,653
Special assessments levied	70,835	-	-	-	-	-
Interest and rent	31,803	5,080	-	96	1,965	167,621
Net increase (decrease) in fair value of investments	(18,861)	(4,114)	-	(74)	(1,270)	(91,385)
Fines and forfeits	-	-	920,011	-	-	-
Miscellaneous	148,475	-	-	-	-	49,334
Total revenues	<u>6,922,743</u>	<u>205,898</u>	<u>1,158,199</u>	<u>181,711</u>	<u>68,622</u>	<u>9,754,152</u>
<b>EXPENDITURES:</b>						
Current:						
General government	263,310	-	-	-	-	-
Community development	841,341	-	-	174,632	112,684	-
Highways and streets	-	18,433	-	-	-	8,560,147
Public works	3,088,701	-	-	-	-	-
Parks and recreation	532,704	-	-	-	-	-
Public safety	1,339,011	-	433,257	-	-	-
Capital outlay:						
General government	-	-	-	-	-	-
Community development	-	-	-	-	2,826	-
Highways and streets	-	93,465	-	-	-	1,836,995
Public works	60,209	-	-	-	-	-
Parks and recreation	-	-	-	-	-	-
Public safety	199,688	-	64,334	-	-	-
Debt service:						
Principal retirement	-	-	-	-	-	-
Interest	-	-	-	-	-	-
Other	-	-	-	-	-	-
Total expenditures	<u>6,324,964</u>	<u>111,898</u>	<u>497,591</u>	<u>174,632</u>	<u>115,510</u>	<u>10,397,142</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>597,779</u>	<u>94,000</u>	<u>660,608</u>	<u>7,079</u>	<u>(46,888)</u>	<u>(642,990)</u>
<b>OTHER FINANCING SOURCES (USES):</b>						
Transfers in	408,690	8,814	-	-	500,000	1,835,487
Transfers out	(15,621)	-	(520,841)	-	-	(1,582,118)
Sale of assets	-	-	-	-	-	185,115
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>393,069</u>	<u>8,814</u>	<u>(520,841)</u>	<u>-</u>	<u>500,000</u>	<u>438,484</u>
<b>NET CHANGE IN FUND BALANCES</b>	990,848	102,814	139,767	7,079	453,112	(204,506)
FUND BALANCES, July 1	2,379,745	1,320	2,062,371	5,429	256,003	3,186,675
PRIOR PERIOD ADJUSTMENT	16,790	1,771	-	-	-	-
FUND BALANCES, June 30	<u>\$ 3,387,383</u>	<u>\$ 105,905</u>	<u>\$ 2,202,138</u>	<u>\$ 12,508</u>	<u>\$ 709,115</u>	<u>\$ 2,982,169</u>

Capital Projects

Special Fund for Capital Outlays	Parks	Securities for Future Improvements	Capital Grants	Community Facilities Districts	Successor Revelopment Housing Agency	Capital Facility Fees
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-
2,500	120,809	-	4,008,549	19,561	10,448	3,596,856
-	1,365	59,059	-	344,157	-	613,745
-	-	-	-	1,992,949	-	-
(1,192)	14,174	7,338	-	67,236	(10,195)	285,711
487	(1,465)	-	-	-	-	-
-	-	-	-	(76,666)	4,785	(154,779)
-	11,971	-	-	-	2,000	-
<u>1,795</u>	<u>146,854</u>	<u>66,397</u>	<u>4,008,549</u>	<u>2,347,237</u>	<u>7,038</u>	<u>4,341,533</u>
-	-	-	-	-	-	-
-	-	-	-	1,897,383	-	-
-	-	-	166,319	-	-	-
-	-	-	-	-	-	-
-	317,282	-	-	-	-	29,336
-	-	-	-	-	-	-
77,738	-	-	2,099	-	-	-
-	-	-	-	2,440,404	668	3,547,040
-	-	-	2,670,653	-	-	-
-	-	-	-	-	-	-
-	42,812	-	1,394,711	-	-	-
3,977	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>81,715</u>	<u>360,094</u>	<u>-</u>	<u>4,233,782</u>	<u>4,337,787</u>	<u>668</u>	<u>3,576,376</u>
<u>(79,920)</u>	<u>(213,240)</u>	<u>66,397</u>	<u>(225,233)</u>	<u>(1,990,550)</u>	<u>6,370</u>	<u>765,157</u>
77,740	85,789	-	318,034	-	-	-
-	(30,250)	-	-	(23,231)	-	(166,863)
-	-	-	-	-	-	-
<u>77,740</u>	<u>55,539</u>	<u>-</u>	<u>318,034</u>	<u>(23,231)</u>	<u>-</u>	<u>(166,863)</u>
(2,180)	(157,701)	66,397	92,801	(2,013,781)	6,370	598,294
(36,579)	776,111	-	739,941	14,097,013	2,799,261	25,919,745
-	(141,461)	-	-	120,436	-	31,733
<u>\$ (38,759)</u>	<u>\$ 476,949</u>	<u>\$ 66,397</u>	<u>\$ 832,742</u>	<u>\$ 12,203,668</u>	<u>\$ 2,805,631</u>	<u>\$ 26,549,772</u>

**CITY OF MODESTO**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS**  
**Year ended June 30, 2014**

	Debt Service Public Financing Authority	Total
REVENUES:		
Taxes	\$ -	\$ 1,140,906
Licenses and permits	-	77,143
Intergovernmental	1,107,309	18,431,389
Charges for services	-	7,246,729
Special assessments levied	-	2,063,784
Interest and rent	3,401	573,038
Net increase (decrease) in fair value of investments	-	(343,342)
Fines and forfeits	-	920,011
Miscellaneous	-	211,780
Total revenues	1,110,710	30,321,438
EXPENDITURES:		
Current:		
General government	4,127	267,437
Community development	-	3,026,040
Highways and streets	-	8,744,899
Public works	-	3,088,701
Parks and recreation	-	879,322
Public safety	-	1,772,268
Capital outlay:		
General government	-	79,837
Community development	-	5,990,938
Highways and streets	-	4,601,113
Public works	-	60,209
Parks and recreation	-	1,437,523
Public safety	-	267,999
Debt service:		
Principal retirement	1,395,000	1,395,000
Interest	2,068,587	2,068,587
Other	872,350	872,350
Total expenditures	4,340,064	34,552,223
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(3,229,354)	(4,230,785)
OTHER FINANCING SOURCES (USES):		
Transfers in	2,712,312	5,946,866
Transfers out	-	(2,338,924)
Sale of assets	-	185,115
TOTAL OTHER FINANCING SOURCES (USES)	2,712,312	3,793,057
NET CHANGE IN FUND BALANCES	(517,042)	(437,728)
FUND BALANCES, July 1	5,367,154	57,554,189
PRIOR PERIOD ADJUSTMENT	-	29,269
FUND BALANCES, June 30	\$ 4,850,112	\$ 57,145,730

**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, 2014**

	Budget		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Licenses and permits	\$ 50,000	\$ 50,000	\$ 61,541	\$ 11,541
Intergovernmental	2,222,036	2,222,036	1,905,315	(316,721)
Charges for services	5,312,066	5,312,066	4,723,635	(588,431)
Special assessments	-	-	70,835	70,835
Interest and rent - interest	1,566	1,566	31,803	30,237
Net increase in fair value of investments	-	-	(18,861)	(18,861)
Fines and forfeits	-	-	-	-
Miscellaneous	142,360	142,360	148,475	6,115
Total revenues	<u>7,728,028</u>	<u>7,728,028</u>	<u>6,922,743</u>	<u>(805,285)</u>
<b>EXPENDITURES:</b>				
General government	315,798	555,798	263,310	292,488
Community development	3,911,452	3,911,452	841,341	3,070,111
Public works	4,900,813	4,900,581	3,148,910	1,751,671
Parks and recreation	885,207	885,207	532,704	352,503
Public safety	6,859,814	6,859,814	1,538,699	5,321,115
Total expenditures	<u>16,873,084</u>	<u>17,112,852</u>	<u>6,324,964</u>	<u>10,787,888</u>
DEFICIENCY OF REVENUES (UNDER) EXPENDITURES	<u>(9,145,056)</u>	<u>(9,384,824)</u>	<u>597,779</u>	<u>9,982,603</u>
<b>OTHER FINANCING SOURCES:</b>				
Transfers in	210,699	353,059	408,690	55,631
Transfers out	(100,000)	(100,000)	(15,621)	84,379
Sale of assets	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>110,699</u>	<u>253,059</u>	<u>393,069</u>	<u>140,010</u>
NET CHANGE IN FUND BALANCE	(9,034,357)	(9,131,765)	990,848	10,122,613
FUND BALANCES, JULY 1	2,379,745	2,379,745	2,379,745	-
PRIOR PERIOD ADJUSTMENT	-	-	16,790	16,790
FUND BALANCES, JUNE 30	<u>\$ (6,654,612)</u>	<u>\$ (6,752,020)</u>	<u>\$ 3,387,383</u>	<u>\$ 10,139,403</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, 2014**

	Budget		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Intergovernmental	\$ 1,517,863	\$ 1,517,863	\$ 204,932	\$ (1,312,931)
Interest and rent - interest	-	-	5,080	5,080
Net increase in fair value of investments	-	-	(4,114)	(4,114)
Miscellaneous	-	-	-	-
Total revenues	<u>1,517,863</u>	<u>1,517,863</u>	<u>205,898</u>	<u>(1,311,965)</u>
<b>EXPENDITURES:</b>				
Highways and streets	<u>2,001,048</u>	<u>2,001,048</u>	<u>111,898</u>	<u>1,889,150</u>
Total expenditures	<u>2,001,048</u>	<u>2,001,048</u>	<u>111,898</u>	<u>1,889,150</u>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	<u>(483,185)</u>	<u>(483,185)</u>	<u>94,000</u>	<u>577,185</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	-	50,000	8,814	(41,186)
Transfers out	-	(2,450,000)	-	2,450,000
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>-</u>	<u>(2,400,000)</u>	<u>8,814</u>	<u>2,408,814</u>
<b>NET CHANGE IN FUND BALANCE</b>	(483,185)	(2,883,185)	102,814	2,985,999
<b>FUND BALANCES, JULY 1</b>	<u>1,320</u>	<u>1,320</u>	<u>1,320</u>	<u>-</u>
<b>PRIOR PERIOD ADJUSTMENT</b>			1,771	
<b>FUND BALANCE (DEFICITS), JUNE 30</b>	<u>\$ (481,865)</u>	<u>\$ (2,881,865)</u>	<u>\$ 105,905</u>	<u>\$ 2,985,999</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, 2014**

	Budget		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Charges for services	\$ 183,360	\$ 183,360	\$ 238,188	\$ 54,828
Motor vehicle fines	850,000	850,000	920,011	70,011
Total revenues	<u>1,033,360</u>	<u>1,033,360</u>	<u>1,158,199</u>	<u>124,839</u>
<b>EXPENDITURES:</b>				
Public safety	<u>1,108,426</u>	<u>1,111,134</u>	<u>497,591</u>	<u>613,543</u>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	<u>(75,066)</u>	<u>(77,774)</u>	<u>660,608</u>	<u>738,382</u>
<b>OTHER FINANCING USES:</b>				
Transfers in	-	-	-	-
Transfers out	(500,000)	(520,841)	(520,841)	(0)
Total other financing uses	<u>(500,000)</u>	<u>(520,841)</u>	<u>(520,841)</u>	<u>(0)</u>
<b>NET CHANGE IN FUND BALANCE</b>	(575,066)	(598,615)	139,767	738,382
<b>FUND BALANCES, JULY 1</b>	<u>2,062,371</u>	<u>2,062,371</u>	<u>2,062,371</u>	<u>-</u>
<b>FUND BALANCES, JUNE 30</b>	<u>\$ 1,487,305</u>	<u>\$ 1,463,756</u>	<u>\$ 2,202,138</u>	<u>\$ 738,382</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, 2014

	Budget		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Taxes - business license tax	\$ 174,970	\$ 174,970	\$ 181,689	\$ 6,719
Interest and rent - interest	30	30	96	66
Net decrease in fair value of investments	-	-	(74)	(74)
Total revenues	<u>175,000</u>	<u>175,000</u>	<u>181,711</u>	<u>6,711</u>
<b>EXPENDITURES - community development</b>				
Downtown improvement district administration:				
Professional and contractual services	167,717	170,717	170,394	323
Materials and supplies	5,342	5,342	4,238	1,104
Other	-	-	-	0
Total expenditures	<u>173,059</u>	<u>176,059</u>	<u>174,632</u>	<u>1,427</u>
NET CHANGE IN FUND BALANCE	1,941	(1,059)	7,079	8,138
FUND BALANCES, JULY 1	<u>5,429</u>	<u>5,429</u>	<u>5,429</u>	<u>-</u>
FUND BALANCES, JUNE 30	<u>\$ 7,370</u>	<u>\$ 4,370</u>	<u>\$ 12,508</u>	<u>\$ 8,138</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, 2014**

	Budget		Actual	Variance with
	Original	Final		Final Budget - Positive (Negative)
<b>REVENUES:</b>				
Charges for services	\$ 56,109	\$ 56,109	\$ 67,927	\$ 11,818
Special assessments levied	-	-	-	-
Interest and rent - interest	-	-	1,965	1,965
Net decrease in fair value of investments	-	-	(1,270)	(1,270)
Miscellaneous	-	-	-	-
Total revenues	<u>56,109</u>	<u>56,109</u>	<u>68,622</u>	<u>12,513</u>
<b>EXPENDITURES:</b>				
Community development	228,251	228,251	115,510	112,741
Public works	-	-	-	-
Total expenditures	<u>228,251</u>	<u>228,251</u>	<u>115,510</u>	<u>112,741</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(172,142)</u>	<u>(172,142)</u>	<u>(46,888)</u>	<u>125,254</u>
<b>OTHER FINANCING USES:</b>				
Transfers in	-	500,000	500,000	-
Transfers out	-	-	-	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>-</u>	<u>500,000</u>	<u>500,000</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>(172,142)</u>	<u>(172,142)</u>	<u>453,112</u>	<u>625,254</u>
<b>FUND BALANCES, JULY 1</b>	<u>256,003</u>	<u>256,003</u>	<u>256,003</u>	<u>-</u>
<b>FUND BALANCES, JUNE 30</b>	<u>\$ 83,861</u>	<u>\$ 83,861</u>	<u>\$ 709,115</u>	<u>\$ 625,254</u>

**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, 2014**

	Budget		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Intergovernmental:				
Federal grants	\$ 5,295,482	\$ 5,295,482	7,455,110	\$ 2,159,628
Total intergovernmental revenues	5,295,482	5,295,482	7,455,110	2,159,628
Taxes	900,000	900,000	959,217	59,217
Licenses and permits	5,000	5,000	15,602	10,602
Charges for services	1,115,410	1,165,410	1,198,653	33,243
Interest and rent	75,000	75,000	167,621	92,621
Net increase in fair value of investments	-	-	(91,385)	(91,385)
Miscellaneous	60,250	60,250	49,334	(10,916)
Total revenues	<u>7,451,142</u>	<u>7,501,142</u>	<u>9,754,152</u>	<u>2,253,010</u>
<b>EXPENDITURES:</b>				
Current:				
Highway and streets	10,621,899	10,845,013	10,397,142	447,871
Total expenditures	<u>10,621,899</u>	<u>10,845,013</u>	<u>10,397,142</u>	<u>447,871</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>(3,170,757)</u>	<u>(3,343,871)</u>	<u>(642,990)</u>	<u>2,700,881</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	4,012,715	4,181,451	1,835,487	(2,345,964)
Transfers out	(521,733)	(1,117,985)	(1,582,118)	(464,134)
Sale of assets	-	-	185,115	185,115
TOTAL OTHER FINANCING SOURCES (USES)	<u>3,490,982</u>	<u>3,063,466.50</u>	<u>438,484</u>	<u>(2,624,983)</u>
NET CHANGE IN FUNDS BALANCE	320,225	(280,404)	(204,506)	75,898
FUND BALANCES, JULY 1	3,186,675	3,186,675	\$ 3,186,675	-
PRIOR PERIOD ADJUSTMENT	-	-	-	-
FUND BALANCES, JUNE 30	<u>\$ 3,506,900</u>	<u>\$ 2,906,271</u>	<u>\$ 2,982,169</u>	<u>\$ 75,898</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.

**COMPOST FUND** – To account for tip fees charged at the City's composting facility for processing various compostable materials and the sale of compost product. Excess revenues over expenses are set aside to protect the enterprise against market fluctuations, and to provide for capital improvements to the facility infrastructure.

**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.

**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.

**ABATEMENT AND PUBLIC NUISANCE FUND** – To account the activity for expenses and recovery for the cost for both dangerous and unsafe building and property abatements.

