

*City of*

**Modesto**

*California*



*Comprehensive Annual Financial Report*

**For the Fiscal Year Ended June 30, 2012**



CITY OF  
**Modesto, California**

**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
**Fiscal Year Ended June 30, 2012**

Prepared by  
Finance Department



**CITY OF MODESTO**  
 June 30, 2012  
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## **INTRODUCTORY SECTION**





January 31, 2013

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, 2012.

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 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 Armstrong Accountancy Corporation 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, 2012, 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 a dynamic city 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 approximately 37 square miles and serves a population of 201,761. Periodically, as allowed by state statute, the City extends its corporate limits by annexation when deemed appropriate by the City Council. Modesto is diverse 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. The Mayor is elected at-large by the entire City; while the six Councilmembers are elected by district by the residents within the respective district. Members of the City Council hold office for four year terms and are limited to two terms. Their terms of office expire in alternate odd numbered years, with a maximum of four Council seats up for election at any one time. The responsibilities of the City Council include setting policy, approving budgets, determining tax rates, passing ordinances and resolutions to govern the City, appointing

citizens to advisory boards, committees and commission as well as to appoint and supervise the performance of the City Manager, City Attorney, City Clerk and City Auditor. The City Manager delegates responsibilities to a Deputy City Manager and nine Department Directors.

The City provides the services typically associated with a municipality, including: administrative services; police and fire protection; highway, street, and utility infrastructure construction and maintenance; sanitation; planning and zoning; park and recreational activities and cultural events; parking, airport facilities, water, sewer, storm drainage and bus services.

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**

Modesto continues to struggle with the effects of the Great Recession and being the epicenter of the foreclosure crisis. Primary revenue sources of the City, such as sales and property taxes, have been directly impacted by economic influences. Total revenues have decreased over \$20 million since the budget was adopted for Fiscal Year 2008. This has caused a corresponding contraction in services provided to the community and a reduction in the City's General Fund budget.

The public safety budget represents 71% of total General Fund expenditures at June 30, 2012. Expenses for government functions have decreased from 2008 levels in response to the decline in the economy.

The primary employers in Modesto include government, retail and manufacturing with a heavy emphasis on agriculture. 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.

The unemployment rate within the Modesto Metropolitan Statistical Area has increased significantly over the past several years. As of June, 30, 2012, the unemployment rate was recorded at 15.7% as compared to 10.9% as of June 30, 2008.

Building permit activity bottomed out in the second half of fiscal year 2012 and is slowly and incrementally rising both in numbers and valuation. Encouraging as this is, it is still much lower than the levels of activity experienced in the first decade of the 2000's. Fiscal year 2012 ended with a total of 3,286 permits issued with a valuation of \$402,989,728.

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

Despite uncertainties surrounding local government, the City continues to prepare multi-year budgets and attempts to project revenues and expenditures five (5) years into the future. In June 2010, the City Council amended its fiscal policies to require the City to maintain at least \$7 million of General Fund expenditures in reserve, which it successfully has done. At the end of Fiscal Year 2012, total General Fund balance was \$15.4 million representing 16% 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 Mayor and Council have employed expenditure reduction strategies in direct response to declining revenues instead of utilizing fund balance reserves to augment declining revenues. Staff commends them for their long-term vision to ensure the fiscal well-being of the City.

## **SIGNIFICANT EVENTS and ACCOMPLISHMENTS**

### **State Impacts**

The passing of AB1X26 and AB1484 eliminated redevelopment agencies and established the process and review procedures for cities to request the use of "tax increment" money for eligible obligations. During the last year, these legislative changes have created uncertainty and some confusion for impacted cities. The City has been successful in identifying impacts and complying with AB1X26 and AB1484. The City of Modesto Redevelopment Agency was dissolved under this legislation and the City elected to become its 'Successor Agency'. For the fiscal year ended June 30, 2012, there were no other significant financial impacts to the City from this legislation.

### **Local Initiatives and Accomplishments**

Despite the fiscal challenges facing the City, staff has been able to achieve several milestones:

- **Modesto Regional Fire Authority:** On July 1, 2011, the City partnered with Stanislaus County and the Salida Fire Protection District to form the Modesto Regional Fire Authority. The purpose of this Authority is to achieve efficiencies in operations and to take a regionalized approach to fire protection and prevention. During the last fiscal year, the City and Authority continued to work on transition of fire protection and prevention services from the City to the Authority.
- **Shackelford Annexation:** In June 2012, the Shackelford Annexation was annexed to the City of Modesto. The annexation comprises 153 acres bounded by State Route 99 on the north, Union Pacific Railroad on the east, Hatch Road on the south, and Crows Landing Road on the west. The annexation included a general plan amendment from Residential to Commercial for the property fronting Crows Landing Road; the area was pre-zoned as Commercial (C-1) along Crows Landing Road and Residential (R-1) on the remainder of the site. An existing Landscaping and Lighting District was detached from the County and attached to the City, and the area was annexed to Sewer District No. 1.
- **Hospitality Zone:** In June 2012, the City Council authorized the creation of a Hospitality Zone Program to assess the operations and management of downtown Modesto. The hospitality zone will be a tool used to coordinate downtown management and operations and to address the full range of issues that contribute toward a successful downtown, including policing and security, transportation and parking, entertainment and nightlife, marketing, special events, fees, infrastructure needs, regulatory obstacles, new development, and passenger rail station planning. On-going meetings have been held with City staff, community groups, business owners, citizens, and other stakeholders to create a hospitality zone for the downtown area. The downtown hospitality group successfully installed parklets at the corner of Tenth Street and J Street (phase one demonstration project). City staff is now working with the hospitality group to create a program for more widespread installation of these throughout downtown.
- **Downtown Form Based Code:** As part of the State of California Prop 84 Countywide Sustainability Toolbox grant, planning staff is preparing a form-based code for the entire downtown, using the same approach as the Downtown Core Zone effort completed in 2010. Two workshops have been held with downtown property owners and community groups to receive input and ideas on the future redevelopment of the downtown area. As of December 2012, staff has completed a preliminary draft of the residential portion of the Downtown West area. Staff is working on completing a draft of the Downtown East area and the mixed-use portion of the Downtown West area.

- **Downtown Complete Streets:** Staff began work on the downtown streets project in conjunction with the Downtown Core (DC) Zone, adopted by City Council on July 13, 2010. The street/public space design work was not complete at the time the DC Zone was ready to move forward for adoption. Consequently, in adopting the DC Zone, Council directed staff to complete the effort and bring a recommendation forward for Council approval.

For the next several months, staff worked with downtown property owners, interested parties and the Economic Development Committee (EDC) to develop a street cross section that would follow "complete street" principles, facilitating travel by vehicle, transit, bike and foot in a contextually appropriate manner. In December 2011, Council approved a street cross section that achieves the desired objectives to improve pedestrian mobility and provide sufficient space for outdoor dining and displays. Council also approved various street furniture elements for incorporation into the Standard Specifications (Exhibit B of City Council Resolution), including benches, bike racks, bus shelters, trees and tree cages. Other street furniture elements, such as trash receptacles and lampposts, were determined to be sufficiently addressed by current Standards.

- **Digital City:** The City has once again been ranked as one of the top 10 most technology-advanced cities in the 2012 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.
- **Tertiary Wastewater Treatment Facility:** During the summer of 2012, the City started construction of its Phase 2 Tertiary Wastewater Treatment facility. Construction 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.
- **Strategic Plan:** The City's Strategic Plan includes six strategic commitments to the community. These commitments are:
  - Commitment #1 – Build and promote partnerships that engage neighborhoods and create a sense of community.
  - Commitment #2 – Provide a safe and inviting community in which to live, work and visit.
  - Commitment #3 – Provide an innovative and accountable city government that embraces a standard of service excellence through adaptive leadership and responsive public service.
  - Commitment #4 – Foster a vibrant, competitive and diverse economic environment for business.
  - Commitment #5 – Champion education partnerships.
  - Commitment #6 – Promote Modesto.

On September 25, 2012, staff presented to Council the final review of performance measures under its 2010-2013 Strategic Plan. This review included several accomplishments in 2012 including expansion of the Virginia Corridor Bike Trail, construction of a new Bus Maintenance Facility, and being awarded 2<sup>nd</sup> place in California and 6<sup>th</sup> place in the nation for its 2011 National Night Out activities. In addition, the City established the Modesto Historic Graffiti Cruise Route in honor of George Lucas' milestone film, "American Graffiti". The characters and places in that film were drawn from Lucas' childhood in Modesto. 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, 2011. This was the 28<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 members of the Finance Department team who prepared and contributed to its successful completion. In particular, we commend DeAnna Espinoza, and the staff of the Accounting Division responsible for the preparation of this report. Without their hard work, this report would not be possible.