**CITY OF MODESTO**  
**COMBINING STATEMENT OF NET POSITION - NON MAJOR ENTERPRISE FUNDS**  
**June 30, 2014**

	Parking	Storm Drain	Compost
<u>ASSETS</u>			
Current assets:			
Cash and cash equivalents	\$ 262,376	\$ 7,033,445	\$ 4,821,878
Cash and cash equivalents with fiscal agent	-	-	-
Receivables:			
Accounts		-	480,694
Interest	386	10,935	8,818
Utilities, net	-	483,326	224,590
Inventories	-	-	-
Prepaid expenses	-	359	-
Due from governments	-	4,538	63,885
Property held for resale	630,000	-	-
	<u>892,762</u>	<u>7,532,603</u>	<u>5,599,865</u>
Total current assets			
Capital assets:			
Land and construction in progress	3,529,293	1,685,382	1,140,000
Other capital assets, net of accumulated depreciation	5,612,162	13,386,217	1,757,468
	<u>9,141,455</u>	<u>15,071,599</u>	<u>2,897,468</u>
Total assets	<u>\$ 10,034,217</u>	<u>\$ 22,604,202</u>	<u>\$ 8,497,333</u>
<u>LIABILITIES</u>			
Current liabilities:			
Accounts payable	\$ 35,696	\$ 52,553	\$ 57,209
Accrued salaries and benefits	9,563	10,983	45,165
Interest payable	-	-	341
Due to other funds	-	-	-
Due to other governments	-	-	-
Current portion - long-term debt	-	-	-
Total current liabilities	<u>45,259</u>	<u>63,536</u>	<u>102,715</u>
Noncurrent liabilities:			
Certificates of participation	-	-	-
Advances from other funds	-	1,324,704	991,800
Total liabilities	<u>45,259</u>	<u>1,388,240</u>	<u>1,094,515</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>			
Advances from grantors and third parties	-	-	2,952
<u>NET POSITION</u>			
Net investment in capital assets	9,141,455	15,071,599	2,897,468
Unrestricted	847,503	6,144,363	4,502,398
Total net position	<u>9,988,958</u>	<u>21,215,962</u>	<u>7,399,866</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 10,034,217</u>	<u>\$ 22,604,202</u>	<u>\$ 8,497,333</u>

Airport	Golf	Community Center	Abatement and Public Nuisance Fund	Total
\$ 1,333,128	\$ 46,062	\$ -	\$ 477,123	\$ 13,974,012
-	649,211	-	-	649,211
43,466	54,757	21,422	29,804	630,143
2,167	1,024	61.00	802	24,193
-	-	-	-	707,916
-	38,705	-	-	38,705
547	3,133	-	-	4,039
313,847	-	-	-	382,270
-	-	-	-	630,000
<u>1,693,155</u>	<u>792,892</u>	<u>21,483</u>	<u>507,729</u>	<u>17,040,489</u>
1,801,978	307,159	3,667,020	-	12,130,832
<u>7,946,997</u>	<u>1,198,444</u>	<u>5,710,275</u>	<u>-</u>	<u>35,611,563</u>
<u>\$ 11,442,130</u>	<u>\$ 2,298,495</u>	<u>\$ 9,398,778</u>	<u>\$ 507,729</u>	<u>\$ 64,782,884</u>
\$ 124,946	\$ 77,429	\$ 29,465	\$ 2,300	\$ 379,598
7,892	-	13,076	-	86,679
-	36,416	879	-	37,636
-	649,211	-	-	649,211
-	-	-	-	-
-	310,000	-	-	310,000
<u>132,838</u>	<u>1,073,056</u>	<u>43,420</u>	<u>2,300</u>	<u>1,463,124</u>
-	3,585,000	-	-	3,585,000
-	-	-	-	2,316,504
<u>132,838</u>	<u>4,658,056</u>	<u>43,420</u>	<u>2,300</u>	<u>7,364,628</u>
9,340	75,699	-	28,954	116,945
9,748,975	(2,389,397)	9,377,295	-	43,847,395
<u>1,550,977</u>	<u>(45,863)</u>	<u>(21,937)</u>	<u>476,475</u>	<u>13,453,916</u>
<u>11,299,952</u>	<u>(2,435,260)</u>	<u>9,355,358</u>	<u>476,475</u>	<u>57,301,311</u>
<u>\$ 11,442,130</u>	<u>\$ 2,298,495</u>	<u>\$ 9,398,778</u>	<u>\$ 507,729</u>	<u>\$ 64,782,884</u>

**CITY OF MODESTO**  
**COMBINING STATEMENT OF REVENUES, EXPENSES, AND**  
**CHANGES IN FUND NET POSITION - NON MAJOR ENTERPRISE FUNDS**  
**Year ended June 30, 2014**

	<u>Parking</u>	<u>Storm Drain</u>	<u>Compost</u>
<b>OPERATING REVENUES:</b>			
Charges for services	\$ 1,079,892	\$ 5,829,799	\$ 4,846,590
Miscellaneous	12,455	1,334	6,543
Total operating revenues	<u>1,092,347</u>	<u>5,831,133</u>	<u>4,853,133</u>
<b>OPERATING EXPENSES:</b>			
Salaries and wages	317,071	371,861	1,450,445
Contractual services	227,630	371,255	700,783
Utilities	149,145	24,054	8,946
Maintenance and supplies	51,652	1,972,627	1,217,137
Insurance	90,640	20,244	54,757
Employee benefits	110,820	167,462	493,475
Administration services	31,307	1,279,187	451,668
Allocated indirect administrative costs	31,435	146,206	152,282
Depreciation	402,046	572,673	224,653
Total operating expenses	<u>1,411,746</u>	<u>4,925,569</u>	<u>4,754,146</u>
OPERATING INCOME (LOSS)	<u>(319,399)</u>	<u>905,564</u>	<u>98,987</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Gain (Loss) on disposition of capital assets	41	53,970	11,970
Operating grants	-	-	366,318
Tax revenue	-	-	-
Tax expense	(20,829)	-	-
Interest income	2,689	43,646	50,199
Net increase in fair value of investments	(1,413)	(39,988)	(30,962)
Rental income	-	-	-
Interest expense	-	-	-
Trustee fees	-	-	-
Total nonoperating revenues (expenses)	<u>(19,512)</u>	<u>57,628</u>	<u>397,525</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	(338,911)	963,192	496,512
Capital contributions	-	-	960,534
Transfers in	-	700,000	-
Transfers out	<u>(4,248)</u>	<u>(44,601)</u>	<u>(211,458)</u>
CHANGE IN NET POSITION	(343,159)	1,618,591	1,245,588
NET POSITION (DEFICIT), July 1	10,332,117	19,597,371	6,154,278
PRIOR PERIOD ADJUSTMENT	<u>-</u>	<u>-</u>	<u>-</u>
NET POSITION (DEFICIT), June 30	<u>\$ 9,988,958</u>	<u>\$ 21,215,962</u>	<u>\$ 7,399,866</u>

	Airport	Golf	Community Center	Abatement and Public Nuisance Fund	Total
\$	624,415	\$ 2,195,895	\$ 225,024	\$ 201,825	\$ 15,003,440
	<u>10,115</u>	<u>385</u>	<u>5,777</u>	<u>-</u>	<u>36,609</u>
	<u>634,530</u>	<u>2,196,280</u>	<u>230,801</u>	<u>201,825</u>	<u>15,040,049</u>
	311,870	-	491,815	-	2,943,062
	637,066	2,158,420	71,306	28,607	4,195,067
	114,056	46,712	200,122	-	543,035
	166,287	161,153	118,525	-	3,687,381
	20,440	31,790	69,942	-	287,813
	107,535	-	127,181	-	1,006,473
	46,412	74,222	15,819	-	1,898,615
	30,701	42,935	-	-	403,559
	<u>637,307</u>	<u>72,512</u>	<u>747,570</u>	<u>-</u>	<u>2,656,761</u>
	<u>2,071,674</u>	<u>2,587,744</u>	<u>1,842,280</u>	<u>28,607</u>	<u>17,621,766</u>
	<u>(1,437,144)</u>	<u>(391,464)</u>	<u>(1,611,479)</u>	<u>173,218</u>	<u>(2,581,717)</u>
	-	-	-	-	65,981
	289,682	-	-	-	656,000
	254,200	-	-	-	254,200
	(471)	-	-	-	(21,300)
	13,856	-	(4,354)	4,555	110,591
	(8,549)	9,593	2,987	(2,932)	(71,264)
	188,406	102,575	338,244	-	629,225
	-	(238,068)	-	-	(238,068)
	-	(2,950)	-	-	(2,950)
	<u>737,124</u>	<u>(128,850)</u>	<u>336,877</u>	<u>1,623</u>	<u>1,382,415</u>
	(700,020)	(520,314)	(1,274,602)	174,841	(1,199,302)
	40,420	-	-	-	1,000,954
	-	898,126	539,388	-	2,137,514
	<u>(51,017)</u>	<u>-</u>	<u>-</u>	<u>(50,000)</u>	<u>(361,324)</u>
	(710,617)	377,812	(735,214)	124,841	1,577,842
	12,010,276	(2,802,521)	10,091,625	351,634	55,734,780
	<u>293</u>	<u>(10,551)</u>	<u>(1,053)</u>	<u>-</u>	<u>(11,311)</u>
\$	<u><u>11,299,952</u></u>	<u><u>(2,435,260)</u></u>	<u><u>9,355,358</u></u>	<u><u>476,475</u></u>	<u><u>57,301,311</u></u>

**CITY OF MODESTO**  
**COMBINING STATEMENT OF CASH FLOWS - NONMAJOR ENTERPRISE FUNDS**  
**Year ended June 30, 2014**

	Parking	Storm Drain	Compost
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Receipts from customers and users	\$ 1,104,254	\$ 5,842,932	\$ 4,763,680
Receipts from interfund services provided	-	15,810	-
Payments to suppliers	(311,234)	(1,247,456)	(863,239)
Payments to employees	(429,835)	(544,522)	(1,948,367)
Payments for interfund services used	(287,774)	(2,688,394)	(1,713,482)
Net cash provided (used) by operating activities	75,411	1,378,370	238,592
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>			
Operating grants received	-	-	366,318
Taxes received	-	-	-
Transfers in	-	700,000	-
Transfers out	(4,248)	(44,601)	(211,458)
Net cash provided (used) by noncapital financing activities	(4,248)	655,399	154,860
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>			
Advances from/to other funds	-	-	991,800
Acquisition and construction of capital assets	-	(62,435)	(1,160,795)
Gain/loss from sale of capital assets	41	53,970	11,970
Principal repayments	-	-	-
Interest paid	-	-	341
Trustee fees	-	-	-
Capital grants received	-	-	70,879
Net cash provided (used) by capital and related financing activities	41	(8,465)	(85,805)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Interest received	2,719	47,258	57,035
Net increase in the fair value of investments	(1,413)	(39,988)	(30,962)
Net cash provided (used) by investing activities	1,306	7,270	26,073
Net increase (decrease) in cash and cash equivalents	72,510	2,032,574	333,720
CASH AND CASH EQUIVALENTS, JULY 1	189,866	5,000,871	4,488,158
PRIOR PERIOD ADJUSTMENT	-	-	-
CASH AND CASH EQUIVALENTS, JUNE 30	\$ 262,376	\$ 7,033,445	\$ 4,821,878
<b>RECONCILIATION TO STATEMENT OF NET POSITION:</b>			
Cash and cash equivalents	\$ 262,376	\$ 7,033,445	\$ 4,821,878
Cash and cash equivalents with fiscal agent	-	-	-
TOTAL CASH AND CASH EQUIVALENTS	\$ 262,376	\$ 7,033,445	\$ 4,821,878

<u>Airport</u>	<u>Golf</u>	<u>Community Center</u>	<u>Abatement and Public Nuisance Fund</u>	<u>Total</u>
\$ 805,631	\$ 2,282,554	\$ 550,301	\$ 201,975	\$ 15,551,327
-	-	-	-	15,810
(679,064)	(2,338,199)	(290,537)	(26,307)	(5,756,036)
(423,975)	-	(620,363)	-	(3,967,062)
(240,420)	(204,914)	(179,830)	-	(5,314,814)
<u>(537,828)</u>	<u>(260,559)</u>	<u>(540,429)</u>	<u>175,668</u>	<u>529,225</u>
-	-	-	-	366,318
254,200	-	-	-	254,200
-	898,126	539,388	-	2,137,514
<u>(51,017)</u>	<u>-</u>	<u>-</u>	<u>(50,000)</u>	<u>(361,324)</u>
<u>203,183</u>	<u>898,126</u>	<u>539,388</u>	<u>(50,000)</u>	<u>3,388,508</u>
-	-	-	-	991,800
(15,026)	(10,282)	(2)	-	(1,248,540)
-	-	-	-	65,981
-	(290,000)	-	-	(290,000)
-	(240,231)	(180)	-	(240,070)
-	(2,950)	-	-	(2,950)
<u>(19,118)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>51,761</u>
<u>(34,144)</u>	<u>(543,463)</u>	<u>(182)</u>	<u>-</u>	<u>(672,018)</u>
16,586	(1,023)	(4,415)	4,662	122,822
(8,549)	9,593	2,987	(2,932)	(71,264)
<u>8,037</u>	<u>8,570</u>	<u>(1,428)</u>	<u>1,730</u>	<u>51,558</u>
(360,752)	102,674	(2,651)	127,398	2,305,473
1,693,587	603,150	3,704	349,725	12,329,061
293	(10,551)	(1,053)	-	(11,311)
<u>\$ 1,333,128</u>	<u>\$ 695,273</u>	<u>\$ -</u>	<u>\$ 477,123</u>	<u>\$ 14,623,223</u>
\$ 1,333,128	\$ 46,062	\$ -	\$ 477,123	\$ 13,974,012
-	649,211	-	-	649,211
<u>\$ 1,333,128</u>	<u>\$ 695,273</u>	<u>\$ -</u>	<u>\$ 477,123</u>	<u>\$ 14,623,223</u>

(continued)

**CITY OF MODESTO**  
**COMBINING STATEMENT OF CASH FLOWS - NON MAJOR ENTERPRISE FUNDS (Continued)**  
**Year ended June 30, 2014**

	Parking	Storm Drain	Compost
<b>RECONCILIATION OF OPERATING INCOME (LOSS)</b>			
<b>TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</b>			
Operating income (loss)	\$ (319,399)	\$ 905,564	\$ 98,987
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	402,046	572,673	224,653
Rental income	-	-	-
Taxes paid	(20,829)	-	-
Change in assets and liabilities:			
(Increase) decrease in accounts receivable	11,907	9,076	1,534
(Increase) in utilities receivable	-	18,665	(93,939)
Increase (decrease) in accounts payable and accrued expenses	3,630	(122,277)	8,852
Increase (decrease) in accrued salaries and benefits	(1,944)	(5,199)	(4,447)
(Increase) decrease in inventories	-	-	-
(Increase) decrease in prepaid expenses	-	(132)	-
Increase (decrease) in due to other funds	-	-	-
Increase (decrease) in due to other governments	-	-	-
Increase (decrease) in advances from grantors and third parties	-	-	2,952
Total adjustments	394,810	472,806	139,605
Net cash provided (used) by operating activities	\$ 75,411	\$ 1,378,370	\$ 238,592
 <b>NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:</b>			
Capital assets transferred from other funds	\$ -	\$ -	\$ 960,534

<u>Airport</u>	<u>Golf</u>	<u>Community Center</u>	<u>Abatement and Public Nuisance Fund</u>	<u>Total</u>
\$ <u>(1,437,144)</u>	\$ <u>(391,464)</u>	\$ <u>(1,611,479)</u>	\$ <u>173,218</u>	\$ <u>(2,581,717)</u>
637,307	72,512	747,570	-	2,656,761
188,406	102,575	338,244	-	629,225
(471)	-	-	-	(21,300)
(26,645)	(28,001)	(18,744)	15,142	(35,731)
-	-	-	-	(75,274)
104,317	(60,011)	5,347	2,300	(57,842)
(4,570)	-	(1,367)	-	(17,527)
-	(38,705)	-	-	(38,705)
(384)	(3,133)	-	-	(3,649)
-	73,968	-	-	73,968
(7,984)	-	-	-	(7,984)
9,340	11,700	-	(14,992)	9,000
<u>899,316</u>	<u>130,905</u>	<u>1,071,050</u>	<u>2,450</u>	<u>3,110,942</u>
\$ <u><u>(537,828)</u></u>	\$ <u><u>(260,559)</u></u>	\$ <u><u>(540,429)</u></u>	\$ <u><u>175,668</u></u>	\$ <u><u>529,225</u></u>
\$ 40,420	\$ -	\$ -	\$ -	\$ 1,000,954

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## 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 POSITION - INTERNAL SERVICE FUNDS**  
**June 30, 2014**

	Fleet Management	Central Services	Information & Technology Services
<b><u>ASSETS</u></b>			
Current assets:			
Cash and cash equivalents	\$ 8,642,034	\$ 1,429,420	\$ 3,946,983
Cash from fiscal agent	-	-	-
Receivables:			
Accounts receivable	23,651	-	-
Interest	13,533	2,183	7,039
Prepaid expenses	252	639	211,616
Due from governments	100,000	-	-
Inventories	-	395,364	-
Advances to other funds	-	-	-
Total current assets	8,779,470	1,827,606	4,165,638
Noncurrent assets:			
Restricted assets:			
Cash and cash equivalents	-	-	-
Land and construction in progress	1,465,672	-	701,136
Other capital assets, net of accumulated depreciation	12,182,661	66,088	5,764,236
Total assets	\$ 22,427,803	\$ 1,893,694	\$ 10,631,010
<b><u>LIABILITIES</u></b>			
Current liabilities:			
Accounts payable	\$ 476,184	\$ 249,325	\$ 195,133
Accrued salaries and benefits	39,303	6,054	63,705
Interest payable	2,368	-	-
Current portion - compensated absences	-	-	-
Current portion - claims liability	-	-	-
Current portion - capital lease	-	-	183,610
Total current liabilities	517,855	255,379	442,448
Noncurrent liabilities:			
Compensated absences	-	-	-
Claims liability	-	-	-
Net OPEB obligation	-	-	-
Long-term debt:			
Obligations under capital leases	-	-	-
Total liabilities	517,855	255,379	442,448
<b><u>NET POSITION</u></b>			
Net investment in capital assets	13,648,333	66,088	6,465,372
Restricted	-	-	-
Unrestricted	8,261,615	1,572,227	3,723,190
Total net position	\$ 21,909,948	\$ 1,638,315	\$ 10,188,562

<u>Insurance</u>	<u>Employee Benefits Management</u>	<u>Building Services</u>	<u>Total</u>
\$ 17,094,333	\$ -	\$ 835,230	\$ 31,948,000
168,015	-	-	168,015
1,930,186	33,750		1,987,587
7,879	11,879	1,512	44,025
144,817	-	-	357,324
-	-	29,100	129,100
-	-	-	395,364
-	856,738	-	856,738
<u>19,345,230</u>	<u>902,367</u>	<u>865,842</u>	<u>35,886,153</u>
-	10,143,253	-	10,143,253
-	-	-	2,166,808
-	-	90,400	18,103,385
<u>\$ 19,345,230</u>	<u>\$ 11,045,620</u>	<u>\$ 956,242</u>	<u>\$ 66,299,599</u>
\$ 251,438	\$ 794,434	\$ 44,147	\$ 2,010,661
8,709	4,245	7,703	129,719
2,469	896	-	5,733
-	6,052,987	-	6,052,987
4,987,522	-	-	4,987,522
-	-	-	183,610
<u>5,250,138</u>	<u>6,852,562</u>	<u>51,850</u>	<u>13,370,232</u>
-	3,255,692	-	3,255,692
17,297,157	-	-	17,297,157
-	59,569,740	-	59,569,740
-	-	-	-
<u>22,547,295</u>	<u>69,677,994</u>	<u>51,850</u>	<u>93,492,821</u>
-	-	90,400	20,270,193
-	10,143,253	-	10,143,253
<u>(3,202,065)</u>	<u>(68,775,627)</u>	<u>813,992</u>	<u>(57,606,668)</u>
<u>\$ (3,202,065)</u>	<u>\$ (58,632,374)</u>	<u>\$ 904,392</u>	<u>\$ (27,193,222)</u>

**CITY OF MODESTO**  
**COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES**  
**IN FUND NET POSITION - INTERNAL SERVICE FUNDS**  
Year ended June 30, 2014

	<u>Fleet Management</u>	<u>Central Services</u>
<b>OPERATING REVENUES:</b>		
Charges for services	\$ 7,069,507	\$ 35,270
Sales	-	4,362,522
Cost of sales	-	(3,764,232)
Total operating revenues	<u>7,069,507</u>	<u>633,560</u>
<b>OPERATING EXPENSES:</b>		
Salaries and wages	1,103,250	215,491
Contractual services	1,258,651	88,038
Utilities	2,983	815
Maintenance and supplies	2,251,845	122,132
Insurance	69,114	4,254
Claims expense	-	-
Employee benefits	438,967	91,082
Administration services	330,744	39,722
Allocated indirect administrative costs	277,315	-
Depreciation	2,561,329	10,739
Total operating expenses	<u>8,294,198</u>	<u>572,273</u>
<b>OPERATING INCOME (LOSS)</b>	<u>(1,224,691)</u>	<u>61,287</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Operating grant	100,000	-
Loss on disposition of capital assets	98,989	(9,623)
Interest income	69,592	14,960
Net increase (decrease) in fair value of investments	<u>(40,828)</u>	<u>(7,985)</u>
Total nonoperating revenues (expenses)	<u>227,753</u>	<u>(2,648)</u>
<b>INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS</b>	(996,938)	58,639
Capital contributions	-	-
Transfers in	1,264,620	-
Transfers out	<u>(15,204)</u>	<u>(2,617)</u>
<b>CHANGE IN NET POSITION</b>	252,478	56,022
<b>NET POSITION (DEFICITS), July 1</b>	21,657,470	1,582,293
<b>PRIOR PERIOD ADJUSTMENTS</b>	<u>-</u>	<u>-</u>
<b>NET POSITION (DEFICITS), June 30</b>	<u>\$ 21,909,948</u>	<u>\$ 1,638,315</u>

Information & Technology Services	Insurance	Employee Benefits Management	Building Services	Total
\$ 4,890,467	\$ 22,965,155	\$ 1,654,674	\$ 2,443,837	\$ 39,058,910
-	-	-	-	4,362,522
-	-	-	-	(3,764,232)
<u>4,890,467</u>	<u>22,965,155</u>	<u>1,654,674</u>	<u>2,443,837</u>	<u>39,657,200</u>
2,134,594	271,387	132,799	312,863	4,170,384
240,709	395,076	398,586	1,346,326	3,727,386
123,524	504	-	131,349	259,175
1,380,455	8,071	6,298	55,924	3,824,725
29,103	16,912,141	2,157	7,839	17,024,608
-	4,662,672	-	-	4,662,672
667,748	87,439	4,879,992	161,010	6,326,238
37,981	897,329	76,850	205,377	1,588,003
-	-	-	-	277,315
737,911	-	-	3,969	3,313,948
<u>5,352,025</u>	<u>23,234,619</u>	<u>5,496,682</u>	<u>2,224,657</u>	<u>45,174,454</u>
<u>(461,558)</u>	<u>(269,464)</u>	<u>(3,842,008)</u>	<u>219,180</u>	<u>(5,517,254)</u>
-	-	-	-	100,000
(38,550)	-	-	(3,445)	47,371
44,567	116,326	66,425	8,714	320,584
<u>(25,741)</u>	<u>(19,785)</u>	<u>(40,161)</u>	<u>(5,142)</u>	<u>(139,642)</u>
<u>(19,724)</u>	<u>96,541</u>	<u>26,264</u>	<u>127</u>	<u>328,313</u>
(481,282)	(172,923)	(3,815,744)	219,307	(5,188,941)
11,150	-	-	-	11,150
21,047	2,121,917	-	-	3,407,584
<u>(165,133)</u>	<u>-</u>	<u>(1,565)</u>	<u>(62,205)</u>	<u>(246,724)</u>
(614,218)	1,948,994	(3,817,309)	157,102	(2,016,931)
10,797,780	(5,151,059)	(54,185,768)	749,475	(24,549,809)
<u>5,000</u>	<u>-</u>	<u>(629,297)</u>	<u>(2,185)</u>	<u>(626,482)</u>
<u>\$ 10,188,562</u>	<u>\$ (3,202,065)</u>	<u>\$ (58,632,374)</u>	<u>\$ 904,392</u>	<u>\$ (27,193,222)</u>

**CITY OF MODESTO**  
**COMBINING STATEMENT OF CASH FLOWS - INTERNAL SERVICE FUNDS**  
**Year ended June 30, 2014**

	Fleet Management	Central Services	Information & Technology Services
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Receipts from customers and users	\$ 103,528	\$ 12,927	\$ 1,401
Receipts from interfund services provided	6,863,743	659,170	4,889,066
Payments to suppliers	(2,667,264)	8,916	(1,657,704)
Payment of insurance claims	-	-	-
Payments to employees	(1,551,817)	(308,749)	(2,820,710)
Payments for interfund services used	(1,222,090)	(141,603)	(99,778)
Net cash provided (used) by operating activities	1,526,100	230,661	312,275
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>			
Advances to other funds	-	-	-
Transfers in	1,264,620	-	21,047
Transfers out	(15,204)	(2,617)	(165,133)
Interest paid	(21)	-	-
Net cash provided (used) by noncapital financing activities	1,349,395	(2,617)	(144,086)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>			
Acquisition and construction of capital assets	(2,341,423)	(26,618)	(730,969)
Gain/Loss from sale of capital assets	98,989	(9,623)	(38,550)
Principal repayments	-	-	(176,380)
Net cash provided (used) by capital and related financing activities	(2,242,434)	(36,241)	(945,899)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Interest received	79,823	16,374	53,283
Net increase in the fair value of investments	(40,828)	(7,985)	(25,741)
Net cash provided by investing activities	38,995	8,389	27,542
Net increase (decrease) in cash and cash equivalents	672,056	200,192	(750,168)
CASH AND CASH EQUIVALENTS, JULY 1	7,969,978	1,229,228	4,692,151
PRIOR PERIOD ADJUSTMENTS	-	-	5,000
CASH AND CASH EQUIVALENTS, JUNE 30	\$ 8,642,034	\$ 1,429,420	\$ 3,946,983
<b>RECONCILIATION TO STATEMENT OF NET POSITION:</b>			
Cash and cash equivalents	\$ 8,642,034	\$ 1,429,420	\$ 3,946,983
Cash and cash equivalents with fiscal agent	-	-	-
Restricted cash and cash equivalents	-	-	-
TOTAL CASH AND CASH EQUIVALENTS	\$ 8,642,034	\$ 1,429,420	\$ 3,946,983

	Insurance	Employee Benefits Management	Building Services	Total
\$	99,967	\$ 1,436,387	\$ 439,035	\$ 2,093,245
	21,544,931	232,882	2,078,321	36,268,113
	(17,878,538)	(386,079)	(1,408,888)	(23,989,557)
	(5,061,369)	-	-	(5,061,369)
	(360,019)	(4,275,315)	(477,691)	(9,794,301)
	(938,930)	(97,812)	(362,651)	(2,862,864)
	<u>(2,593,958)</u>	<u>(3,089,937)</u>	<u>268,126</u>	<u>(3,346,733)</u>
	-	1,575,000	-	1,575,000
	2,121,917	-	-	3,407,584
	-	(1,565)	(62,205)	(246,724)
	1,437	(843)	-	573
	<u>2,123,354</u>	<u>1,572,592</u>	<u>(62,205)</u>	<u>4,836,433</u>
	-	-	3,445	(3,095,565)
	-	-	(3,445)	47,371
	-	-	-	(176,380)
	-	-	-	<u>(3,224,574)</u>
	126,602	83,994	9,253	369,329
	(19,785)	(40,161)	(5,142)	(139,642)
	<u>106,817</u>	<u>43,833</u>	<u>4,111</u>	<u>229,687</u>
	(363,787)	(1,473,512)	210,032	(1,505,187)
	<u>17,626,135</u>	<u>12,246,062</u>	<u>627,383</u>	<u>44,390,937</u>
	-	(629,297)	(2,185)	(626,482)
\$	<u>17,262,348</u>	<u>10,143,253</u>	<u>835,230</u>	<u>42,259,268</u>
\$	17,094,333	\$ -	\$ 835,230	\$ 31,948,000
	168,015	-	-	168,015
	-	10,143,253	-	10,143,253
\$	<u>17,262,348</u>	<u>10,143,253</u>	<u>835,230</u>	<u>42,259,268</u>

**CITY OF MODESTO**  
**COMBINING STATEMENT OF CASH FLOWS - INTERNAL SERVICE FUNDS (Continued)**  
**Year ended June 30, 2014**

	Fleet Management	Central Services
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating income (loss)	\$ (1,224,691)	\$ 61,287
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	2,561,329	10,739
Change in assets and liabilities:		
(Increase) decrease in accounts receivable	(2,236)	-
(Increase) decrease in due from governments	(100,000)	-
(Increase) in prepaid expenses	(177)	(639)
Decrease in inventories	-	38,537
Increase (decrease) in accounts payable and accrued expenses	301,298	122,913
Increase in accrued salaries and benefits payable	(9,423)	(2,176)
Increase in compensated absences and OPEB	-	-
Decrease in claims liability	-	-
Total adjustments	2,750,791	169,374
Net cash provided (used) by operating activities	\$ 1,526,100	\$ 230,661
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:		
Capital contributions	\$ -	\$ -

Information & Technology Services	Insurance	Employee Benefits Management	Building Services	Total
\$ <u>(461,558)</u>	\$ <u>(269,464)</u>	\$ <u>(3,842,008)</u>	\$ <u>219,180</u>	\$ <u>(5,517,254)</u>
737,911	-	-	3,969	3,313,948
-	(1,320,257)	(33,750)	50,068	(1,306,175)
(14,804)	-	-	(29,100)	(129,100)
-	(691)	-	52,551	36,240
69,094	-	-	-	38,537
(18,368)	(604,347)	48,345	(24,724)	(87,421)
-	(1,193)	(2,255)	(3,818)	(37,233)
-	-	739,731	-	739,731
-	(398,006)	-	-	(398,006)
<u>773,833</u>	<u>(2,324,494)</u>	<u>752,071</u>	<u>48,946</u>	<u>2,170,521</u>
\$ <u><u>312,275</u></u>	\$ <u><u>(2,593,958)</u></u>	\$ <u><u>(3,089,937)</u></u>	\$ <u><u>268,126</u></u>	\$ <u><u>(3,346,733)</u></u>
\$ 11,150	\$ -	\$ -	\$ -	\$ -

## AGENCY FUNDS

Agency Funds account for assets held by the City as an agent for individuals, governmental entities and non-public organizations.

**SPECIAL DISTRICTS** - To account for collection of special district assessments from property owners and forwarding these collections to trustees for payment to bondholders.

**TUOLUMNE RIVER REGIONAL PARK** - To account for cash and investments of the Tuolumne River Regional Park, a joint powers agency between the City of Modesto, Stanislaus County and City of Ceres. The agency provides financing, development, and maintenance of the Tuolumne River Regional Park facilities. The cash and investments of the Park are invested as part of the City's investment pool.

**STANISLAUS DRUG ENFORCEMENT AGENCY** - To account for cash and investments of the Stanislaus Drug Enforcement Agency, a joint powers agency between Stanislaus County and the cities of Modesto, Oakdale, Turlock, Ceres, Hughson, Newman, Patterson, and Waterford. The agency's purpose 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. Cash and investments of the Agency are invested in the City's investment pool.

**INDUSTRIAL FIRE DISTRICT** - To record and distribute the special assessments for fire protection that were established under the Industrial Fire District. This is a joint powers agency between the Modesto Regional Fire Authority, the City of Ceres, and the Industrial Fire District. Cash and investments of the Agency are invested in the City's investment pool.

**STANISLAUS REGIONAL WATER AUTHORITY** - To account for cash and investments of the Stanislaus Regional Water Authority, a joint powers agency between the City of Modesto, City of Turlock and City of Ceres. The agency provides direction for the future of the proposed Regional Surface Water Supply Project. The cash and investments of this agency are invested as part of the City's investment pool.

**MODESTO REGIONAL FIRE AUTHORITY** - To account for cash and investments of the Modesto Regional Fire Authority, a joint powers agency between the City of Modesto, Stanislaus County and Salida Fire Protection District. The agency provides fire suppression, protection and prevention, emergency management and related services. The cash and investments of this agency are invested as part of the City's investment pool.

**CITY/COUNTY JOINT POWERS FINANCING AUTHORITY** - To account for cash and investments of the City/County Capital Improvements and Financing Agency, a joint powers agency between the City of Modesto and Stanislaus County. The agency builds and maintains a joint City-County government complex in downtown Modesto. The cash and investments of the Agency are invested as part of the City's investment pool.