Finally, we would like to express our appreciation to the City Council. Their leadership and direction throughout the year has allowed the City to look beyond the current economic storm and strive to become something better.

Respectfully submitted,



Greg Nyhoff  
City Manager



Gloriette Genereux  
Director of Finance

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Modesto  
California

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2011

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



*Christopher P. Morrell*

President

*Jeffrey R. Egan*

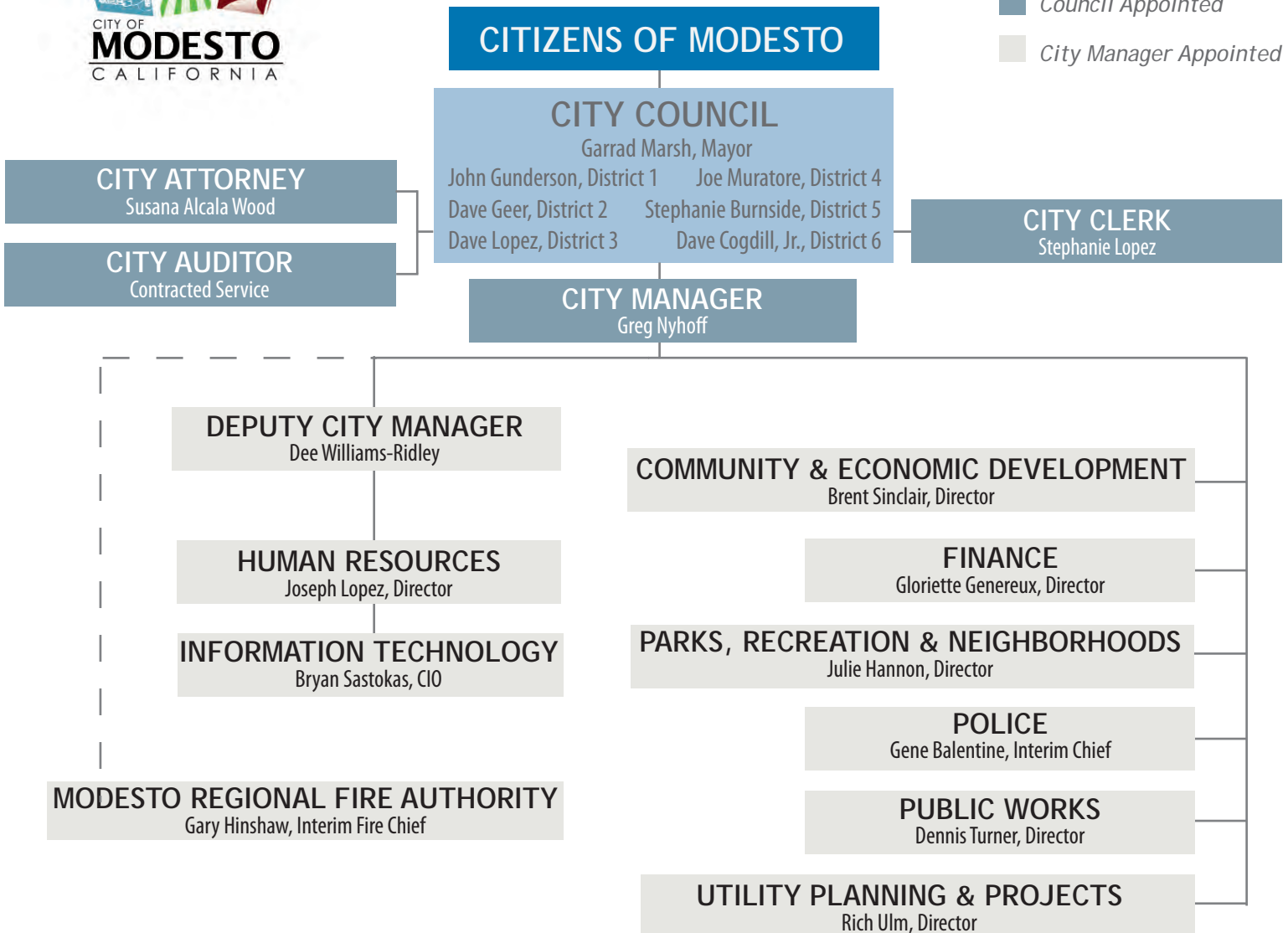
Executive Director

# CITY OF MODESTO ORGANIZATIONAL CHART



## Legend

- Elected
- Council Appointed
- City Manager Appointed



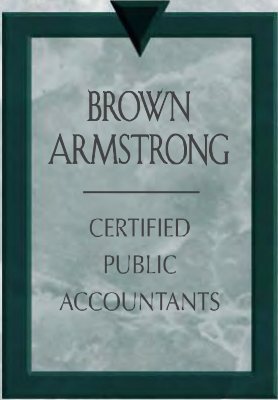
## CITIZENS ADVISORY BOARDS, COMMISSIONS & COMMITTEES

- |   |  |
|---|--|
| <ul style="list-style-type: none"> <li>Airport Advisory Committee</li> <li>Board of Building Appeals</li> <li>Board of Zoning Adjustments</li> <li>Charter Review Committee</li> <li>Citizens Advisory Committee on Recycling</li> <li>Citizen Housing &amp; Community Development Committee</li> <li>Citizens Redevelopment Advisory Committee</li> <li>Citizens Salary Setting Commission</li> <li>Comprehensive Fee Task Force</li> <li>Culture Commission</li> <li>Disabled Access Appeals Board</li> <li>Districting Commission</li> </ul> | <ul style="list-style-type: none"> <li>Downtown Improvement District Advisory Board</li> <li>Entertainment Commission</li> <li>Equal Opportunity/Disability Commission</li> <li>Golf Courses Advisory Committee</li> <li>Housing Rehabilitation Loan Committee</li> <li>Human Relations Commission</li> <li>Landmark Preservation Commission</li> <li>Planning Commission</li> <li>Solid Waste Advisory Committee</li> <li>Tuolumne River Regional Park Citizens Advisory Committee</li> <li>Youth Commission</li> </ul> |
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## **FINANCIAL SECTION**





BROWN ARMSTRONG
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Honorable City Council
City of Modesto, California

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, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, as of June 30, 2012, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated January 31, 2013, 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 and should be considered in assessing the results of our audit.

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 information, as listed in the table of contents, 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

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REGISTERED with the Public Company Accounting Oversight Board and MEMBER of the American Institute of Certified Public Accountants

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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements as a whole. 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 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the 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.

BROWN ARMSTRONG  
ACCOUNTANCY CORPORATION

*Brown Armstrong*  
*Accountancy Corporation*

Bakersfield, California  
January 31, 2013

## 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, 2012. 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 2012 fiscal year by \$1,047,688,542 (*total net assets*). Of this amount, \$147,677,199 (*unrestricted net assets*) may be used to meet ongoing obligations to citizens and creditors, \$63,498,187 is restricted for a specific purpose (*restricted net assets*), and \$836,513,156 is invested in capital assets, net of related debt.
- The City's total net assets increased by \$17,346,917 compared to the prior year. The increase is attributable to both Governmental and Business-Type Activities.
- As of June 30, 2012, the City's governmental funds reported combined fund balances of \$108,343,964, a decrease of \$5,596,321 in comparison with the prior year. Approximately 10% of the General fund balances, \$10,806,111 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 \$15,446,762, or 16% of total General Fund expenditures. Of this, \$4.0 million is restricted fund balances. The unassigned fund balance of \$10,806,111 represents 11% of total General Fund outflows. The City Council has adopted a goal of maintaining an 8% unreserved fund balance amount.
- The City's total long-term liabilities showed a net increase of \$29,956,262 in comparison with the prior year. The increase is due to recording the long-term debt for the state revolving loan related to the construction for the tertiary plant project and increase for the other post-employment benefit liability offset by the current year extraordinary reductions and transfer due to the Redevelopment Agency dissolution.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components 1) **Government-wide** financial statements; 2) **Fund** financial statements and 3) **Notes** to basic financial statements. Required Supplementary Information is included in addition to the basic financial statements.

**Government-wide Financial Statements** are designed to provide readers with a broad overview of City finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all City assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of these government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, community development, highways and streets, public works, parks and recreation, and public safety. The business-type activities of the City include the water, sewer, parking, storm drain, airport, bus, golf and community center operations.