**CITY OF MODESTO**  
**STATEMENT OF CHANGES IN ASSETS AND LIABILITIES - AGENCY FUNDS**  
**Year ended June 30, 2014**

	Balance June 30, 2013	Additions	Deletions	Balance June 30, 2014
<u>Special Districts</u>				
<u>ASSETS</u>				
Cash and cash equivalents	\$ 4,644,959	\$ 2,344,881	\$ 2,205,019	\$ 4,784,821
Cash and cash equivalents with fiscal agent	3,619,781	2,154,552	2,097,553	3,676,780
	<u>\$ 8,264,740</u>	<u>\$ 4,499,433</u>	<u>\$ 4,302,572</u>	<u>\$ 8,461,601</u>
<u>LIABILITIES</u>				
Due to special district bondholders	\$ 8,264,740	\$ 4,499,433	\$ 4,302,572	\$ 8,461,601
<u>Tuolumne River Regional Park</u>				
<u>ASSETS</u>				
Cash and cash equivalents	\$ 147,264	\$ 405,021	\$ 356,495	\$ 195,790
<u>LIABILITIES</u>				
Deposits held as agent for others	\$ 147,264	\$ 405,021	\$ 356,495	\$ 195,790
<u>Stanislaus Drug Enforcement Agency</u>				
<u>ASSETS</u>				
Cash and cash equivalents	\$ 3,225,586	\$ 2,067,233	\$ 2,607,887	\$ 2,684,932
<u>LIABILITIES</u>				
Deposits held as agent for others	\$ 3,225,586	\$ 2,067,233	\$ 2,607,887	\$ 2,684,932
<u>Industrial Fire District</u>				
<u>ASSETS</u>				
Cash and cash equivalents	\$ 680,029	\$ 528,757	\$ 736,660	\$ 472,126
<u>LIABILITIES</u>				
Deposits held as agent for others	\$ 680,029	\$ 528,757	\$ 736,660	\$ 472,126
<u>Stanislaus Regional Water Authority</u>				
<u>ASSETS</u>				
Cash and cash equivalents	\$ 2,108	\$ 75,649	\$ 77,757	\$ -
<u>LIABILITIES</u>				
Deposits held as agent for others	\$ 2,108	\$ 75,649	\$ 77,757	\$ -
<u>Modesto Regional Fire Authority</u>				
<u>ASSETS</u>				
Cash and cash equivalents	\$ 500,170	\$ 29,413,446	\$ 28,407,941	\$ 1,505,675
Cash and cash equivalents with fiscal agent	25,000	19,331	5,669	5,669
	<u>525,170</u>	<u>29,413,446</u>	<u>28,427,272</u>	<u>1,511,344</u>
<u>LIABILITIES</u>				
Deposits held as agent for others	\$ 525,170	\$ 29,413,446	\$ 28,427,272	\$ 1,511,344
<u>City/County Joint Powers Financing Authority</u>				
<u>ASSETS</u>				
Cash and cash equivalents	\$ 10,303	\$ 4,477	\$ 86	\$ 14,694
<u>LIABILITIES</u>				
Deposits held as agent for others	\$ 10,303	\$ 4,477	\$ 86	\$ 14,694
<u>Totals - All Agency Funds</u>				
<u>ASSETS</u>				
Cash and cash equivalents	\$ 9,210,419	\$ 34,839,464	\$ 34,391,759	\$ 9,658,124
Cash and cash equivalents with fiscal agent	3,644,781	2,154,552	2,116,884	3,682,449
	<u>\$ 12,855,200</u>	<u>\$ 36,994,016</u>	<u>\$ 36,508,643</u>	<u>\$ 13,340,573</u>
<u>LIABILITIES</u>				
Due to special district bondholders	\$ 8,264,740	\$ 4,499,433	\$ 4,302,572	\$ 8,461,601
Deposits held as agent for others	4,590,460	32,494,583	32,206,071	4,878,972
	<u>\$ 12,855,200</u>	<u>\$ 36,994,016</u>	<u>\$ 36,508,643</u>	<u>\$ 13,340,573</u>

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**DIVIDER**

**STATISTICAL**

**SECTION**



## **STATISTICAL SECTION**

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## Statistical Section

This part of the Comprehensive Annual Financial Report presents detailed information to aid in understanding what the information in the financial statements, note disclosures, and required supplementary information says about the City's overall financial health. In contrast to the financial section, the statistical section information is not subject to independent audit.

### Financial Trends

These schedules contain trend information to help the reader understand how the City's financial performance has changed over time.

1. Net Position by Component
2. Changes in Net Position
3. Fund Balances of Governmental Funds
4. Changes in Fund Balance of Governmental Funds

### Revenue Capacity

This schedule gives information on the City's most significant local revenue source, the water user charges:

1. Water Utility System – Ten Largest Customers
2. Water revenues by customer class
3. Water rates

### Debt Capacity

These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future:

1. Ratio of Outstanding Debt by Type
2. Computation of Direct and Overlapping Debt
3. Computation of Legal Bonded Debt Margin
4. Bonded Debt Pledged Revenue Coverage, Wastewater Revenue Bonds
5. Continuing Disclosure Requirements:
  - a. Wastewater Revenue Bonds and Refunding Revenue Bonds
  - b. Water Utility System Revenue Certificates of Participation and Refunding Revenue Certificates of Participation, and Modesto Irrigation District Financing Authority Domestic Water Project Revenue Bonds and Refunding Revenue Bonds

### Demographic and Economic Information

These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place:

1. Demographic and Economic Statistics
2. Principal Employers

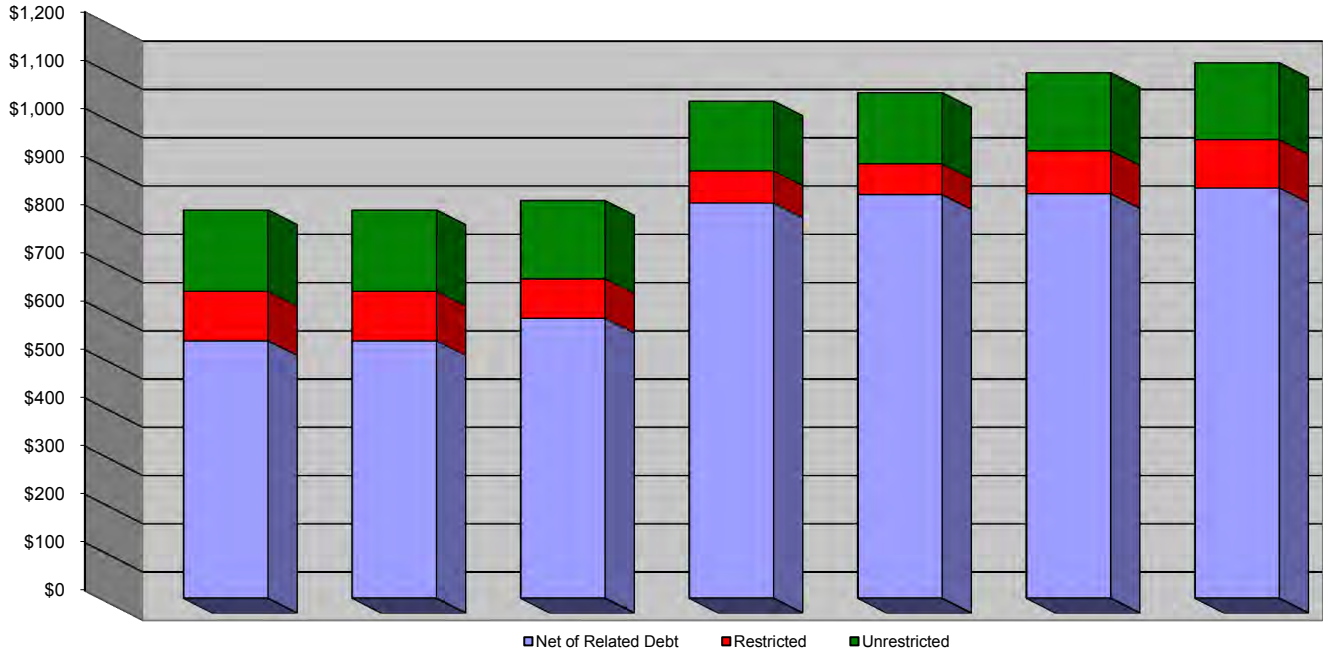
### Operating Information

These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the City provides and the activities it performs:

1. Full-Time Equivalent City Government Employees by Function
2. Operating Indicators by Function/Program
3. Capital Asset Statistics by Function/Program

Sources: Unless otherwise noted, the information in these schedules is derived from the Comprehensive Annual Financial Reports for the relevant year. The City implemented GASB Statement No. 34 in 2002; however, for schedules presenting entity-wide information, the City has elected to show only seven years of data for these schedules.

**CITY OF MODESTO**  
**NET POSITION BY COMPONENT**  
 Last Seven Fiscal Years  
 (accrual basis of accounting)



	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
<b>Governmental activities</b>							
Net investment in capital assets	\$339,396,266	\$347,357,492	\$329,592,169	\$338,010,133	\$362,755,958	\$361,582,237	\$347,647,419
Restricted	102,602,698	94,819,773	81,528,516	66,570,581	63,498,187	63,381,356	77,564,677
Unrestricted	4,627,884	(472,402)	14,399,778	6,540,870	(4,326,456)	(1,102,658)	9,167,253
Total governmental activities net position	<u>\$446,626,848</u>	<u>\$441,704,863</u>	<u>\$425,520,463</u>	<u>\$411,121,584</u>	<u>\$421,927,689</u>	<u>\$423,860,935</u>	<u>\$434,379,349</u>
<b>Business-type activities</b>							
Net investment in capital assets	\$194,435,373	\$218,432,739	\$251,025,494	\$481,186,894	\$473,757,198	\$476,681,835	\$502,684,950
Restricted						25,571,860	22,398,957
Unrestricted	163,792,245	169,639,845	147,661,517	138,033,147	152,003,655	162,882,299	150,187,831
Total business-type activities net position	<u>\$358,227,618</u>	<u>\$388,072,584</u>	<u>\$398,687,011</u>	<u>\$619,220,041</u>	<u>\$625,760,853</u>	<u>\$665,135,994</u>	<u>\$675,271,738</u>
<b>Primary government</b>							
Net investment in capital assets	\$533,831,639	\$533,831,639	\$580,617,663	\$819,197,027	\$836,513,156	\$838,264,072	\$850,332,369
Restricted	102,602,698	102,602,698	81,528,516	66,570,581	63,498,187	88,953,216	99,963,634
Unrestricted	168,420,129	168,420,129	162,061,295	144,574,017	147,677,199	161,779,641	159,355,084
Total primary government net position	<u>\$804,854,466</u>	<u>\$804,854,466</u>	<u>\$824,207,474</u>	<u>\$1,030,341,625</u>	<u>\$1,047,688,542</u>	<u>\$1,088,996,929</u>	<u>\$1,109,651,087</u>

1) Accounting standards require that net position be reported in three components in the financial statements: net investment in capital assets; restricted; and unrestricted. Net position is considered restricted when a) externally imposed by creditors (such as debt covenants), grantors, contributors, or laws or regulations of other governments or b) imposed by law through constitutional provisions or enabling legislation.

**CITY OF MODESTO**  
**CHANGES IN NET POSITION**  
**Last Seven Fiscal Years**  
**(Accrual Basis of Accounting)**

	2008	2009	2010	2011	2012	2013	2014
<b>Expenses</b>							
<b>Governmental Activities:</b>							
General Government	\$15,997,582	\$12,700,264	\$12,093,091	\$12,473,794	\$14,236,573	\$12,041,953	\$11,221,704
Community Development	14,619,525	14,694,997	18,912,766	28,301,160	14,206,876	25,162,533	13,002,466
Highways and streets	26,436,475	23,682,253	23,668,779	24,114,799	21,009,521	20,525,496	21,316,315
Public works	11,471,344	9,151,786	6,759,562	7,393,809	6,780,882	4,064,497	3,241,135
Parks and Recreation	14,264,334	15,070,007	13,268,871	10,310,549	11,741,352	13,036,579	11,659,816
Public safety	88,651,249	84,395,987	80,254,834	83,381,310	83,568,633	83,857,207	72,301,682
Interest on Long Term Debt	4,998,482	6,114,875	5,766,421	3,609,345	3,066,897	3,193,997	2,958,471
<b>Total Governmental Activities Expenses</b>	<b>176,438,991</b>	<b>165,810,169</b>	<b>160,724,324</b>	<b>169,584,766</b>	<b>154,610,734</b>	<b>161,882,262</b>	<b>135,701,589</b>
<b>Business-Type Activities:</b>							
Parking	1,982,066	2,011,386	1,826,401	1,518,955	1,482,640	1,252,660	1,605,829
Water	36,713,351	38,190,214	43,619,704	36,305,860	53,730,665	48,656,862	63,498,896
Sewer	23,974,989	22,416,713	28,055,056	28,497,430	29,366,025	24,155,935	31,895,568
Storm Drain	6,349,113	6,140,963	5,201,741	7,619,939	6,674,100	4,239,567	6,372,418
Compost	1,312,511	1,130,816	1,480,068	4,112,837	4,426,031	4,350,079	4,951,441
Airport	1,444,667	1,682,644	1,918,113	2,157,180	1,640,733	1,534,242	2,291,222
Bus	14,834,612	15,210,224	15,671,731	16,064,104	16,944,803	18,025,010	19,618,547
Golf	2,497,161	2,440,599	2,473,968	2,366,052	2,279,650	2,197,368	2,845,109
Community Center	2,465,825	2,303,256	2,346,175	2,284,082	2,352,173	1,864,996	2,031,928
Abatement and Public Nuisance	-	-	-	-	34,609	42,879	31,877
<b>Total Business-Type Activities Expenses</b>	<b>91,574,295</b>	<b>91,526,815</b>	<b>102,592,957</b>	<b>100,926,439</b>	<b>118,931,429</b>	<b>106,319,598</b>	<b>135,142,835</b>
<b>Total Primary Government Expenses</b>	<b>\$268,013,286</b>	<b>\$257,336,984</b>	<b>\$263,317,281</b>	<b>\$270,511,205</b>	<b>\$273,542,163</b>	<b>\$268,201,860</b>	<b>\$270,844,424</b>
<b>Program Revenues</b>							
<b>Governmental Activities:</b>							
<b>Charges for Services:</b>							
General Government	\$6,726,893	\$6,987,127	\$6,323,865	\$6,804,398	\$6,799,202	\$6,262,963	\$5,825,407
Community Development	7,869,742	4,788,324	2,941,932	4,730,263	4,430,690	4,123,811	4,537,984
Highway and streets	5,804,342	8,222,178	2,801,213	3,179,788	4,178,567	761,394	873,566
Public Works	5,110,428	1,349,956	3,344,967	2,909,677	2,936,299	3,565,048	4,146,641
Parks and Recreation	5,590,196	4,006,123	6,038,468	3,105,490	3,221,072	3,623,647	3,004,001
Public Safety	4,868,612	4,625,935	4,325,231	4,977,440	3,338,783	3,668,302	3,123,758
Operating Grants and Contributions	14,221,390	11,424,548	14,559,357	19,861,492	10,270,642	16,477,474	5,868,684
Capital Grants and Contributions	17,930,957	6,595,213	10,876,018	7,334,967	9,509,584	9,046,762	8,206,154
<b>Total Government Activities Program Revenues</b>	<b>68,122,560</b>	<b>\$47,999,404</b>	<b>\$51,211,051</b>	<b>\$52,903,515</b>	<b>\$44,684,839</b>	<b>\$47,529,401</b>	<b>\$35,586,195</b>
<b>Business-Type Activities:</b>							
<b>Charges for Services:</b>							
Parking	1,297,484	1,256,360	1,239,995	1,274,482	1,291,401	1,169,293	1,092,347
Water	51,679,042	53,218,692	54,670,041	55,345,414	57,534,190	61,474,235	60,254,110
Sewer	29,340,615	35,854,857	37,310,731	39,142,045	41,825,928	43,414,773	46,046,304
Storm Drain	5,338,838	5,301,150	5,428,291	6,152,211	5,783,694	5,780,644	5,831,133
Compost	1,075,032	1,397,708	1,706,189	4,490,110	4,672,517	8,012,611	4,853,133
Airport	593,349	661,524	675,565	1,019,177	619,689	619,904	634,530
Bus	3,182,762	2,944,108	2,769,814	2,877,492	2,892,539	2,946,937	2,989,504
Golf	2,124,672	1,984,769	1,924,015	1,647,400	1,759,818	1,568,532	2,196,280
Community Center	532,471	492,989	489,562	433,460	420,059	263,581	230,801
Abatement and Public Nuisance	-	-	-	-	71,567	302,563	201,825
Operating Grants and Contributions	12,459,707	11,462,346	13,706,512	12,629,219	12,694,058	13,766,061	13,721,179
Capital Grants and Contributions	9,793,356	4,527,875	2,898,489	4,856,649	12,021,793	4,282,549	4,971,940
<b>Total Business-Type Activities Program Revenue</b>	<b>117,417,328</b>	<b>119,102,378</b>	<b>122,819,204</b>	<b>129,867,659</b>	<b>141,587,253</b>	<b>143,601,683</b>	<b>143,023,086</b>
<b>Total Primary Government Program Revenues</b>	<b>\$185,539,888</b>	<b>167,101,782</b>	<b>174,030,255</b>	<b>182,771,174</b>	<b>186,272,092</b>	<b>191,131,084</b>	<b>178,609,281</b>
<b>Net (Expense)/Revenue</b>							
Governmental Activities	(108,316,431)	(117,810,765)	(109,513,273)	(116,681,251)	(109,925,895)	(114,352,861)	(100,115,394)
Business-Type Activities	25,843,033	27,575,563	20,226,247	28,941,220	22,655,824	37,282,085	7,880,251
<b>Total Primary Government Net Expense</b>	<b>(\$82,473,398)</b>	<b>(\$90,235,202)</b>	<b>(\$89,287,026)</b>	<b>(\$87,740,031)</b>	<b>(\$87,270,071)</b>	<b>(\$77,070,776)</b>	<b>(\$92,235,143)</b>

(continued)

**City of Modesto**  
**CHANGES IN NET POSITION**  
**Last Seven Fiscal Years**  
**(Accrual Basis of Accounting)**

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011 (1)</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
General Revenues and Other Changes in Net Position							
Governmental Activities:							
Taxes:							
Utility Users Tax	\$ 19,173,295	\$ 19,093,222	\$ 19,117,518	\$ 19,119,037	\$ 19,230,879	\$ 20,399,116	\$ 20,153,653
Property taxes, levied for general purposes	16,202,587	13,863,471	12,306,702	12,107,226	11,863,902	11,618,481	12,304,010
Tax increments for redevelopment agency (2)	5,813,822	6,228,634	6,521,515	5,750,235	2,884,357	-	-
Transient occupancy tax	2,038,255	1,853,732	1,460,613	1,639,761	1,769,106	1,884,188	1,879,825
Franchise tax	7,735,131	4,779,854	3,962,159	3,940,364	4,236,705	5,785,355	5,003,130
Business license tax - for general purposes	9,680,721	9,330,563	9,068,219	9,339,077	9,694,722	10,176,791	10,573,820
Business license tax - for downtown improvement district	202,100	196,253	169,471	172,520	177,026	170,222	181,689
Grants and contributions not restricted to specific programs:							
Sales tax	26,305,982	24,578,230	22,301,060	24,110,596	25,958,263	27,110,911	27,651,939
Motor vehicle license fee	16,856,108	15,255,503	13,945,172	13,419,232	13,072,804	12,038,983	12,494,642
Other	917,347	3,285,651	1,286,466	9,718,308	11,794,261	12,844,926	15,269,250
Unrestricted investment earnings	9,960,367	5,247,506	1,211,702	696,848	(411,571)	52,893	441,383
Miscellaneous	3,469,916	5,809,581	2,502,397	1,630,466	1,821,336	1,861,660	5,402,480
Settlements	-	-	-	-	-	-	-
Transfers	(779,437)	(5,490,881)	402,303	1,503,170	2,838,873	1,055,670	(41,312)
Special Item - PCE legal fees	-	-	-	-	-	-	-
<b>Total Government Activities</b>	<u>117,576,194</u>	<u>104,031,319</u>	<u>94,255,297</u>	<u>103,146,840</u>	<u>104,930,663</u>	<u>104,999,196</u>	<u>111,314,509</u>
Business-Type Activities:							
Taxes:							
Property taxes, generated by and allocated to the airport	182,031	202,460	265,587	309,699	253,974	257,687	254,200
Business license tax, generated by and allocated to the airport	19,188	-	-	-	-	-	-
Unrestricted investment earnings	7,099,765	6,227,615	3,155,954	1,947,417	2,095,947	1,184,422	2,726,148
Connection fees	-	-	-	-	-	1,200,800	524,914
Miscellaneous	-	253,032	-	-	-	-	-
Transfers	779,437	5,490,881	(402,303)	(1,503,170)	(2,838,873)	(1,055,670)	41,317
Settlements and Recoveries	14,525,389	-	447,102	187,096	222,379	116,711	110,376
Special item	(625,620)	(2,211,514)	(1,326,309)	(727,310)	(826,133)	(1,143,257)	(1,356,418)
<b>Total Business-Type Activities</b>	<u>21,980,190</u>	<u>9,962,474</u>	<u>2,140,031</u>	<u>213,732</u>	<u>(1,092,706)</u>	<u>560,693</u>	<u>2,300,537</u>
<b>Total Primary Government</b>	<u>\$139,556,384</u>	<u>\$113,993,793</u>	<u>\$96,395,328</u>	<u>\$103,360,572</u>	<u>\$103,837,957</u>	<u>\$105,559,889</u>	<u>\$113,615,046</u>
Change in Net Position							
Governmental Activities	\$9,259,763	(\$13,779,446)	(\$15,257,976)	(\$13,534,411)	(\$4,995,232)	(\$9,353,665)	\$11,199,115
Business-Type Activities	47,823,223	37,538,037	22,366,278	29,154,952	21,563,118	37,842,778	10,180,788
<b>Total Primary Government</b>	<u>\$57,082,986</u>	<u>\$23,758,591</u>	<u>\$7,108,302</u>	<u>\$15,620,541</u>	<u>\$16,567,886</u>	<u>\$28,489,113</u>	<u>\$21,379,903</u>

(1) The amount reported under Utility Users Taxes and Property Taxes were keyed backwards in 2011. The amounts have been fixed to reflect the correct numbers in these two categories.

(2) Due to the dissolution of the Redevelopment agencies, no tax increments will be reported on the entity-wide statements.

**CITY OF MODESTO**  
**FUND BALANCES OF GOVERNMENTAL FUNDS**  
**Last Seven Fiscal Years**  
**(Modified Accrual Basis of Accounting)**

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011 (b)</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
General Fund							
Reserved	\$3,816,559	3,568,273	2,871,715	-	-	-	-
Unreserved	11,942,168	11,185,485	10,103,645	-	-	-	-
Non-spendable	-	-	-	-	123,061	126,603	102,152
Restricted	-	-	-	4,313,287	3,998,539	3,713,640	3,718,682
Committed	-	-	-	-	-	-	3,000,000
Assigned	-	-	-	458,415	519,051	1,173,377	1,024,149
Unassigned	-	-	-	10,215,682	10,806,111	11,758,746	12,069,864
<b>Total General Fund</b>	<b><u>\$15,758,727</u></b>	<b><u>\$14,753,758</u></b>	<b><u>\$12,975,360</u></b>	<b><u>\$14,987,384</u></b>	<b><u>\$15,446,762</u></b>	<b><u>\$16,772,366</u></b>	<b><u>\$19,914,847</u></b>
All Other Governmental Funds							
Reserved	\$42,799,130	\$39,607,945	\$39,686,892	-	-	-	-
Unreserved, reported in:							
Special revenue funds	8,746,111	12,808,809	6,867,750	-	-	-	-
Capital project funds	71,780,583	58,718,023	54,341,594	-	-	-	-
Non-spendable	-	-	-	-	119	746	3,907
Restricted	-	-	-	118,919,268	109,145,041	106,724,809	108,672,378
Committed	-	-	-	-	-	-	-
Assigned	-	-	-	3,647,941	2,604,281	3,965,851	3,700,733
Unassigned	-	-	-	(\$23,614,308)	(\$18,852,239)	(\$32,965,286)	(\$34,656,617)
<b>Total all other governmental funds</b>	<b><u>\$123,325,824</u></b>	<b><u>\$111,134,777</u></b>	<b><u>\$100,896,236</u></b>	<b><u>\$98,952,901</u></b>	<b><u>\$92,897,202</u></b>	<b><u>\$77,726,120</u></b>	<b><u>\$77,720,401</u></b>

The change in total fund balance for the General Fund and other governmental funds is explained in Management's Discussion and Analysis.

Note: The City has elected to show only seven years of data for this schedule.  
(b) The City implemented the provisions of GASB Statement 54 in fiscal year 2011.

**CITY OF MODESTO**  
**CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS**  
**Last Seven Fiscal Years**  
**(Modified Accrual Basis of Accounting)**

	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
<b>Revenues</b>							
Taxes	\$57,142,392	\$55,345,729	\$52,606,197	\$52,068,220	\$49,856,697	\$50,034,153	\$50,096,127
Licenses, permits and fees	153,545	132,459	138,811	139,073	131,302	175,720	174,734
Intergovernmental	71,179,504	63,606,634	61,551,617	74,242,596	68,682,778	75,737,161	67,426,885
Charges for services	33,319,642	27,051,151	23,509,170	22,638,801	19,897,159	19,800,718	19,457,298
Special assessments levied	35,294	37,299	38,520	1,852,529	1,860,905	1,781,896	2,063,784
Interest and rent	5,236,476	2,909,155	1,322,005	838,178	1,145,251	835,994	1,019,357
Net increase in fair value of investments	1,404,913	860,820	399,322	(89,608)	(452,987)	(584,090)	(423,827)
Fines and forfeits	2,614,523	2,443,506	2,253,014	2,929,182	2,169,482	2,004,133	1,844,607
Miscellaneous	3,469,916	5,809,581	2,502,397	1,630,467	1,821,336	2,081,776	4,653,746
<b>Total Revenues</b>	<b>174,556,205</b>	<b>158,196,334</b>	<b>144,321,053</b>	<b>156,249,438</b>	<b>145,111,923</b>	<b>151,867,461</b>	<b>146,312,711</b>
<b>Expenditures</b>							
<b>Current:</b>							
General government	15,107,461	13,715,577	11,482,240	10,879,751	12,411,413	11,169,669	11,643,579
Community development	13,820,295	14,137,095	18,536,120	26,077,905	12,831,734	23,673,373	12,589,817
Highways and streets	12,549,018	9,721,445	8,102,327	11,530,856	8,434,681	8,560,717	8,744,899
Public works	9,719,098	7,667,125	6,124,685	6,035,524	5,283,123	2,993,702	3,088,701
Parks and recreation	12,605,651	13,307,764	12,138,077	8,722,311	9,756,888	11,299,979	11,947,862
Public safety	82,707,285	78,103,260	75,081,791	73,207,608	72,131,852	74,094,399	74,595,533
Capital outlay	22,745,308	27,663,037	16,655,242	11,219,489	20,839,517	26,616,638	12,901,002
<b>Debt service:</b>							
Principal retirement	2,265,000	1,093,000	2,045,000	2,234,000	2,397,000	1,451,000	1,596,000
Interest	3,473,369	3,033,829	4,032,612	3,620,851	3,229,440	2,330,962	2,159,672
Advance refunding escrow	-	-	-	-	-	-	-
Other	1,337,611	1,395,211	1,408,771	57,557	48,738	932,460	872,350
<b>Total Expenditures</b>	<b>176,330,096</b>	<b>169,837,343</b>	<b>155,606,865</b>	<b>153,585,852</b>	<b>147,364,386</b>	<b>163,122,899</b>	<b>140,139,415</b>
<b>Excess of revenues over (under) expenditures</b>	<b>(1,773,891)</b>	<b>(11,641,009)</b>	<b>(11,285,812)</b>	<b>2,663,586</b>	<b>(2,252,463)</b>	<b>(11,255,438)</b>	<b>6,173,296</b>
<b>Other Financing Sources (Uses)</b>							
Transfers in	24,429,880	19,237,526	12,346,246	10,557,218	11,384,460	18,230,774	7,962,817
Transfers out	(22,579,265)	(18,149,564)	(12,402,937)	(13,069,195)	(14,223,663)	(18,417,413)	(11,164,994)
Proceeds of loan payable	244,650	209,575	-	-	-	-	-
Proceeds of lease revenue bonds	-	65,170,000	-	-	-	-	-
Refunding of lease revenue bonds	-	(65,210,000)	-	-	-	-	-
Sale of Assets	-	34,900	-	-	-	72,489	200,838
Payments to refunded debt escrow agent	-	(2,431,247)	-	-	-	-	-
<b>Total other financing sources (uses)</b>	<b>2,095,265</b>	<b>(1,138,810)</b>	<b>(56,691)</b>	<b>(2,511,977)</b>	<b>(2,839,203)</b>	<b>(114,150)</b>	<b>(3,001,339)</b>
<b>Extraordinary Items:</b>							
RDA dissolution transactions	-	-	-	-	(403,850)	-	-
RDA advance receivable elimination	-	-	-	-	(966,127)	-	-
<b>Total extraordinary items</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(1,369,977)</b>	<b>-</b>	<b>-</b>
<b>Net Change in fund balances</b>	<b>321,374</b>	<b>(12,779,819)</b>	<b>(11,342,503)</b>	<b>151,609</b>	<b>(6,461,643)</b>	<b>(11,369,588)</b>	<b>3,171,957</b>
<b>FUND BALANCES, July 1</b>	<b>138,763,177</b>	<b>139,084,551</b>	<b>125,888,535</b>	<b>113,871,596</b>	<b>113,940,285</b>	<b>108,343,964</b>	<b>94,498,486</b>
<b>PRIOR PERIOD ADJUSTMENT</b>		<b>(416,197)</b>	<b>(674,436)</b>	<b>(82,920)</b>	<b>865,322</b>	<b>(2,475,890)</b>	<b>(35,195)</b>
<b>FUND BALANCES, June 30</b>	<b>\$139,084,551</b>	<b>125,888,535</b>	<b>113,871,596</b>	<b>113,940,285</b>	<b>108,343,964</b>	<b>94,498,486</b>	<b>97,635,248</b>
<b>Debt service as a percentage of noncapital expenditures</b>	<b>0.03917</b>	<b>0.03020</b>	<b>0.04623</b>	<b>0.04291</b>	<b>0.04656</b>	<b>0.02870</b>	<b>0.03063</b>

Note : The City has elected to show only seven years of data for this schedule. The debt service percentage was revised to only include principal and interest.

**CITY OF MODESTO**  
**REVENUE CAPACITY - MOST SIGNIFICANT LOCAL REVENUE SOURCE**  
**WATER UTILITY CHARGES**  
**(Fiscal Year ended June 30, 2014)**

Ten Largest Customers of Water Utility System, Year Ended 06/30/14

<u>Customer</u>	<u>Usage (ccf) (1)</u>	<u>% of Total Usage</u>	<u>Water Sales Revenue (\$)</u>	<u>% of Total Water Sales Revenue</u>
1) City of Modesto-Stores	454,692	1.65%	\$775,028	1.41%
2) Modesto City Schools	372,581	1.35%	\$761,903	1.39%
3) Seneca Foods	395,324	1.43%	\$569,976	1.04%
4) Stanislaus Food Products	375,903	1.36%	\$555,174	1.01%
5) Foster Farms	311,160	1.13%	\$443,782	0.81%
6) Modesto Irrigation District	223,994	0.81%	\$348,084	0.63%
7) Stanislaus Housing Authority	177,039	0.64%	\$326,982	0.60%
8) Yosemite Comm. Clg. Dist.	147,458	0.53%	\$247,992	0.45%
9) Stan County Bldg Mntc.	94,064	0.34%	\$201,667	0.37%
10) Sunopta	134,440	0.49%	\$196,113	0.36%
Total Top Ten	<u>2,686,655</u>	<u>9.74%</u>	<u>\$4,426,701</u>	<u>8.08%</u>

Total Flat/Metered Revenues (Water Sales)

\$54,817,456

(1) "ccf" means "hundred cubic feet"

Water Sales Revenue, Year Ended 06/30/14

Residential - flat rates

\$10,723,594

Commercial, Industrial and municipal - metered rates

44,093,862

Total Water Sales

\$54,817,456

Water Rates and Charges as of 07/01/2013

The average monthly flat rate service charge for residential customers is:

\$46.00

Commercial Accounts:

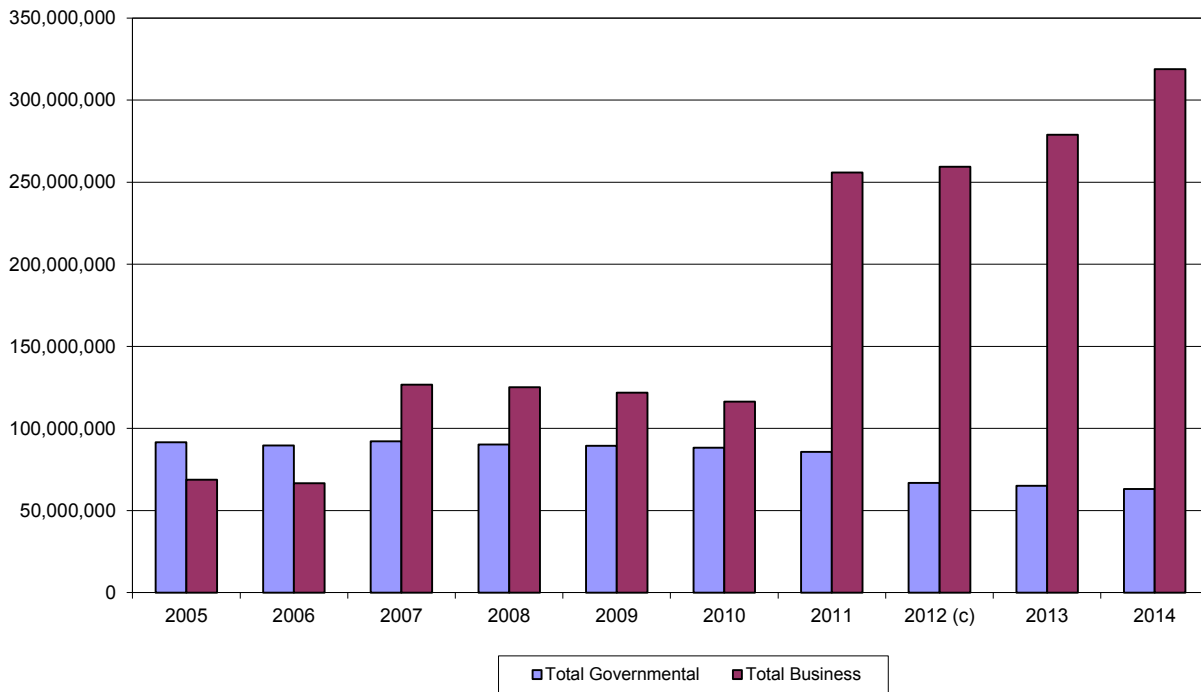
<u>Meter Size</u>	
3/4"	\$15.03
1"	21.33
1 1/2"	36.90
2"	55.68
3"	105.80
4"	162.13
6"	318.47
8"	506.20
10"	725.26
12"	1,350.92