Component units are included in our basic financial statements and consist of legally separate entities for which the City is financially accountable and that have substantially the same board as the City Council, or provide services entirely to the City. Examples are the Redevelopment Agency of the City of Modesto and the Modesto Public Financing Authority.

**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 18 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 67-71 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 78-111** of this report.

### GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$1,047,688,542 at the close of the most recent fiscal year.

#### Net Assets

	Governmental activities		Business-type activities		Total	
	2012	2011	2012	2011	2012	2011
Current and other assets	\$238,263,107	\$235,148,980	\$233,066,531	\$191,902,849	\$471,329,638	\$427,051,829
Capital assets	400,025,255	390,318,536	733,284,420	737,215,800	1,133,309,675	1,127,534,336
Total assets	638,288,362	625,467,516	966,350,951	929,118,649	1,604,639,313	1,554,586,165
Current and other liabilities	46,459,772	42,916,492	14,698,470	15,491,781	61,158,242	\$58,408,273
Long-term liabilities	169,900,901	171,429,440	325,891,628	294,406,827	495,792,529	465,836,267
Total liabilities	216,360,673	214,345,932	340,590,098	309,898,608	556,950,771	524,244,540
Net assets:						
Invested in capital assets, net of related debt	362,755,958	338,010,133	473,757,198	481,186,894	836,513,156	\$819,197,027
Restricted net assets	63,498,187	66,570,581	-	-	63,498,187	\$66,570,581
Unrestricted net assets	(4,326,456)	6,540,870	152,003,655	138,033,147	147,677,199	144,574,017
Total net assets	\$421,927,689	\$411,121,584	\$625,760,853	\$619,220,041	\$1,047,688,542	\$1,030,341,625

The largest portion of the City's net assets, \$836,513,156 (79.9 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 is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Another significant portion of the City's net assets represents *unrestricted net assets* of \$147,677,199 (14.0 percent), which may be used to meet the City's ongoing obligations to citizens and creditors.

The remaining balance of the City's net assets of \$63,498,187 (6.1 percent) represents resources that are subject to external restrictions on how they may be used.

At the end of the 2012 fiscal year, the City reported positive balances in all three categories of net assets for the City as a whole.

The City's net assets increased by \$17,346,917 during the current fiscal year.

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

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

	Changes in Net Assets					
	Governmental activities		Business-type activities		Total	
	2012	2011	2012	2011	2012	2011
Revenues:						
Program revenues:						
Charges for services	\$24,904,613	\$25,707,056	\$116,871,402	\$112,381,791	\$141,776,015	138,088,847
Operating grants and contributions	10,270,642	19,861,492	12,694,058	12,629,219	22,964,700	32,490,711
Capital grants and contributions	9,509,584	7,334,967	12,021,793	4,856,649	21,531,377	12,191,616
General revenues:						
Taxes	49,856,697	52,068,220	253,974	309,699	50,110,671	52,377,919
Intergovernment revenue not restricted for specific purposes	50,825,328	47,248,136			50,825,328	47,248,136
Unrestricted investment earnings	(411,571)	696,848	2,095,947	1,947,417	1,684,376	2,644,265
Settlements and recoveries			222,379	187,096	222,379	187,096
Miscellaneous	1,821,336	1,630,466			1,821,336	1,630,466
Total revenues	<u>146,776,629</u>	<u>154,547,185</u>	<u>144,159,553</u>	<u>132,311,871</u>	<u>290,936,182</u>	<u>286,859,056</u>
Expenses:						
General government	14,236,573	12,473,794			14,236,573	12,473,794
Community development	14,206,876	28,301,160			14,206,876	28,301,160
Highways and streets	21,009,521	24,114,799			21,009,521	24,114,799
Public works	6,780,882	7,393,809			6,780,882	7,393,809
Parks and recreation	11,741,352	10,310,549			11,741,352	10,310,549
Public safety	83,568,633	83,381,310			83,568,633	83,381,310
Interest on long-term debt	3,066,897	3,609,345			3,066,897	3,609,345
Parking			1,482,640	1,518,955	1,482,640	1,518,955
Water			53,730,665	36,305,860	53,730,665	36,305,860
Sewer			29,366,025	28,497,430	29,366,025	28,497,430
Storm drain			6,674,100	7,619,939	6,674,100	7,619,939
Compost			4,426,031	4,112,837	4,426,031	4,112,837
Airport			1,640,733	2,157,180	1,640,733	2,157,180
Bus			16,944,803	16,064,104	16,944,803	16,064,104
Golf			2,279,650	2,366,052	2,279,650	2,366,052
Community center			2,352,173	2,284,082	2,352,173	2,284,082
Abatement and Public Nuisance			34,609	-	34,609	-
Total expenses	<u>154,610,734</u>	<u>169,584,766</u>	<u>118,931,429</u>	<u>100,926,439</u>	<u>273,542,163</u>	<u>270,511,205</u>
Increase in net assets before transfers	(7,834,105)	(15,037,581)	25,228,124	31,385,432	17,394,019	16,347,851
Transfers	2,838,873	1,503,170	(2,838,873)	(1,503,170)	-	-
Special item			(826,133)	(727,310)	(826,133)	(727,310)
Total transfers and special items	<u>2,838,873</u>	<u>1,503,170</u>	<u>(3,665,006)</u>	<u>(2,230,480)</u>	<u>(826,133)</u>	<u>(727,310)</u>
Extraordinary items	14,920,023	-	-	-	14,920,023	-
Change in net assets	<u>9,924,791</u>	<u>(13,534,411)</u>	<u>21,563,118</u>	<u>29,154,952</u>	<u>31,487,909</u>	<u>15,620,541</u>
Net assets - beginning, as restated	411,121,584	425,520,463	619,220,041	398,687,011	1,030,341,625	824,207,474
Prior year adjustments	881,314	(864,468)	(15,022,306)	191,378,078	(14,140,992)	190,513,610
Net assets - ending	<u>\$421,927,689</u>	<u>\$411,121,584</u>	<u>\$625,760,853</u>	<u>\$619,220,041</u>	<u>\$1,047,688,542</u>	<u>\$1,030,341,625</u>

**Governmental activities.** Governmental activities increased the City's net assets by \$10,806,105. Certain taxes continue to decline about \$2.2 million compared to 2011 due to the continual declines in reassessment of property values due to the housing crisis. The long term liabilities transfer of \$16.3 million from the former RDA to the RDA Successor Agency Private Purpose Trust Fund increased net assets related to the dissolution of the RDAs.

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

Expenses in total were lower compared to the prior year by \$14,974,032 million, or 8.8%, due mainly to strategic spending reductions implemented by the City Council in response to lower revenue estimates, the increase in the City Net Other Post Employee benefits (OPEB) and reduced activity related to spending related to the Neighborhood Stabilization program compared to the prior year.

**Business-type activities.** Business-type activities increased the City's net assets by \$6,540,812. As detailed in the schedule on **page 12**, net losses existed in all non-major enterprise funds except the newly created Abatement and Public Nuisance fund. Depreciation expense, which is the major cause of these net losses, is not included in these funds' budgets or revenue-setting processes as well as a reduction in charges for services in the Storm Drain, Airport and Community Center.

Charges for services increased by approximately \$4,489,611 million due to a 2.1% CPI increase in November 2011 for water rates and 3% rate increase for sewer rate in this fiscal year. Additionally, there was a significant increase in Capital contribution due to the construction of the new bus maintenance facility.

### 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, 2012, the City's governmental funds reported combined fund balances of \$108,343,964 a decrease of \$5,596,321 million from the prior year. Approximately -7% of the combined fund balances (\$8,046,128) constitute *unassigned fund balance*, which \$10,806,111 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, 2012, unassigned fund balance of the General Fund was \$10,806,111 while total fund balance was \$15,446,762. 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 11% of total General Fund expenditures, while total fund balance represents 16% of that same amount. The prior year ratios were 11% and 16%, respectively. The use of the fund balance reserves was planned and budgeted during the year.

Revenues of governmental funds totaled \$145,111,923 in fiscal year 2011-12, which represents a decrease of \$11,137,515 from fiscal year 2010-11.

Expenditures of governmental funds totaled \$147,364,386 in fiscal year 2011-12, representing a decrease of \$6,221,466 from fiscal year 2010-11.

## Management's Discussion and Analysis (continued)

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 2012		FY 2011		Increase (Decrease)	
	Amount	Percent	Amount	Percent	Amount	% Change
Taxes	\$49,856,697	34.3%	\$52,068,220	33.3%	(\$2,211,523)	-4.2%
Licenses and permits	131,302	0.1%	139,073	0.1%	(7,771)	-5.6%
Intergovernmental	68,682,778	47.2%	74,242,596	47.6%	(5,559,818)	-7.5%
Charges for services	19,897,159	13.7%	22,638,801	14.5%	(2,741,642)	-12.1%
Special assessments	1,860,905	1.3%	1,852,529	1.2%	8,376	0.5%
Interest and rent	1,145,251	0.8%	838,178	0.5%	307,073	36.6%
Net increase (decrease) in fair value	(452,987)	-0.3%	(89,608)	-0.1%	(363,379)	405.5%
Fines and forfeits	2,169,482	1.5%	2,929,182	1.9%	(759,700)	-25.9%
Miscellaneous	1,821,336	1.4%	1,630,467	1.0%	190,869	11.7%
<b>Total</b>	<b>\$145,111,923</b>	<b>100.0%</b>	<b>\$156,249,438</b>	<b>100.0%</b>	<b>(\$11,137,515)</b>	<b>-7.1%</b>

- Taxes – Revenues for utility user taxes, franchise fees and business license cam in higher than expected due to a slight upturn in the economy. The overall decrease was generated from the Redevelopment Agency being dissolved and the tax increments decreasing by \$2.9 million compared to the prior year.
- Intergovernmental – State sales taxes increased by slightly over \$1.8 million. Additionally, grant revenues decreased due to less spending on the neighborhood stabilization program as well as Prop 1B funding.
- Charges for services – Included in this category are the Capital Facilities and Community Facility District Fees charged to mitigate the impact of new development on City infrastructure needs. Capital Facility Fees collected during the year continue to decrease due to the continual housing market crisis.
- Investment revenues decreased due to a reduction of cash balances and continuing lower interest rates.

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

Exp by Function	FY 2012		FY 2011		Increase (Decrease)	
	Amount	Percent	Amount	Percent	Amount	% Change
General government	\$12,411,413	8.4%	\$10,879,751	7.1%	\$1,531,662	14.1%
Community development	12,831,734	8.7%	26,077,905	17.0%	(13,246,171)	-50.8%
Highways and streets	8,434,681	5.7%	11,530,856	7.5%	(3,096,175)	-26.9%
Public works	5,283,123	3.6%	6,035,524	3.9%	(752,401)	-12.5%
Parks and recreation	9,756,888	6.6%	8,722,311	5.7%	1,034,577	11.9%
Public safety	72,131,852	49.0%	73,207,608	47.6%	(1,075,756)	-1.5%
Capital outlay	20,839,517	14.2%	11,219,489	7.3%	9,620,028	85.7%
Debt Service-principal retirement	2,397,000	1.6%	2,234,000	1.5%	163,000	7.3%
Debt Service-interest charges	3,229,440	2.2%	3,620,851	2.4%	(391,411)	-10.8%
Debt Service-other	48,738	0.0%	57,557	0.0%	(8,819)	-15.3%
<b>Total</b>	<b>\$147,364,386</b>	<b>100.0%</b>	<b>\$153,585,852</b>	<b>100.0%</b>	<b>(\$6,221,466)</b>	<b>-4.1%</b>

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

- General government –Expenditures increased about \$1,531,662 or 14.1% over the prior year, due to an increase in salaries and discretionary cost for the City Manager's Office, City Attorney and Finance.

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

- Community development – Expenditures decreased by \$13,246,171, or -50.8% over the prior year, due to a reduction in funding spent from the Neighborhood Stabilization program and American Recovery and Reinvestment Act of 2009 as well as Prop 1B funding on street maintenance.
- Parks and recreation – Expenditures increased by \$1,034,577, or 11.9% over the prior year, due to the cost associated with recovery cost from the McHenry Mansion fire.
- Public safety – Expenditures decreased \$1,075,756, or -1.5% over the prior year, due to a decrease in funding for the newly formed Modesto Regional Fire agency.
- Capital outlay – Expenditures increased by \$9,620,028 or 85.7% reflects the current cycle that the city is in with respect to the planning and construction of capital improvements.

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

	FY 2012	FY 2011	Increase/(Decrease)	
			Amount	Percent
Transfers in	\$11,384,460	\$10,557,218	\$827,242	7.8%
Transfers out	(14,223,663)	(13,069,195)	(\$1,154,468)	8.8%
Net financing sources (uses)	(\$2,839,203)	(\$2,511,977)	(\$327,226)	16.6%

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 2012 were \$(2,839,203) compared to \$(2,511,977), 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.
- 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	\$104,306,015	\$7,166,961	\$18,687,188	\$11,522,809	\$3,428,950	\$145,111,923
Expenditures	(97,047,568)	(4,284,186)	(19,369,758)	(20,041,571)	(6,621,303)	(147,364,386)
Other financing sources/(uses), net	(7,109,883)	(174,458)	627,503	286,593	3,531,042	(2,839,203)
Extraordinary items				(403,850)	(966,127)	(1,369,977)
Net change in fund balances	148,564	2,708,317	(55,067)	(8,636,019)	(627,438)	(6,461,643)
Fund balance-July 1	14,987,384	20,773,055	6,720,265	65,474,026	5,985,555	113,940,285
Prior year adjustment	310,814	163,770	(102,577)	493,315.00	-	865,322
Fund balance June 30	\$15,446,762	\$23,645,142	\$6,562,621	\$57,331,322	\$5,358,117	\$108,343,964

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

The fund balance of the City's General Fund increased by \$459,378 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 significantly due to a reduction in spending associated with the Housing and Community Development due to the neighborhood stabilization program and reduction in funds received from the Housing Urban Development agency during this fiscal year.

**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	\$57,534,191	\$41,825,928	\$2,892,539	\$1,291,401	\$5,783,694	\$4,672,517	\$619,689	\$1,759,818	\$420,059	\$71,567	\$116,871,403
Operating expenses	(45,951,563)	(25,151,660)	(16,774,273)	(1,385,493)	(6,005,127)	(4,319,869)	(1,542,616)	(2,035,748)	(2,269,276)	(31,515)	(105,467,140)
Non-operating revenues (expenses), net	(5,777,328)	(1,113,007)	12,451,065	(20,005)	16,672	230,404	466,694	(140,249)	357,856	(39)	\$6,472,063
Income (loss) before capital contributions, transfers and special items	5,805,300	15,561,261	(1,430,669)	(114,097)	(204,761)	583,052	(456,233)	(416,179)	(1,491,361)	40,013	17,876,326
Contributions, transfers and special items	(2,462,009)	(119,783)	10,663,306	(55,007)	(436,403)	(601,854)	289,714	400,000	628,823	50,000	8,356,787
Net income (loss)	\$3,343,291	\$15,441,478	\$9,232,637	(\$169,104)	(\$641,164)	(\$18,802)	(\$166,519)	(\$16,179)	(\$862,538)	\$90,013	\$26,233,113

The Water, Sewer, Bus, and the newly 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 2012. The Bus Fund had an increase in capital contributions from federal transit funding from the construction of the new bus maintenance facility reimbursement.

The Water utility fund had a 2.1% CPI increase in November 2011 and an additional 2.1% CPI increase scheduled for July 2011. The Sewer utility fund had an increase in revenue due to 8% rate increases in July 2011 for this fiscal year.

### GENERAL FUND BUDGETARY HIGHLIGHTS

Budget to actual information for the major governmental funds are 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 miscellaneous revenue and charges for services. The estimated revenues increased about \$1.2 million while total appropriations were increased \$189,754. 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 \$4.8 million more than final estimates. Variances in Sales tax \$1,755,614, Property taxes \$426,477, Business Taxes \$723,677 and Franchise taxes \$433,815 were due to a slight increases in property tax revenues, business licenses collections and increase in fuel prices.

Expenditures, overall, were \$2.8 million under budget, primarily due to efforts of departments to realize savings, and certain purchases being deferred to future periods.