In addition to these minimum charges, commercial accounts are charged \$1.40 per 100 cubic feet of water used. Water rates for both metered and flat rate services were increased on 07/01/2013

Source:

City of Modesto-Utilities Division

**CITY OF MODESTO**  
**RATIO OF OUTSTANDING DEBT BY TYPE**  
**Last Ten Fiscal Years**



**Governmental Activities**

Fiscal Year	Loans Payable	Certificates of Participation	Lease Revenue Bonds	Notes Payable	Obligations Under Capital Leases	Total
2005	485,077	22,455,000	63,000,000	4,696,076	896,833	91,532,986
2006	446,634	21,655,000	62,505,000	4,535,034	444,904	89,586,572
2007	449,138	20,820,000	66,440,000	4,365,446	211,354	92,285,938
2008	693,788	19,935,000	65,210,000	4,187,220	137,392	90,163,400
2009	903,362	19,000,000	65,170,000	3,999,252	454,401	89,527,015
2010	903,362	18,015,000	64,275,000	3,802,436	1,221,553	88,217,351
2011	903,392	16,975,000	63,255,000	3,594,658	975,955	85,704,005
2012 (c)	498,362	-	62,130,000	3,392,000	742,937	66,763,299
2013	498,362	-	60,870,000	3,201,000	502,622	65,071,984
2014	498,362	-	59,475,000	3,000,000	256,945	63,230,307

**Business-Type Activities**

Fiscal Year	Loans Payable	Certificates of Participation	Revenue Bonds (b)	Capital Leases	Total	Total Primary Government	Percentage of Personal Income (a) (e)	Per Capita (a) (e)
2005	2,347,602	27,240,000	39,235,000	290,487	68,822,602	160,355,588	2.77%	772.30
2006	2,156,040	26,305,000	38,245,000	222,588	66,706,040	156,292,612	2.64%	751.02
2007	1,958,276	71,595,000	53,130,000	151,633	126,683,276	218,969,214	3.67%	1,046.83
2008	1,754,300	71,915,000	51,420,000	77,485	125,089,300	215,252,700	3.65%	1,025.33
2009	1,543,554	70,545,000	49,760,000	-	121,848,554	211,375,569	3.69%	1,006.13
2010	1,326,174	67,066,213	48,050,000	-	116,442,387	204,659,738	3.66%	967.49
2011 (d)	6,522,243	50,757,779	198,654,489	-	255,934,511	341,638,516	6.51%	1,698.30
2012 (d)	16,098,866	50,237,067	193,098,177	-	259,434,110	326,197,409	5.18%	1,616.75
2013	41,921,784	49,681,357	187,251,865	-	278,855,006	343,926,990	7.53%	1,669.65
2014	88,922,403	49,110,644	180,940,253	-	318,973,300	382,203,607	8.10%	1,848.31

Note: debt amounts are gross outstanding at year end without eliminating any premiums, discounts, or other amortization amounts.

(a) See Demographic and Economic Statistics for personal income and population data.

(b) The MID Treatment and Delivery issued by MID on behalf of the City has been reported as a City liability.

(c) The Certification of Participation bonds for the Governmental Activities due to the dissolution of the Redevelopment Agency.

(d) In 2011, the OPEB was reported in the Certificates of Participation in error. In 2012 the Loans payable increase from the bond reimbursements related to the State Revolving loan approved for the construction of a new tertiary treatment plant.

(e) A formula error was identified for all years and has been corrected.

**CITY OF MODESTO**  
**COMPUTATION OF DIRECT AND OVERLAPPING DEBT**  
**June 30, 2014**

Jurisdiction	Net Debt Outstanding (1)	Percentage Applicable to City of Modesto (2)	Amount Applicable to City of Modesto
Direct debt:			
City of Modesto	\$ <u>63,230,307</u>	100%	\$ <u>63,230,307</u>
Overlapping General Obligation debt - school districts:			
Ceres Unified District	85,282,995	6.11%	5,210,791
Hart-Ransom Union School District	3,841,721	30.38%	1,167,115
Modesto Elementary School District	11,638,388	77.59%	9,030,225
Modesto High School District	45,286,788	67.54%	30,586,697
Paradise Elementary School District	390,000	0.00%	0
Salida Union Elementary District	665,000	29.80%	198,170
Stanislaus Union School District	13,414,178	76.59%	10,273,919
Sylvan School District	37,216,169	77.76%	28,939,293
Yosemite Community College District	<u>301,666,979</u>	34.63%	104,467,275
Total overlapping debt	<u>499,402,218</u>		<u>189,873,484</u>
Total direct and overlapping debt	\$ <u><u>562,632,525</u></u>		\$ <u><u>253,103,791</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**  
**COMPUTATION OF LEGAL DEBT MARGIN**  
**June 30, 2014**

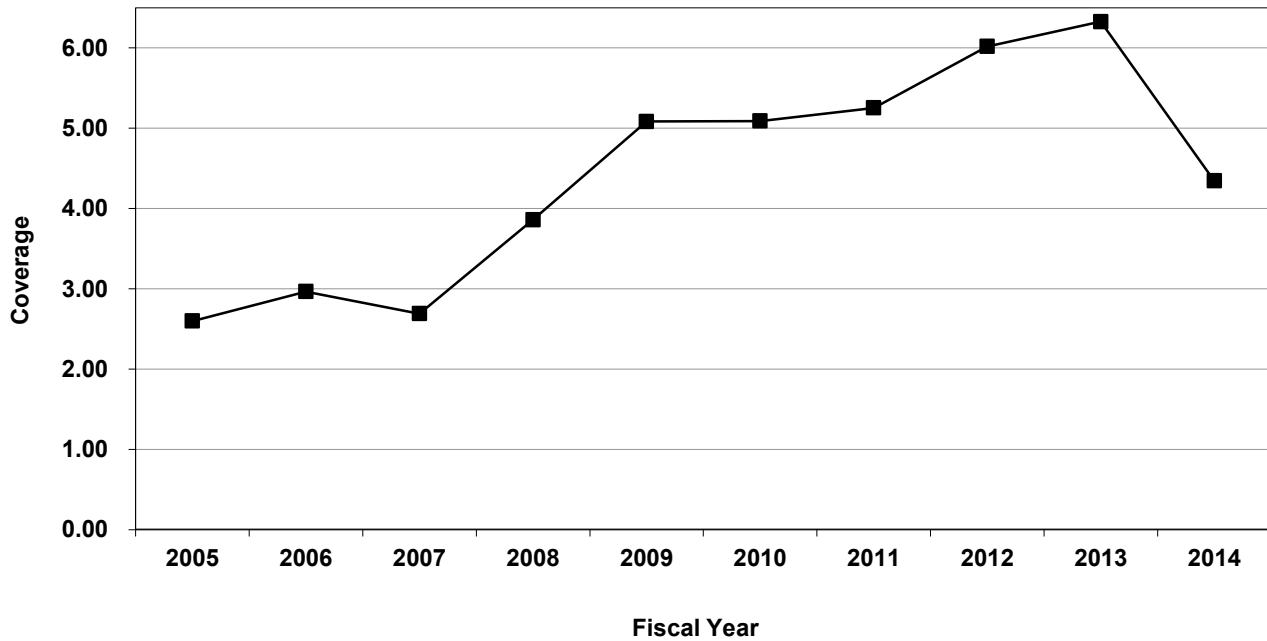
Net assessed value (1)		\$	11,957,822,142
Plus homeowners' exemption (1)			<u>212,300,135</u>
Gross assessed value (1)		\$	12,170,122,277
Debt limit - 15% of gross assessed value (2)		\$	1,825,518,342
Amount of debt applicable to debt limit:			
Total general bonded debt, including special assessment debt		\$	<u>                  -</u>
Less: Assets in debt service funds available for payment of principal	\$		<u>                  -</u>
Other deductions: Special assessment debt			<u>                  -</u>
Total deductions			<u>                  -</u>
Total amount of debt applicable to debt limit			<u>                  -</u>
Legal debt margin		\$	<u><u>1,825,518,342</u></u>

Fiscal Year	Debt Limit	Total Net Debt Applicable to Limit	Legal Debt Margin	Total Net Debt Applicable to the Limit as a Percentage of Debt Limit
2010	\$ 1,945,371,241	\$ -	\$ 1,945,371,241	0%
2011	\$ 1,856,710,771	\$ -	\$ 1,856,710,771	0%
2012	\$ 1,823,551,939	\$ -	\$ 1,823,551,939	0%
2013	\$ 1,724,049,678	\$ -	\$ 1,724,049,678	0%
2014	\$ 1,825,518,342	\$ -	\$ 1,825,518,342	0%

Notes: (1) Source of Data: Stanislaus County Auditor; Certified Values Report (AUD70-2360-100, including aircraft).  
(2) Section 43605 California Government Code.

Note: The City has elected to show only five years worth of data for this schedule.

**CITY OF MODESTO**  
**REVENUE BOND COVERAGE**  
**WASTEWATER REVENUE BONDS**  
**Last ten fiscal years**



<u>Fiscal Year</u>	<u>Gross Revenue (1)</u>	<u>Operating Expenses (2)</u>	<u>Net Revenue Available for Debt Service</u>	<u>Debt Service Requirements(3)</u>	<u>Coverage</u>
2005	25,701,300	16,476,917	9,224,383	3,549,633	2.60
2006	24,695,878	16,044,781	8,651,097	2,916,462	2.97
2007	26,367,977	16,399,785	9,968,192	3,705,523	2.69
2008	32,214,071	16,280,914	15,933,157	4,127,837	3.86
2009	37,539,860	17,050,138	20,489,722	4,030,633	5.08
2010	39,086,504	18,161,292	20,925,212	4,110,221	5.09
2011	39,844,523	18,722,729	21,121,794	4,021,108	5.25
2012	43,453,216	19,287,894	24,165,322	4,014,808	6.02
2013	45,018,125	19,586,799	25,431,326	4,019,558	6.33
2014	46,622,908	28,203,399	18,419,509	4,240,005	4.34

- Notes: (1) Consists of all receipts of the Sewer fund not dedicated to capital spending purposes and including charges for services, connection fees, interest and rental income.  
(2) Reflects total sewer fund operating expenses less depreciation; also includes certain transfers out that are made for operational costs incurred in other funds.  
(3) Includes total principal and interest of Wastewater Refunding Revenue Bonds Series 2005A and 2005 B and 2006 Wastewater Revenue Bonds.

**CITY OF MODESTO**  
**CONTINUING DISCLOSURE REQUIREMENTS INFORMATION**  
**Year Ended June 30, 2014**

Wastewater Revenue Refunding Bonds, Series 2005 A and B, and  
Wastewater Revenue Bonds, Series 2006 A

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

Capacity charge: \$ 4,905 per Equivalent Dwelling Unit for residential units. Commercial and industrial property charged based on type of business.  
 Sub-trunk sewer charge: \$645 per acre  
 Connection (lateral) charge: \$33 per linear foot of lot frontage adjacent to the sewer line.

<u>Customer Base by Type of Account</u>			
<u>Category</u>	<u>Number of</u> <u>Accounts</u>	<u>% of Total</u> <u>Accounts</u>	<u>% of Sewer Fee</u> <u>Operating Revenue</u>
Residential	56,332	93.26%	50.10%
Commercial	4,024	6.66%	10.57%
Industrial	44	0.07%	30.12%
Total	<u>60,400</u>	<u>100.00%</u>	<u>90.79%</u>

Ten Largest Users of Sewer Facilities, Year Ended 6/30/14

<u>User</u>	<u>Sewer Fee</u> <u>Revenue</u>	<u>% of Sewer Fee</u> <u>Operating Revenue</u>
1) Stanislaus Food Products	\$ 3,295,125	7.50%
2) Del Monte Food Plant 1	\$ 2,027,453	4.62%
3) Seneca Foods	\$ 1,624,813	3.70%
4) E & J Gallo Winery	\$ 1,464,927	3.33%
5) Foster Farms	\$ 1,062,127	2.42%
6) Frito Lay, Inc.	\$ 936,693	2.13%
7) City of Ceres	\$ 914,844	2.08%
8) Nestle Food Company	\$ 441,897	1.01%
9) Rizo Lopez Foods	\$ 248,576	0.57%
10) Stan CO Housing Authority	\$ 208,208	0.47%
Total (Top Ten Customers)	<u>\$ 12,224,663</u>	<u>27.84%</u>
Total (All Customers)	<u>\$ 43,926,972</u>	

The average single-family residence monthly sewer charge is: \$30.40

<u>Commercial Group</u>	<u>Charge</u> <u>Per 1,000 Gallons</u>	<u>Fixed Charge</u>
Group 1 (no food, just toilets or working facilities)	\$2.23	\$4.15
Group 2 (commercial laundromats, service stations, hotels without food)	\$2.74	\$4.15
Group 3 (industrial laundromats, hotels with food)	\$3.26	\$4.15
Group 4 (restaurants, bakeries, auto steam, markets)	\$3.87	\$4.15

Industrial users pay a minimum account charge of \$4.15 with additional charges of: \$2,424.00 per million gallons of flow, \$120.00 per 1,000 pounds of excess biochemical oxygen demand (BOD), and \$210.00 per 1,000 pounds of Total Suspended Solids (TSS).

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 Position	Page 25	
Principal Amount of Bonds and Other Parity Debt	Page 45-46	(Note III-C)
Historical Debt Service Coverage	Page 127	
	(continued)	

**CITY OF MODESTO**  
**WASTEWATER COMPARISON INFORMATION**  
**Year Ending June 30, 2014**

Residential, commercial and industrial rates have increased according to the following approved schedule.

**CITY OF MODESTO**  
**WASTEWATER SYSTEM**  
**Six Year History Rate Increases**

<u>Fiscal Year</u>	<u>Percent Increase</u>
2008/09	30.00
2009/10	0.00
2010/11	3.00
2011/12	8.00
2012/13	6.00
2013/14	6.00

***Comparative Monthly Wastewater Service Charges.***

The City's residential charges as of July 1, 2013 are set forth below with a comparison to other Central Valley and Northern California cities.

**CITY OF MODESTO**  
**WASTEWATER SYSTEM**  
**Monthly Sewer Charge Comparison**  
**Residential Service**  
**As of July 1, 2013**

<u>City</u>	<u>Monthly Residential Charge</u>
Fresno	\$25.75
Lodi	\$24.11
<b>Modesto</b>	<b>\$30.40</b>
Stockton	\$37.31
Tracy	\$34.00
Turlock	\$37.10

**CITY OF MODESTO**  
**CONTINUING DISCLOSURE REQUIREMENTS**  
**Year Ending June 30, 2014**

**CITY OF MODESTO**  
**WASTEWATER SYSTEM**  
**Wastewater Connection Fees Comparison**  
**As of July 1, 2013**

<u>City</u>	<u>Connection Fee</u>
Fresno (1)	\$3,515.00
Lodi (2)	\$5,728.00
<b>Modesto</b>	<b>\$4,905.00</b>
Stockton (3)	\$3,900.00
Tracy	\$8,735.00
Turlock	\$2,488.09

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(1) Connection fees are based on the size of the lot & location.

(2) Connection fees are based on the size of the water meter.

(3) Connection fees vary by location.