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

### 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, 2012, amounted to \$1,133,309,675 (net of accumulated depreciation). The total increase in the City's investment in capital assets compared to 2011 was 0.5 percent. 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
	2012	2011	2012	2011	2012	2011	Change	
Land	\$33,462,515	\$33,462,515	\$30,073,929	\$30,073,929	\$63,536,444	\$63,536,444		
Capitalized Interest			\$10,912,480	\$9,524,662	\$10,912,480	\$9,524,662	15%	\$1,387,818
Buildings	15,198,962	15,735,225	33,560,643	35,990,093	48,759,605	\$51,725,318	-6%	(2,965,713)
Improvements	36,416,274	38,644,284	101,635,875	89,249,723	138,052,149	\$127,894,007	8%	10,158,142
Furnishings and equipment	3,300,053	4,105,510	4,131,564	4,003,082	7,431,617	\$8,108,592	-8%	(676,975)
Intangible Assets	190,953	1,226,839		80,246	190,953	\$1,307,085	-85%	(1,116,132)
Equipment pool	10,224,902	10,745,411			10,224,902	\$10,745,411	-5%	(520,509)
Water Rights			335,323,673	358,226,691	335,323,673	\$358,226,691		(22,903,018)
Streets	237,046,421	240,644,616			237,046,421	\$240,644,616	-2%	(3,598,195)
Signalization	2,292,727	3,020,926			2,292,727	\$3,020,926	-24%	(728,199)
Bridges	21,669,963	22,194,108			21,669,963	\$22,194,108	-2%	(524,145)
Buses & fareboxes			5,886,168	6,258,124	5,886,168	\$6,258,124	-6%	(371,956)
Pipelines			119,343,998	118,839,173	119,343,998	\$118,839,173	0%	504,825
Construction in progress	40,222,485	20,539,102	92,416,090	84,970,077	132,638,575	105,509,179	26%	27,129,396
<b>Total</b>	<b>\$400,025,255</b>	<b>\$390,318,536</b>	<b>\$733,284,420</b>	<b>\$737,215,800</b>	<b>\$1,133,309,675</b>	<b>\$1,127,534,336</b>	<b>0.5%</b>	<b>\$5,775,339</b>

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

- Construction in Progress – Governmental activities has a significant increase in construction projects due to several street construction projects such as Pelandale interchange on State Route 99 of \$4.2 million and various overlay and ramp projects. Business activities also had an increase in construction projects such as the construction of the new bus maintenance facility and the tertiary treatment plant.

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 40-41** of this report.

#### Long-term debt

At June 30, 2012, the City had total long-term liabilities outstanding of \$495,792,529, net of unamortized discounts and deferred amounts on refunding, as compared to \$465,836,267 in the prior year. This amount was comprised of \$62,130,000 of lease revenue bonds, \$50,237,067 of certificates of participation, \$193,098,177 of revenue bonds payable, \$10,887,713 of estimated compensated absences, \$70,012,039 of OPEB obligation, \$23,215,907 of claims liability, \$16,597,228 of loans payable, \$1,610,897 of developer advances, \$742,937 of capital leases, \$3,392,000 of notes payable and \$63,868,564 of Derivative instrument SWAP. The long-term debt increase was mainly due to an increase in OPEB liability, the new state revolving loan, and increase for the derivative instrument swap. Additional information on the City's long-term debt can be found in note II.C on pages **42-51** 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, 2012, the net OPEB obligation amounts to approximately \$57.7 million. This contributes significantly to the Employee Benefit Fund's \$70.0 million deficit net assets. Additional information on the City's EBF can be found in Notes II-H and III-G.

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

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

- *Consumer Price Index* – Growth in the CPI has been relatively stable during the past eight 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, 2012, the CPI-Western Urban Index increased by 2.0%.
- *Taxable Sales* – With the unemployment rate at 15.5%, sales tax revenues are continually increasing slightly. The City continues to take action to implement non-paid furloughs for FY 12/13 and have eliminated staffing positions as part of the adoption of the Fiscal Year 2012-13 budget to maintain the effects of the reduction of the City's major revenue sources.
- *Utility Service Charges* - Water utility rates were increased by 2.1% for the annual CPI increase in this fiscal year and are currently working on rate increases for the coming years. 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 of 8%, 9%, 10% and 7% which took effect on July 1 of 2011 through 2014.

All of these factors were considered in preparing the City's budget for fiscal year 2013.

During the current fiscal year, fund balance in the General Fund increased by \$459,378, to \$15,446,762 which represents 16% of total General Fund outflows which equals City Council's target value of 8%. The budget adopted for fiscal year 2012-2013 reflects a planned reduction in the reserve level on a temporary basis, from 8% to a flat reserve amount of \$7 million.

The State dissolved the RDAs from the passing of Assembly Bills X1 26 and 27 which suspends all California redevelopment agencies except to implement existing contracts, obligations and prepare for the dissolution of this agency. The City received the approval from the Department of Finance related to the required obligations submitted

### 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 MODESTO**  
**STATEMENT OF NET ASSETS**  
**June 30, 2012**

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
<u>ASSETS</u>			
Cash and cash equivalents	\$ 133,722,536	\$ 171,186,331	\$ 304,908,867
Accounts receivable, net	1,373,539	922,393	2,295,932
Interest receivable	380,240	409,998	790,238
Utility billings receivable, net	1,295,781	11,078,062	12,373,843
Taxes receivable	9,715,029	-	9,715,029
Due from governments, net	9,472,997	5,720,180	15,193,177
Notes receivable, net	44,583,336	-	44,583,336
Prepaid expenses	312,965	927,749	1,240,714
Property held for resale	784,000	630,000	1,414,000
Internal balances	7,855,564	(7,855,564)	-
Inventories	451,280	-	451,280
Unamortized costs of debt issuance	-	1,681,053	1,681,053
Deferred outflow of resource	15,502,235	48,366,329	63,868,564
Investments in joint ventures	12,813,605	-	12,813,605
Capital assets:			
Land and construction in progress	73,685,000	122,490,019	196,175,019
Other capital assets, net of accumulated depreciation	326,340,255	610,794,401	937,134,656
<b>Total assets</b>	<b><u>638,288,362</u></b>	<b><u>966,350,951</u></b>	<b><u>1,604,639,313</u></b>
<u>LIABILITIES</u>			
Accounts payable	6,576,633	5,367,346	11,943,979
Accrued salaries and benefits	2,192,954	784,305	2,977,259
Approved loans payable	3,488,823	-	3,488,823
Interest payable	174,041	2,705,765	2,879,806
Due to other governments	1,193,477	-	1,193,477
Deferred revenue	30,075,531	3,935,308	34,010,839
Refundable deposits	2,758,313	1,905,746	4,664,059
Long-term liabilities:			
Due within one year	13,043,872	10,052,928	23,096,800
Due in more than one year	156,857,029	315,838,700	472,695,729
<b>Total liabilities</b>	<b><u>216,360,673</u></b>	<b><u>340,590,098</u></b>	<b><u>556,950,771</u></b>
<u>NET ASSETS</u>			
Invested in capital assets, net of related debt	362,755,958	473,757,198	836,513,156
Restricted for:			
Capital projects	29,964,145	-	29,964,145
Housing and community development	23,645,142	-	23,645,142
Debt Service	428,728	-	428,728
Other purposes	9,460,172	-	9,460,172
Unrestricted	(4,326,456)	152,003,655	147,677,199
<b>Total net assets</b>	<b><u>\$ 421,927,689</u></b>	<b><u>\$ 625,760,853</u></b>	<b><u>\$ 1,047,688,542</u></b>

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

**CITY OF MODESTO**  
**STATEMENT OF ACTIVITIES**  
Year ended June 30, 2012

	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>FUNCTIONS/PROGRAMS:</b>				
Governmental activities:				
General government	\$ 14,236,573	\$ 6,799,202	\$ -	-
Community development	14,206,876	4,430,690	7,912,344	-
Highways and streets	21,009,521	4,178,567	-	\$ 5,743,742
Public works	6,780,882	2,936,299	-	-
Parks and recreation	11,741,352	3,221,072	-	3,703,971
Public safety	83,568,633	3,338,783	2,358,298	61,871
Interest on long-term debt	3,066,897	-	-	-
Total governmental activities	<u>154,610,734</u>	<u>24,904,613</u>	<u>10,270,642</u>	<u>9,509,584</u>
Business-type activities:				
Parking	1,482,640	1,291,401	-	-
Water	53,730,665	57,534,190	-	103,081
Sewer	29,366,025	41,825,928	-	958,919
Storm Drain	6,674,100	5,783,694	42,471	-
Compost	4,426,031	4,672,517	236,559	-
Airport	1,640,733	619,689	33,060	289,715
Bus	16,944,803	2,892,539	12,381,968	10,670,078
Golf	2,279,650	1,759,818	-	-
Community Center	2,352,173	420,059	-	-
Abatement and Public Nuisance Fund	34,609	71,567	-	-
Total business-type activities	<u>118,931,429</u>	<u>116,871,402</u>	<u>12,694,058</u>	<u>12,021,793</u>
<b>Total</b>	<b>\$ <u>273,542,163</u></b>	<b>\$ <u>141,776,015</u></b>	<b>\$ <u>22,964,700</u></b>	<b>\$ <u>21,531,377</u></b>

General revenues:

Taxes:

Utility users tax

Property taxes, levied for general purposes

Property taxes, generated by and allocated to the airport

Tax increments for redevelopment agency

Transient occupancy tax

Franchise tax

Business license tax, levied for general purposes

Business license tax, levied for downtown improvement district

Sales tax

Motor vehicle license fee

Other

Unrestricted investment earnings

Miscellaneous

Settlements

Transfers, net

Special item - PCE legal fees

Total general revenues, transfers and special item  
Change in net assets before extraordinary item

Extraordinary items

Change in net assets

Net assets, July 1

Prior year adjustments

Net assets, June 30

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

Net (Expense) Revenue and  
Changes in Net Assets

Governmental Activities	Business-type Activities	Total
\$ (7,437,371)	\$ -	\$ (7,437,371)
(1,863,842)	-	(1,863,842)
(11,087,212)	-	(11,087,212)
(3,844,583)	-	(3,844,583)
(4,816,309)	-	(4,816,309)
(77,809,681)	-	(77,809,681)
(3,066,897)	-	(3,066,897)
<u>(109,925,895)</u>	<u>-</u>	<u>(109,925,895)</u>
\$ -	\$ (191,239)	(191,239)
-	3,906,606	3,906,606
-	13,418,822	13,418,822
-	(847,935)	(847,935)
-	483,045	483,045
-	(698,269)	(698,269)
-	8,999,782	8,999,782
-	(519,832)	(519,832)
-	(1,932,114)	(1,932,114)
-	36,958	36,958
<u>-</u>	<u>22,655,824</u>	<u>22,655,824</u>
(109,925,895)	22,655,824	(87,270,071)
19,230,879	-	19,230,879
11,863,902	-	11,863,902
-	253,974	253,974
2,884,357	-	2,884,357
1,769,106	-	1,769,106
4,236,705	-	4,236,705
9,694,722	-	9,694,722
177,026	-	177,026
25,958,263	-	25,958,263
13,072,804	-	13,072,804
11,794,261	-	11,794,261
(411,571)	2,095,947	1,684,376
1,821,336	-	1,821,336
-	222,379	222,379
2,838,873	(2,838,873)	-
<u>-</u>	<u>(826,133)</u>	<u>(826,133)</u>
<u>104,930,663</u>	<u>(1,092,706)</u>	<u>103,837,957</u>
(4,995,232)	21,563,118	16,567,886
14,920,023	-	14,920,023
9,924,791	21,563,118	31,487,909
411,121,584	619,220,041	1,030,341,625
<u>881,314</u>	<u>(15,022,306)</u>	<u>(14,140,992)</u>
<u>\$ 421,927,689</u>	<u>\$ 625,760,853</u>	<u>\$ 1,047,688,542</u>

**CITY OF MODESTO**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**June 30, 2012**

	General	Housing and Community Development	Other Governmental	Total Governmental
<u>ASSETS</u>				
Cash and cash equivalents	\$ 6,925,203	\$ -	\$ 63,920,562	\$ 70,845,765
Cash and cash equivalents with fiscal agent	-	-	14,659,582	14,659,582
Receivables:				
Accounts	465,057	-	121,119	586,176
Interest	91,341	3,389	210,919	305,649
Utilities, net	1,048,439	-	247,342	1,295,781
Taxes	9,714,750	-	279	9,715,029
Due from governments	721,305	2,775,794	5,967,476	9,464,575
Due from other funds	2,608,345	-	-	2,608,345
Notes receivable, net	-	42,302,157	2,281,179	44,583,336
Prepaid expenditures	123,061	119	-	123,180
Property held for resale	-	-	784,000	784,000
Restricted assets:				
Cash and cash equivalents	1,336,456	-	-	1,336,456
Advances to other funds	2,529,429	-	-	2,529,429
<b>Total assets</b>	<b>\$ 25,563,386</b>	<b>\$ 45,081,459</b>	<b>\$ 88,192,458</b>	<b>\$ 158,837,303</b>
 <u>LIABILITIES AND FUND BALANCES</u>				
Liabilities:				
Accounts payable	\$ 2,145,840	\$ 195,341	\$ 2,245,382	\$ 4,586,563
Accrued salaries and benefits	1,642,943	32,497	309,037	1,984,477
Accrued interest payable	65,306	7,107	19,799	92,212
Approved loans payable	-	2,913,823	575,000	3,488,823
Due to other governments	645,475	-	548,002	1,193,477
Due to other funds	-	543,111	1,411,699	1,954,810
Deferred revenues	155,490	17,744,438	12,548,273	30,448,201
Refundable deposits	2,679,832	-	78,481	2,758,313
Advances from other funds	2,781,738	-	1,204,725	3,986,463
<b>Total liabilities</b>	<b>10,116,624</b>	<b>21,436,317</b>	<b>18,940,398</b>	<b>50,493,339</b>
Fund balances:				
Non-spendable	123,061	119	-	123,180
Restricted	3,998,539	42,308,434	66,836,607	113,143,580
Assigned	519,051	17,611	2,586,670	3,123,332
Unassigned	10,806,111	(18,681,022)	(171,217)	(8,046,128)
<b>Total fund balances</b>	<b>15,446,762</b>	<b>23,645,142</b>	<b>69,252,060</b>	<b>108,343,964</b>
<b>Total liabilities and fund balances</b>	<b>\$ 25,563,386</b>	<b>\$ 45,081,459</b>	<b>\$ 88,192,458</b>	<b>\$ 158,837,303</b>

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

**CITY OF MODESTO**  
**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS**  
**TO THE STATEMENT OF NET ASSETS - GOVERNMENTAL ACTIVITIES**  
**June 30, 2012**

Total fund balances - total governmental funds \$ 108,343,964

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

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

General capital assets:

Nondepreciable	\$ 65,516,611	
Depreciable	112,463,142	
Accumulated depreciation on general capital assets	(59,763,399)	

Infrastructure:

Depreciable	536,770,004	
Accumulated depreciation on infrastructure	<u>(275,760,892)</u>	379,225,466

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

Deferred in the governmental funds, or	\$ 372,670	
Investments in joint ventures	<u>12,813,605</u>	13,186,275

Internal service funds are used by management to charge the costs of activities to individual funds. The assets and liabilities of internal service funds are included in governmental activities in the statement of net assets. (12,519,694)

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	\$ (66,228,471)	
Accrued interest	<u>(79,851)</u>	<u>(66,308,322)</u>

Net assets of governmental activities \$ 421,927,689

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, 2012**

	General	Housing and Community Development	Other Governmental	Total Governmental
<b>REVENUES:</b>				
Taxes	\$ 46,795,314	\$ -	\$ 3,061,383	\$ 49,856,697
Licenses and permits	71,361	-	59,941	131,302
Intergovernmental	41,916,760	6,655,133	20,110,885	68,682,778
Charges for services	12,976,367	359,395	6,561,397	19,897,159
Special assessments levied	-	-	1,860,905	1,860,905
Interest and rent	287,489	133,783	723,979	1,145,251
Net increase in fair value of investments	(126,244)	18,318	(345,061)	(452,987)
Fines and forfeits	1,003,942	-	1,165,540	2,169,482
Miscellaneous	1,381,026	332	439,978	1,821,336
Total revenues	<u>104,306,015</u>	<u>7,166,961</u>	<u>33,638,947</u>	<u>145,111,923</u>
<b>EXPENDITURES:</b>				
Current:				
General government	11,516,221	-	895,192	12,411,413
Community development	5,338,983	3,519,536	3,973,215	12,831,734
Highways and streets	-	-	8,434,681	8,434,681
Public works	2,175,385	-	3,107,738	5,283,123
Parks and recreation	9,182,395	-	574,493	9,756,888
Public safety	68,813,589	-	3,318,263	72,131,852
Capital outlay	20,995	386,648	20,431,874	20,839,517
Debt service:				
Principal retirement	-	182,000	2,215,000	2,397,000
Interest	-	196,002	3,033,438	3,229,440
Other	-	-	48,738	48,738
Total expenditures	<u>97,047,568</u>	<u>4,284,186</u>	<u>46,032,632</u>	<u>147,364,386</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>7,258,447</u>	<u>2,882,775</u>	<u>(12,393,685)</u>	<u>(2,252,463)</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	2,344,798	-	9,039,662	11,384,460
Transfers out	(9,454,681)	(174,458)	(4,594,524)	(14,223,663)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>(7,109,883)</u>	<u>(174,458)</u>	<u>4,445,138</u>	<u>(2,839,203)</u>
<b>NET CHANGE IN FUND BALANCE BEFORE EXTRAORDINARY ITEMS:</b>	148,564	2,708,317	(7,948,547)	(5,091,666)
<b>EXTRAORDINARY ITEMS:</b>				
RDA dissolution transactions	-	-	(403,850)	(403,850)
RDA advance receivable elimination	-	-	(966,127)	(966,127)
Total extraordinary items	<u>-</u>	<u>-</u>	<u>(1,369,977)</u>	<u>(1,369,977)</u>
<b>NET CHANGE IN FUND BALANCES</b>	148,564	2,708,317	(9,318,524)	(6,461,643)
FUND BALANCES, July 1	14,987,384	\$ 20,773,055	\$ 78,179,846	\$ 113,940,285
PRIOR PERIOD ADJUSTMENT	310,814	163,770	390,738	865,322
<b>FUND BALANCES, June 30</b>	<u>\$ 15,446,762</u>	<u>\$ 23,645,142</u>	<u>\$ 69,252,060</u>	<u>\$ 108,343,964</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, 2012**