**CITY OF MODESTO**  
**CONTINUING DISCLOSURE REQUIREMENTS INFORMATION (continued)**  
**Year Ended June 30, 2014**

Water Revenue Refinancing Certificates of Participation, 2008 Series A  
Modesto Irrigation District Financing Authority Domestic Water Project Refunding Revenue Bonds, Series 2013G<sup>(1)</sup>  
Modesto Irrigation District Financing Authority Domestic Water Project Revenue Bonds, Series 2007F<sup>(1)</sup>

Reserve Account Requirement as of 6/30/14	\$4,246,467
Surety Policy Value:	(2,082,513)
Balance in Parity Reserve Account as of 6/30/14	<u>(2,538,559)</u>
Shortfall/(Excess) Reserve Coverage:	<u><u>(374,605)</u></u>

Balance in Rate Stabilization Account as of 6/30/13:

Ten Largest Customers of Water Utility System, Year Ended 6/30/14

<u>Customer</u>	<u>Business Type</u>	<u>Usage (ccf) (2)</u>	<u>% of Total Usage</u>	<u>Water Sales Revenue (\$)</u>	<u>% of Total Water Sales Revenue</u>
1) Modesto City Schools	Education	454,692	1.65%	\$775,025	1.41%
2) City of Modesto-Stores	Local Government	372,581	1.35%	\$761,903	1.39%
3) Senecs Foods	Cannery	395,324	1.43%	\$569,976	1.04%
4) Stanislaus Food Products	Cannery	375,903	1.36%	\$555,174	1.01%
5) Foster Farms	Dairy Processor	311,160	1.13%	\$443,782	0.81%
6) Modesto Irrigation District	Power Company	223,994	0.81%	\$348,084	0.63%
7) Stanislaus Housing Authority	Housing Authority	177,039	0.64%	\$326,982	0.60%
8) Yosemite Comm College Dist.	Education	147,458	0.53%	\$247,992	0.45%
9) Stan County	County Offices	94,064	0.34%	\$201,667	0.37%
10) Sunopta	Cannery	134,440	0.49%	\$196,113	0.36%
Total Top Ten		<u>2,686,655</u>	<u>9.74%</u>	<u>\$4,426,698</u>	<u>8.08%</u>

Total Flat/Metered Revenues (Water Sales)

\$54,817,456

(1) Grover Landscaping maintains City parks

(2) "ccf" means "hundred cubic feet"

Water Sales Revenue, Year Ended 6/30/14

Residential - flat rates	\$10,723,594
Commercial, industrial and municipal - metered rates	<u>\$44,093,862</u>
Total Water Sales	<u>54,817,456.00</u>

The average monthly flat rate service charge for residential customers is:

\$46.38

Current Water Rates as of 07/01/2014- Commercial Accounts

<u>Meter Size</u>	
3/4"	\$15.03
1"	\$21.33
1 1/2"	\$36.90
2"	\$55.68
3"	\$105.80
4"	\$162.13
6"	\$318.47
8"	\$506.20
10"	\$725.26
12"	\$1,350.92

In addition to these minimum charges, commercial accounts are charged \$1.33 per 100 cubic feet of water used. Water rates for both metered and flat rate services were increased as of 7/1/2013.

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

(1) Water Fund parity debt obligations, 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.

On August 14, 2013 Modesto Irrigation District Financing Authority refunded the 1998 D Bond.

As of 6/30/14, the balance of the 2013 G Bond was \$43,270,000 and the balance of the 2007 F Bond was \$93,190,000.

(continued)

**CITY OF MODESTO  
CITY WATER- HISTORICAL DEBT SERVICE COVERAGE  
CONTINUING DISCLOSURE REQUIREMENTS  
Last Six Fiscal Years**

**CITY WATER UTILITY SYSTEM  
Historical Debt Service Coverage<sup>(1)</sup>**

	Fiscal Year 2009	Fiscal Year 2010	Fiscal Year 2011	Fiscal Year 2012	Fiscal Year 2013	Fiscal Year 2014
Charges for services	\$ 52,990,138	\$ 51,572,801	\$ 51,876,505	\$ 53,453,708	\$ 59,906,488	\$ 56,940,812
Connection charges	1,113,082	647,579	452,021	516,839	295,632	357,432
Refunds, Damages & Recoveries	29,033	428,083	460,766	166,522	260,802	215,271
Interest and rental income	2,055,531	1,006,611	588,917	670,046	174,224	235,246
Draw from (Deposit to) rate stabilization fund	-	-	-	-	-	-
Service Credits <sup>(2)</sup>	501,671	2,170,367	2,562,986	2,966,465	3,201,951	2,678,999
Miscellaneous	32,586	25,782	58,083	118,203	150,949	154,700
<b>Total Gross Operating Revenues</b>	<b>56,722,041</b>	<b>55,851,223</b>	<b>55,999,278</b>	<b>57,891,783</b>	<b>63,990,046</b>	<b>60,582,460</b>
Operating expenses <sup>(3)</sup>	28,359,392	30,219,002	26,638,348	30,755,822	28,530,554	36,598,298
Operating transfers <sup>(4)(5)</sup>	482,503	765,000	776,000	1,257,406	838,421	765,000
CIP expenses moved to operating <sup>(6)</sup>	3,054,407	1,127,185	-	-	-	-
<b>Total Operating Expenses<sup>(7)</sup></b>	<b>31,896,302</b>	<b>32,111,187</b>	<b>27,414,348</b>	<b>32,013,228</b>	<b>29,368,975</b>	<b>37,363,298</b>
<b>Net Operating Revenues</b>	<b>\$ 24,825,739</b>	<b>\$ 23,740,036</b>	<b>\$ 28,584,930</b>	<b>\$ 25,878,555</b>	<b>\$ 34,621,071</b>	<b>\$ 23,219,162</b>
1997 Refunding Certificate of Participation <sup>(8)</sup>	1,792,258	1,794,688	1,797,013	-	-	-
2006 Revenue Certificates of Participation	-	-	-	-	-	-
2008 Revenue Certificates of Participation	2,262,117	2,145,966	2,271,034	2,684,462	2,632,225	2,648,783
MID Treatment & Delivery Agreement <sup>(9)</sup>	6,672,406	7,455,918	10,794,041	10,888,790	10,889,760	8,885,208
CDWR Loan	263,079	264,719	264,719	255,942	264,719	264,719
ARRA Grant	-	-	-	5,137	36,289	36,103
<b>Total Debt Service</b>	<b>10,989,860</b>	<b>11,661,291</b>	<b>15,126,807</b>	<b>\$ 13,834,331</b>	<b>\$ 13,822,993</b>	<b>\$ 11,834,813</b>
<b>Debt Service Coverage</b>	<b>2.26</b>	<b>2.04</b>	<b>1.89</b>	<b>1.87</b>	<b>2.50</b>	<b>1.96</b>

(1) The amount was changed from \$59,906,488 to \$56,906,488 as there was a data entry error that was corrected.

(2) Calculated in conformity with the Contract and Trust Agreement.

(3) Service Credits are reimbursements from other City funds of costs associated with employee time worked on other projects. In Fiscal Year 2010 Cashiering, Utilities, and Collections division was moved into the Water Fund. This caused a structural change and in return an increase in service credits.

(4) Beginning in Fiscal Year 2009 total operating expenses increased as a result of the initiation of a meter program and increases in costs associated with supplies, maintenance, water treatment litigation and administration.

(5) Operating transfers in Fiscal Year 2009 increased due to an administrative oversight and funds were returned to the correct fund.

(6) Includes operating transfers for building rental fee of \$65,000 annually and commencing in Fiscal Year 2010 \$700,000 annual transfer to the Storm Drain Fund to actively protect the groundwater supply source from contamination. In Fiscal Year 2012 \$668,610 a one time transfer for IT ISF.

(7) In Fiscal Year 2010, the City made a prior period adjustment to reclassify certain operating costs previously recorded as capital improvements. This prior period adjustment has been reflected in this table in the years costs were incurred.

(8) Total operating expenses excludes depreciation and amortization, as well as the debt service component under the Treatment and Delivery Agreement.

(9) 1997 COPS were prepaid in full in Fiscal Year 2011

(10) Debt service payment increased by \$4.1 million in Fiscal Year 2011 due to the expiration of capitalized interest.

Source: City of Modesto

**CITY OF MODESTO  
CITY WATER UTILITY SYSTEM  
PROJECTED OPERATING RESULTS <sup>(1)</sup>  
CONTINUING DISCLOSURE REQUIREMENTS**

The City has prepared the following table of projections of operating results of the Water Utility System for the five fiscal years 2015-19. The projected amounts set forth below are based on certain assumptions made by the City. To the extent that actual future conditions vary from those assumed in preparing the projections, the actual results will vary.

	Fiscal Year Projected 2015	Fiscal Year Projected 2016	Fiscal Year Projected 2017	Fiscal Year Projected 2018	Fiscal Year Projected 2019
Charges for services <sup>(2)</sup>	\$ 56,906,488	\$ 56,906,488	\$ 56,906,488	\$ 56,906,488	\$ 56,906,488
Connection charges	357,432	357,432	357,432	357,432	331,000
Refunds, Damages & Recoveries	215,000	-	-	-	-
Interest and rental income	190,384	172,740	173,564	174,405	175,262
Draw from (Deposit to) rate stabilization fund	-	-	-	-	-
Service Credits	2,678,999	2,705,789	2,732,847	2,760,175	2,787,777
Miscellaneous	16,738	17,073	17,414	17,762	18,118
GF (Parks Loan) P/I	53,500	53,500	53,500	53,500	53,500
<b>Total Gross Operating Revenues</b>	<b>\$60,418,541</b>	<b>\$60,213,022</b>	<b>\$60,241,245</b>	<b>\$60,269,762</b>	<b>\$60,272,145</b>
Operating expenses <sup>(3)</sup>	40,821,197	36,683,129	38,134,640	39,644,211	41,183,810
Operating transfers	765,000	765,000	765,000	765,000	765,000
<b>Total Operating Expenses<sup>(4)</sup></b>	<b>\$41,586,197</b>	<b>\$37,448,129</b>	<b>\$38,899,640</b>	<b>\$40,409,211</b>	<b>\$41,948,810</b>
<b>Net Operating Revenues</b>	<b>18,832,344</b>	<b>22,764,893</b>	<b>21,341,605</b>	<b>19,860,551</b>	<b>18,323,335</b>
2008 Revenue Certificates of Participation	2,835,077	2,835,077	2,835,077	2,835,077	2,835,077
MID Treatment & Delivery Agreement	10,149,792	10,149,792	10,149,792	10,149,792	10,149,792
CDWR Loan	264,719	264,719	132,359	-	-
ARRA Grant	36,289	36,289	36,289	36,289	36,290
<b>Total Debt Service</b>	<b>\$13,285,877</b>	<b>\$13,285,877</b>	<b>\$13,153,517</b>	<b>\$13,021,158</b>	<b>\$13,021,159</b>
<b>Debt Service Coverage</b>	<b>1.42</b>	<b>1.71</b>	<b>1.62</b>	<b>1.53</b>	<b>1.41</b>

(1) Calculated in conformity with the Contract and Trust Agreement.

(2) Revenues do NOT include a Consumer Price Index (CPI) increase.

(3) Operating expenses has assumed an inflationary rate of 4% in 2015-19.

(4) Total operating expenses excludes depreciation and amortization, as well as the debt service component under the MID Treatment & Delivery Agreement.

\* Please note that all of the projections have been updated to account for no annual CPI adjustment being used.

Source: City of Modesto.

**CITY OF MODESTO  
CITY WATER UTILITY SYSTEM STATISTICS  
CONTINUING DISCLOSURE REQUIREMENTS  
Year Ended June 30, 2014**

**CITY WATER UTILITY SYSTEM STATISTICS  
(Calendar Years 2009 through 2014)**

	2009	2010	2011	2012	2013	2014
Number of Service Accounts	76,899.0	76,508.0	76,983.0	76,788.0	75,357.0	75,006.0
Total Water Production (MG)(1)	23,824.0	21,712.0	20,892.0	21,765.0	21,606.0	20,630.0
Capacity (MGD)(2)	166.0	166.0	166.0	175.2	175.2	175.2
Peak Daily Distribution (MGD)	113.0	110.0	98.5	97.2	99.8	95.3
Average Daily Distribution (MGD)	65.3	59.5	57.2	59.5	59.2	56.5

(1) "MG" means million gallons.

(2) "MGD" means million gallons daily.

**CITY WATER UTILITY SYSTEM  
Service Area Total Production (Billion Gallons)  
(Calendar Years 2009 through 2014)**

Year Ending December 31	Well Water	Surface Water	Total
2009	14.14	9.69	23.83
2010	11.32	10.39	21.71
2011	11.72	9.17	20.89
2012	11.57	10.19	21.76
2013	10.62	10.99	21.61
2014	10.72	9.91	20.63

**CITY WATER UTILITY SYSTEM  
Comparison of  
Average Monthly Water Rates  
Flat Rate (1" Service)  
As of July 1, 2013**

<u>City</u>	<u>Flat Rate Typical Home</u>
Fresno (1)	\$13.51
Lodi (1)	\$34.63
<b>Modesto</b>	<b>\$46.38</b>
Stockton (1)	\$28.27
Tracy (1)	\$20.40
Turlock (1)	\$24.05

(1) Water is metered.

**CITY OF MODESTO**  
**CONTINUING DISCLOSURE REQUIREMENTS**  
**Year Ended June 30, 2014**

The following table sets forth connection fees for all users except multi-family units by meter size for year 2013-2014

**CITY WATER UTILITY SYSTEM**  
**Connection Fees for All users**  
**Except Multiple Family Units**  
**(Fiscal Year 2013-2014)**

<u>Meter Size</u>	<u>Connection Fees</u>
5/8" meter**	\$2,175
1" meter	\$5,436
1-1/2" meter	\$10,873
2" meter	\$17,395
3" meter	\$34,789
4" meter	\$54,359
6" meter	\$108,717
8" meter	\$173,947
10" meter	\$250,049
12" meter	\$467,482

\*\*NOTE- Single-family residences qualify for the 5/8" connection fee only under the following conditions:

Single story, single-family residences on a lot of 4,000 square feet or less.

Two-story single family residence on a lot of 4,000 square feet or less, provided the request for such a service accompanied by a report from a licensed professional engineer that certifies that the 5/8" service is adequate to meet the needs of the proposed dwelling.

A 5/8" "service" shall not be allowed for a single-family dwellings of greater than 2 stories on lots less than 4,000 square feet.

**CITY OF MODESTO**  
**CONTINUING DISCLOSURE REQUIREMENTS INFORMATION**  
**Year Ended June 30, 2014**

**CITY WATER UTILITY SYSTEM**  
**Sale of Water**  
**(Fiscal Year Ended June 30, 2014)\***

	2010	2011	2012	2013	2014
Revenues (\$000)					
Residential (Flat Rates)	\$ 21,256,928	\$ 16,888,754	\$ 14,464,689	\$ 12,955,005	\$ 10,723,594
Commercial, Industrial and Municipal (Metered)	28,758,412	33,190,426	37,162,861	42,452,862	44,093,862
Total Water Sales	<u>\$ 50,015,340</u>	<u>\$ 50,079,180</u>	<u>\$ 51,627,550</u>	<u>\$ 55,407,867</u>	<u>\$ 54,817,456</u>

The table below sets forth the adopted single family residential flat rates approved through fiscal year 2013-14.

**CITY WATER UTILITY SYSTEM**  
**Monthly Single Family Residential Flat Water Rates (1)**

Lot Size	Effective July 1, 2010	Effective November 1, 2010	Effective July 1, 2011	Effective July 1, 2012	Effective July 1, 2013
0-5,000 sq. ft. lot	\$ 37.23	\$ 38.01	\$ 38.69	\$ 39.89	\$ 40.81
5,001-7,000 sq. ft. lot	42.31	43.20	43.98	45.34	46.38
7,001-11,000 sq. ft. lot	50.21	51.26	52.18	53.80	55.04
11,001-17,000 sq. ft. lot	53.30	54.42	55.40	57.12	58.43
over 17,000 sq. ft. lot	62.66	63.98	65.13	67.15	68.69

(1) Single family residential properties with water meters that are read for billing purposes, are charged the meter water rate.

NOTE: The City has elected to show only five years of data for these schedules.

NOTE: Additional financial information available at [www.modestogov.com](http://www.modestogov.com)

**CITY OF MODESTO**  
**CONTINUING DISCLOSURE REQUIREMENTS INFORMATION**  
**Year Ended June 30, 2014**

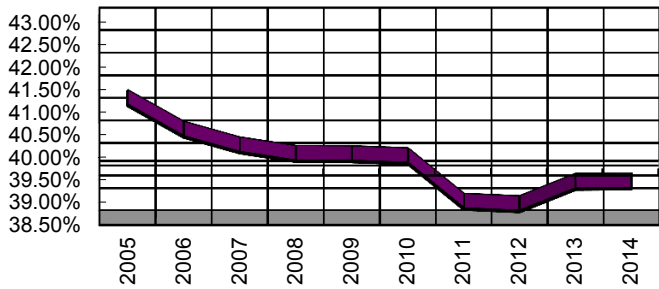
The following table sets forth the adopted monthly service charge and volume charge for commercial accounts through fiscal year 2013-14.

**CITY WATER UTILITY SYSTEM**  
**Water Rates and Charges**  
**Commercial Accounts**

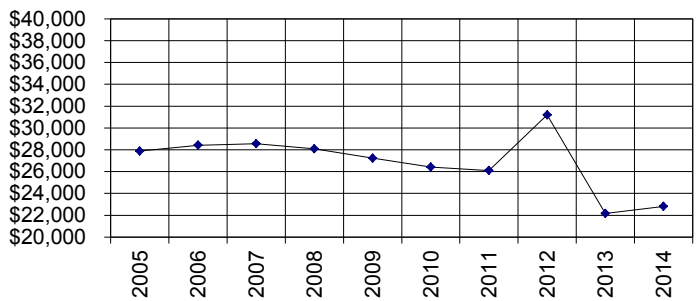
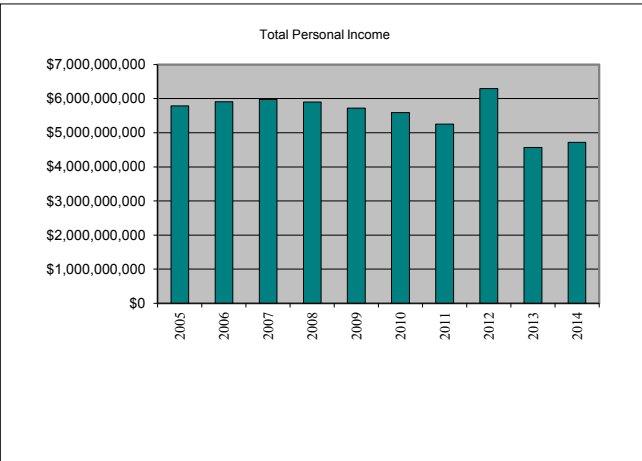
	<b>Effective July 1, 2009</b>	<b>Effective July 1, 2010</b>	<b>Effective November 1, 2010</b>	<b>Effective July 1, 2011</b>	<b>Effective July 1, 2012</b>	<b>Effective July 1, 2013</b>
<b>Volume-based Rate (\$/hcf)</b>	\$ 1.28	\$ 1.28	\$ 1.33	\$ 1.33	\$ 1.37	\$ 1.40
<b>Fixed Monthly Meter Charge (in addition to volume-based charges)</b>						
5/8"-3/4" meter	\$ 13.71	\$ 13.71	\$ 14.00	\$ 14.25	\$ 14.69	\$ 15.03
1" meter	\$ 19.45	\$ 19.45	\$ 19.86	\$ 20.22	\$ 20.85	\$ 21.33
1-1/2" meter	\$ 33.66	\$ 33.66	\$ 34.37	\$ 34.99	\$ 36.07	\$ 36.90
2" meter	\$ 50.79	\$ 50.79	\$ 51.86	\$ 52.79	\$ 54.43	\$ 55.68
3" meter	\$ 96.51	\$ 96.51	\$ 98.54	\$ 100.31	\$ 103.42	\$ 105.80
4" meter	\$ 147.88	\$ 147.88	\$ 150.99	\$ 153.71	\$ 158.48	\$ 162.13
6" meter	\$ 290.51	\$ 290.51	\$ 296.61	\$ 301.95	\$ 311.31	\$ 318.47
8" meter	\$ 461.75	\$ 461.75	\$ 471.45	\$ 479.94	\$ 494.82	\$ 506.20
10" meter	\$ 661.58	\$ 661.58	\$ 675.47	\$ 687.63	\$ 708.95	\$ 725.26
12" meter	\$ 1,232.31	\$ 1,232.31	\$ 1,258.19	\$ 1,280.84	\$ 1,320.55	\$ 1,350.92

Note: The City has elected to show only five years of data for these schedules  
Note: Additional financial information is available at [www.modestogov.com](http://www.modestogov.com)

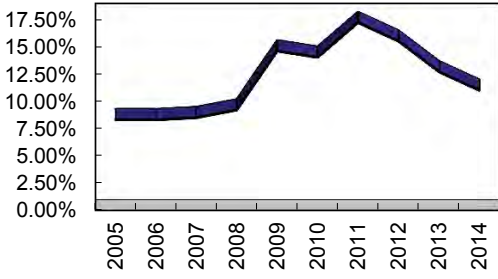
**CITY OF MODESTO**  
**DEMOGRAPHIC AND ECONOMIC STATISTICS**  
 Last ten fiscal years



■ City Population as a % of County Population



◆ Per Capita Personal Income (\$)



■ Unemployment Rate (%)

Fiscal Year	City Population	Total Personal Income	Per Capita Personal Income (\$)	Unemployment Rate (%)	Stanislaus County Population	City Population % of County
2005	207,634	\$5,787,174,848	\$27,872	8.3%	504,482	41.16%
2006	208,107	\$5,912,527,977	\$28,411	8.3%	514,370	40.46%
2007	209,174	\$5,970,871,830	\$28,545	8.5%	521,497	40.11%
2008	209,936	\$5,895,212,816	\$28,081	9.20%	525,903	39.92%
2009	210,088	\$5,720,906,328	\$27,231	14.60%	526,383	39.91%
2010	211,536	\$5,586,877,296	\$26,411	14.02%	530,584	39.87%
2011	201,165	\$5,251,613,490	\$26,106	17.20%	517,685	38.86%
2012	201,761	\$6,294,337,917	\$31,197	15.50%	519,940	38.80%
2013	205,987	\$4,566,113,829	\$22,167	12.70%	524,124	39.30%
2014	206,785	\$4,719,247,270	\$22,822	11.00%	526,042	39.31%

Source: State of California, Department of Finance (population)  
 State of California, Employment Development Department (unemployment rate)  
 U.S. Department of Commerce, Census Bureau (income)

**CITY OF MODESTO  
Principal Employers**

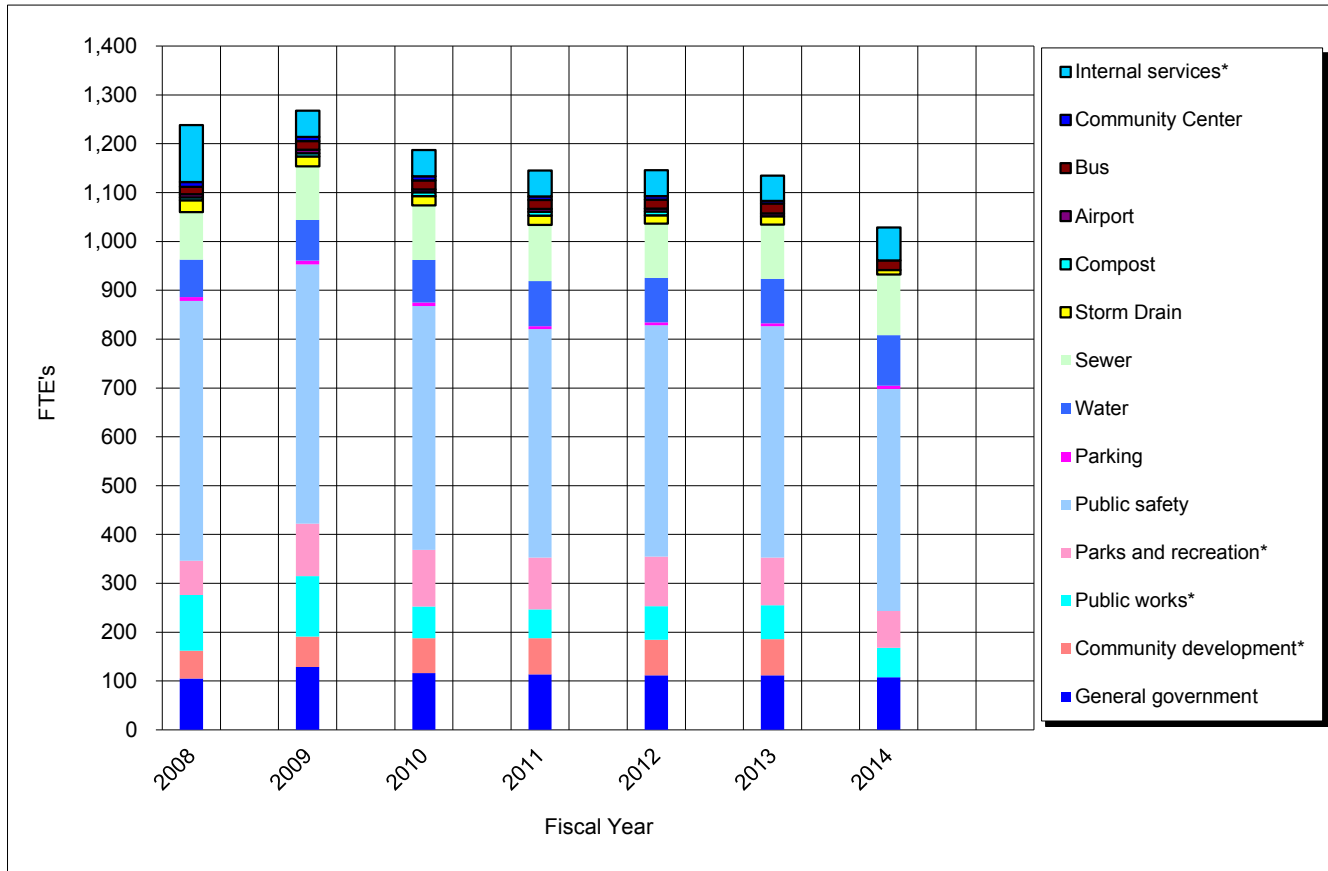
Employer	<b>2013/14</b>		
	Number of Employees	Rank	Percentage of Total City Employment
E & J Gallo Winery	3,300	1	3.21%
Modesto City Schools	3,189	2	3.10%
Memorial Medical Center	2,600	3	2.53%
Del Monte Foods	2,300	4	2.24%
Seneca	2,275	5	2.21%
Doctors Medical Center	2,100	6	2.04%
Stanislaus Food Products	1,850	7	1.80%
Modesto Junior College	1,322	8	1.28%
City of Modesto	1,139	9	1.11%
Kaiser Permanente	<u>800</u>	10	0.78%
Subtotal	<u><u>20,875</u></u>		<u><u>20.29%</u></u>
Total City Labor Force	102,900		
Total City Population	206,785		

Source: Stanislaus Economic Development & Workforce Alliance (reflects peak seasonal employment and may include estimates)

\* The data for the principal employers for the period of nine years prior is not available at this time.

Source: Stanislaus Economic Development & Workforce Alliance

**CITY OF MODESTO**  
**FULL-TIME CITY GOVERNMENT EMPLOYEES BY FUNCTION**  
 Last Seven Fiscal Years



	2008	2009	2010	2011	2012	2013	2014
<b>Function</b>							
General government	105.00	128.60	116.60	113.60	112.00	112.00	108.00
Community development*	57.00	62.20	71.20	74.20	72.20	74.00	73.80
Public works*	114.00	124.00	65.00	59.00	69.00	69.00	60.00
Parks and recreation*	70.00	107.25	116.00	106.23	101.48	97.50	75.38
Public safety	532.00	530.75	499.00	467.75	473.75	474.00	455.00
Parking	8.00	8.00	7.00	6.00	6.00	6.00	6.00
Water	77.00	83.00	87.00	92.00	91.00	91.00	104.00
Sewer	97.00	110.00	112.00	115.00	111.00	111.00	124.00
Storm Drain	24.00	20.00	19.00	19.00	17.00	17.00	9.00
Compost	6.00	7.00	8.00	8.00	8.00	8.00	24.80
Airport	7.00	6.75	6.00	6.00	6.00	6.00	6.00
Bus	15.00	18.00	18.00	18.00	18.00	20.00	20.00
Community Center	9.50	8.50	8.50	7.25	7.25	5.50	5.50
Internal services*	117.00	54.00	54.00	53.00	53.00	52.00	67.30
<b>Total</b>	<b>1,238.50</b>	<b>1,268.05</b>	<b>1,187.30</b>	<b>1,145.03</b>	<b>1,145.68</b>	<b>1,143.00</b>	<b>1,138.78</b>

Source: City of Modesto

\*\*Fiscal Year 2008/09, positions were updated to only include full-time positions. The CAFR 2009 reported part-time positions in error.

**CITY OF MODESTO**  
**OPERATING INDICATORS BY FUNCTION**

<b>Function/Program</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
<b>Public safety:</b>					
Fire:					
Fire calls for service(2)	20,888	20,400	20,970	22,846	24,281
Primary fire inspections conducted	1,012	1,214	1,618	818	989
Police:					
Police calls for Service	167,576	154,549	168,242	174,113	123,357
Law violations:					
Part I and Part II crimes	52,182	49,914	47,175	52,272	53,032
Physical arrests (adult and juvenile)	15,105	11,872	11,536	12,418	15,039
Traffic violations	30,941	24,278	16,330	14,761	15,477
Parking violations	18,041	20,452	15,772	12,150	12,327
<b>Public works</b>					
Streets:					
Street resurfacing ( lane miles)	7	6.48		6	12
Potholes repaired (square miles)	39,705	27,724	38,290	13,282	12,573
Water Utility Cust repaired (sq. ft)	6,990	58,044	112,136	81,261	29,108
Crack Sealing (lane miles)	15.70	22.90		20	33
Airport:					
Number of passengers enplaned	25,640	22,514	19,188	16,532	11,703
Number of tenant aircraft	190	183	184	184	172
Number of hangars	118	118	118	118	118
Number of runways	2	2	2	2	2
Annual fuel consumption in gallons	639,971	311,500	645,283	653,153	682,769
Bus Service:					
Number of buses	56	63	55	65	55
Number of routes	20	20	20	20	20
Total route miles	362	362	362	362	362
Average weekday number of passengers	12,524	10,688	11,553	11,616	12,538
Total number of passengers carried	3,478,120	3,145,400	3,413,421	3,434,409	3,666,824
<b>Community Development</b>					
Building Safety & NPU:					
Permits issued	3,733	3,801	3,288	3,566	3,871
Estimated cost of construction	\$67,488,906	\$73,397,148	76,362,371	81,095,370	58,850,241
Building Inspections made	32,846	29,034	25,549	27,816	30,034
Traffic Electrical:					
Street lights	13,765	13,765	13,765	13,765	13,761
Traffic Signals	149	143	143	144	144
Lighted Ped Walks*	28	28	30	28	29
Beacons*	12	5	8	8	11
Four Way Flashers*	9	9	9	10	10
School Flashers*	22	22	22	22	22
CCTV*	38	38	38	41	41
Hubs*	5	5	5	6	6
<b>Culture and recreation:</b>					
Recreation class participants	3,171	2,297	2,072	264,670	150,514
Solid Waste:					
Recyclables Processed (tons per year)(1)	47,170	50,789	67,317	37,647	46,936
Yard waste	48,856	60,408	58,650	55,147	39,117
Commercial food waste	667	814	735	765	827
Waste tires(1)	3,683	2,388	1,247	1,674	4,969

(1) FY12 figures not available as of 10/31/2012

(2) FY13 Fire calls for service was originally reported incorrectly due to duplicate entries found on the NFIRS reports. This figure was corrected 10/24/2014

Source: City of Modesto - Various Departments

Note: The City has elected to show only five years of data for this schedule

**CITY OF MODESTO**  
**CAPITAL ASSET STATISTICS BY FUNCTION/PROGRAM**

<b>Function/Program</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
<b>Public safety:</b>					
Fire stations	11	11	11	11	11
Police stations	1	1	1	1	1
Police patrol units	100	98	98	105	105
<b>Public works</b>					
<b>Streets:</b>					
Miles of streets (1)	675	676	684	684	691
<b>Water:</b>					
Miles of water mains	1,008	1,008	1,008	1,009	1,009
Fire hydrants	7,516	7,536	7,566	7,584	7,596
Storage capacity (thousands of gallons)	13,100,000	12,300,000	12,300,000	12,300,000	12,300,000
<b>Wastewater:</b>					
Miles of sanitary sewers	642	642	642	639	639
Miles of storm sewers	183	183	183	183	183
Number of treatment plants (2)	2	2	2	2	2
Treatment capacity (millions of gallons)	72	72	72	70	70
<b>Community services:</b>					
City parks	76	6	76	77	77
City parks acreage	1,088	1,088	1,088	1,110	1,110
Playgrounds	55	55	55	55	55
City trails	4	4	7	7	7
City trails miles	12	12	14	14	14
Regional park acreage	324	324	324	324	324
<b>Regional park facilities:</b>					
Golf courses (18 holes)	2	2	2	2	2
Golf courses (9 holes)	1	1	1	1	1
Clubhouse and banquet facility	8	8	8	8	8
Historic house	4	4	4	4	4
Community gardens	2	2	2	2	2
Community centers	7	6	6	7	7
Senior centers	1	1	1	1	1
Sports centers	1	1	1	1	1
Performing arts centers	1	1	1	1	1
Swimming pools	13	4	4	4	4
Tennis courts	37	37	37	37	37
Baseball/softball diamonds	24	24	24	24	24
Soccer/football fields	22	22	22	29	29
Splash play in Existing parks	0	0	10	10	10

(1) Information now reported from the City's GIS system.

(2) The City has both a Primary and a Secondary treatment facility.

Source: City of Modesto - Various Departments

Note: N/A denotes information is not available.

Note: The City has elected to show only five years of data for this schedule