Net change in fund balances before extraordinary items - total governmental funds \$ (5,091,666)

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

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

Capital outlay	\$ 20,839,517	
Depreciation expense	<u>(15,934,104)</u>	4,905,413

In the statement of activities, only the gain or loss on the sales of capital assets is reported, whereas in the governmental funds, the proceeds from such sales increase financial resources. Thus, the change in net assets differs from the change in fund balances by the cost of the assets sold.

2,877,512

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

Change in deferred revenue	\$ (108,975)	
Change in investment in joint venture	<u>(1,490,685)</u>	(1,599,660)

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

Principal retirement	2,397,000	
Capitalized interest	<u>61,868</u>	2,458,868

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		149,832
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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.

(8,695,531)

Change in net assets before extraordinary items of governmental activities		\$ <u><u>(4,995,232)</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 ASSETS - PROPRIETARY FUNDS**  
**June 30, 2012**

	Enterprise					Internal Service
	Water	Sewer	Bus	Other Enterprise	Total Enterprise	
<b>ASSETS</b>						
Current assets:						
Cash and cash equivalents	\$ 68,854,649	\$ 52,921,646	\$ 4,531,924	\$ 6,549,989	\$ 132,858,208	\$ 34,572,907
Cash and cash equivalents with fiscal agent	22,182,781	4,023,789	-	603,150	26,809,720	305,081
Receivables:						
Accounts	1,610	45,200	20,809	854,774	922,393	787,363
Interest	226,783	153,417	8,803	20,995	409,998	74,591
Utilities, net	6,435,857	4,074,441	-	567,764	11,078,062	-
Prepaid expenses	925,475	932	-	1,342	927,749	189,785
Due from governments	12,017	1,997,812	3,512,850	197,501	5,720,180	8,422
Inventories	-	-	-	-	-	451,280
Property held for resale	-	-	-	630,000	630,000	-
Advances to other funds	350,000	-	-	-	350,000	2,431,738
Total current assets	<u>98,989,172</u>	<u>63,217,237</u>	<u>8,074,386</u>	<u>9,425,515</u>	<u>179,706,310</u>	<u>38,821,167</u>
Noncurrent assets:						
Restricted assets-cash and cash equivalents	10,063,311	1,455,092	-	-	11,518,403	12,002,745
Unamortized costs of issuance	1,019,257	661,796	-	-	1,681,053	-
Deferred outflow of resource	48,366,329	-	-	-	48,366,329	-
Land and construction in progress	22,726,783	70,556,533	17,813,086	11,393,617	122,490,019	8,168,389
Other capital assets, net of accumulated depreciation	440,157,705	119,086,600	13,001,116	38,548,980	610,794,401	12,631,400
Total noncurrent assets	<u>522,333,385</u>	<u>191,760,021</u>	<u>30,814,202</u>	<u>49,942,597</u>	<u>794,850,205</u>	<u>32,802,534</u>
<b>Total assets</b>	<u><b>621,322,557</b></u>	<u><b>254,977,258</b></u>	<u><b>38,888,588</b></u>	<u><b>59,368,112</b></u>	<u><b>974,556,515</b></u>	<u><b>71,623,701</b></u>
<b>LIABILITIES</b>						
Current liabilities:						
Accounts payable	\$ 1,231,057	\$ 2,466,225	\$ 1,417,148	\$ 252,916	\$ 5,367,346	\$ 1,990,070
Accrued salaries and benefits	304,312	281,036	48,093	150,864	784,305	208,477
Interest payable	2,310,011	352,239	2,319	41,196	2,705,765	1,978
Due to other funds	-	-	-	653,535	653,535	-
Due to other governments	-	-	-	-	-	-
Current portion - compensated absences	-	-	-	-	-	8,326,852
Current portion - claims liability	-	-	-	-	-	5,215,194
Current portion - capital lease	-	-	-	-	-	174,837
Current portion - long-term debt	5,540,327	1,955,000	-	275,000	7,770,327	-
Current portion - developer advances	93,112	-	-	-	93,112	-
Deferred revenues	-	-	3,827,998	107,310	3,935,308	-
Total current liabilities	<u>9,478,819</u>	<u>5,054,500</u>	<u>5,295,558</u>	<u>1,480,821</u>	<u>21,309,698</u>	<u>15,917,408</u>
Noncurrent liabilities:						
Payable from restricted assets - refundable deposits	1,123,874	781,872	-	-	1,905,746	-
Compensated absences	-	-	-	-	-	2,560,862
Net OPEB obligation	-	-	-	-	-	70,012,039
Claims liability	-	-	-	-	-	18,000,713
Long-term debt:						
Revenue bonds payable	145,810,000	41,353,177	-	-	187,163,177	-
Derivative instrument SWAP	48,366,329	-	-	-	48,366,329	-
Loan payable	4,611,831	10,236,708	-	-	14,848,539	-
Notes payable	-	-	-	-	-	-
Obligations under capital leases	-	-	-	-	-	359,990
Certificates of participation	45,467,067	-	-	4,185,000	49,652,067	-
Developer advances	1,517,785	-	-	-	1,517,785	-
Advances from other funds	-	-	-	1,324,704	1,324,704	-
Total noncurrent liabilities	<u>246,896,886</u>	<u>52,371,757</u>	<u>-</u>	<u>5,509,704</u>	<u>304,778,347</u>	<u>90,933,604</u>
<b>Total liabilities</b>	<u><b>256,375,705</b></u>	<u><b>57,426,257</b></u>	<u><b>5,295,558</b></u>	<u><b>6,990,525</b></u>	<u><b>326,088,045</b></u>	<u><b>106,851,012</b></u>
Invested in capital assets, net of related debt	270,301,588	136,771,468	30,814,202	45,482,597	473,757,198	20,439,799
Unrestricted	94,645,264	60,779,533	2,778,828	6,894,990	174,711,272	(55,667,110)
<b>Total net assets</b>	<u><b>\$ 364,946,852</b></u>	<u><b>\$ 197,551,001</b></u>	<u><b>\$ 33,593,030</b></u>	<u><b>\$ 52,377,587</b></u>	<u><b>648,468,470</b></u>	<u><b>\$ (35,227,311)</b></u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.					<u>(22,707,617)</u>	
Net assets of business-type activities					<u><u>\$ 625,760,853</u></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 ASSETS - PROPRIETARY FUNDS**  
Year ended June 30, 2012

	Enterprise					Internal Service
	Water	Sewer	Bus	Other Enterprise	Total Enterprise	
<b>OPERATING REVENUES:</b>						
Charges for services	\$ 57,338,565	\$ 41,804,518	\$ 2,887,841	\$ 14,562,561	\$ 116,593,485	\$ 39,702,048
Sales	-	-	-	-	-	3,400,703
Cost of sales	-	-	-	-	-	(3,125,905)
Miscellaneous	195,626	21,410	4,698	56,184	277,918	-
Total operating revenues	<u>57,534,191</u>	<u>41,825,928</u>	<u>2,892,539</u>	<u>14,618,745</u>	<u>116,871,403</u>	<u>39,976,846</u>
<b>OPERATING EXPENSES:</b>						
Salaries and wages	6,439,990	5,823,441	1,067,837	3,347,533	16,678,801	4,055,178
Contractual services	6,629,458	3,850,027	10,785,011	3,007,238	24,271,734	3,576,410
Utilities	2,440,121	1,603,221	108,355	503,202	4,654,899	253,537
Maintenance and supplies	2,301,818	2,216,023	1,831,161	3,627,551	9,976,553	3,090,742
Water purchases	6,822,552	-	-	-	6,822,552	-
Insurance	321,755	547,333	45,710	258,971	1,173,769	15,897,901
Claims expense	-	-	-	-	-	8,089,359
Employee benefits	2,359,762	2,543,297	470,303	1,389,821	6,763,183	18,443,427
Administration services	1,722,725	1,757,198	895,100	2,231,810	6,606,833	2,160,182
Allocated indirect administrative costs	1,142,082	989,972	131,573	354,051	2,617,678	269,173
Depreciation	15,771,300	5,821,148	1,439,223	2,869,467	25,901,138	3,513,676
Total operating expenses	<u>45,951,563</u>	<u>25,151,660</u>	<u>16,774,273</u>	<u>17,589,644</u>	<u>105,467,140</u>	<u>59,349,585</u>
<b>OPERATING INCOME (LOSS)</b>	<u>11,582,628</u>	<u>16,674,268</u>	<u>(13,881,734)</u>	<u>(2,970,899)</u>	<u>11,404,263</u>	<u>(19,372,739)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>						
Operating grants	-	42,471	12,381,968	269,619	12,694,058	-
Gain (Loss) on disposition of capital assets	46,875	(24,995)	(8)	(12,885)	8,987	(60,823)
Tax revenue	-	-	-	253,974	253,974	-
Tax expense	(89,214)	(13,569)	-	(20,988)	(123,771)	-
Interest income	668,853	642,195	(7,262)	59,092	1,362,878	522,210
Net increase in fair value of investments	(415,836)	(79,538)	(12,025)	(31,109)	(538,508)	(135,356)
Rental income	43,941	509,617	88,392	629,627	1,271,577	-
Settlements and recoveries	-	222,379	-	-	222,379	-
Interest expense	(5,960,188)	(2,350,391)	-	(233,197)	(8,543,776)	(421)
Trustee fees	(2,600)	(2,509)	-	(2,800)	(7,909)	-
Amortization of costs of issuance	(69,159)	(58,667)	-	-	(127,826)	-
Total nonoperating revenues (expenses)	<u>(5,777,328)</u>	<u>(1,113,007)</u>	<u>12,451,065</u>	<u>911,333</u>	<u>6,472,063</u>	<u>325,610</u>
<b>INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS</b>	<u>5,805,300</u>	<u>15,561,261</u>	<u>(1,430,669)</u>	<u>(2,059,566)</u>	<u>17,876,326</u>	<u>(19,047,129)</u>
Capital contributions	103,081	958,919	10,670,078	289,715	12,021,793	3,527
Transfers in	-	-	1,630	1,992,470	1,994,100	5,985,281
Transfers out	(2,176,439)	(641,220)	(8,402)	(2,006,912)	(4,832,973)	(307,205)
Special item	(388,651)	(437,482)	-	-	(826,133)	-
<b>CHANGE IN NET ASSETS</b>	<u>3,343,291</u>	<u>15,441,478</u>	<u>9,232,637</u>	<u>(1,784,293)</u>	<u>26,233,113</u>	<u>(13,365,526)</u>
NET ASSETS, July 1	375,889,162	182,069,143	24,398,728	54,900,630		(21,877,777)
PRIOR YEAR ADJUSTMENTS	<u>(14,285,601)</u>	<u>40,380</u>	<u>(38,335)</u>	<u>(738,750)</u>		<u>15,992</u>
<b>NET ASSETS, June 30</b>	<u>\$ 364,946,852</u>	<u>\$ 197,551,001</u>	<u>\$ 33,593,030</u>	<u>\$ 52,377,587</u>		<u>\$ (35,227,311)</u>
Adjustment to reflect the consolidation of internal service fund					<u>(4,669,995)</u>	
Change in net assets of business-type activities					<u>\$ 21,563,118</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, 2012

	Enterprise					Internal Service
	Water	Sewer	Bus	Other Enterprise	Total Enterprise	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>						
Receipts from customers and users	\$ 58,815,606	\$ 39,922,901	\$ 2,969,926	\$ 15,162,240	\$ 116,870,673	\$ 3,654,790
Receipts from interfund services provided	60,002	465,310	-	18,537	543,849	36,165,584
Payments to suppliers	(17,008,503)	(4,237,260)	(13,087,654)	3,197,298	(31,136,119)	(21,890,737)
Payment of insurance claims	-	-	-	-	-	(5,539,896)
Payments to employees	(8,740,777)	(8,332,425)	(1,533,811)	(4,715,968)	(23,322,981)	(10,708,372)
Payments for interfund services used	(6,791,105)	(6,462,673)	(1,328,859)	(13,304,438)	(27,887,075)	(3,404,618)
Net cash provided (used) by operating activities	<u>26,335,223</u>	<u>21,355,853</u>	<u>(12,980,398)</u>	<u>357,669</u>	<u>35,068,347</u>	<u>(1,723,249)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>						
Operating grants received	-	42,471	10,905,684	235,712	11,183,867	-
Taxes received	-	-	-	458,992	458,992	-
Settlements and recoveries	-	222,379	-	-	222,379	-
Interest paid	-	-	-	-	-	1,978
Transfers in	-	-	1,630	1,992,470	1,994,100	5,985,281
Transfers out	(2,176,439)	(641,220)	(8,402)	(2,006,912)	(4,832,973)	(307,205)
Advances from (to) other funds	-	-	-	-	-	-
Due from other funds	-	-	-	-	-	-
Net cash provided (used) by noncapital financing activities	<u>(2,176,439)</u>	<u>(376,370)</u>	<u>10,898,912</u>	<u>680,262</u>	<u>9,026,365</u>	<u>5,680,054</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>						
Acquisition and construction of capital assets	(3,317,474)	(11,007,485)	(10,632,422)	379,708	(24,577,673)	(5,433,945)
Proceeds of sale of capital assets	-	-	-	(12,885)	(12,885.00)	(60,823)
Proceeds of debt issues	-	-	-	-	-	-
Payment to bond escrow agent	-	-	-	-	-	-
Costs of issuance paid	42,469	46,220	-	-	88,689	-
Principal repayments	(818,936)	8,470,396	-	(265,000)	7,386,460	(191,806)
Interest paid	(3,779,081)	(2,424,516)	-	(235,160)	(6,438,757)	(421)
Trustee fees	(2,600)	(2,509)	-	(2,800)	(7,909)	-
Capital grants received	-	-	10,670,078	(41,319)	10,628,759	-
Net cash used by capital and related financing activities	<u>(7,875,622)</u>	<u>(4,917,894)</u>	<u>37,656</u>	<u>(177,456)</u>	<u>(12,933,316)</u>	<u>(5,686,995)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>						
Interest received	733,584	590,434	8,093	56,615	1,388,726	552,623
Net increase in the fair value of investments	(415,836)	(79,538)	(12,025)	(31,109)	(538,508)	(135,356)
Net cash provided by investing activities	<u>317,748</u>	<u>510,896</u>	<u>(3,932)</u>	<u>25,506</u>	<u>850,218</u>	<u>417,267</u>
Net increase (decrease) in cash and cash equivalents	16,600,910	16,572,485	(2,047,762)	885,981	32,011,614	(1,312,923)
CASH AND CASH EQUIVALENTS, JULY 1	98,785,432	41,787,662	6,618,021	7,005,908	154,197,023	48,177,664
PRIOR PERIOD ADJUSTMENT	<u>(14,285,601)</u>	<u>40,380</u>	<u>(38,335)</u>	<u>(738,750)</u>	<u>(15,022,306)</u>	<u>15,992</u>
CASH AND CASH EQUIVALENTS, JUNE 30	<u>\$ 101,100,741</u>	<u>\$ 58,400,527</u>	<u>\$ 4,531,924</u>	<u>\$ 7,153,139</u>	<u>\$ 171,186,331</u>	<u>\$ 46,880,733</u>
<b>RECONCILIATION TO STATEMENT OF NET ASSETS:</b>						
Cash and cash equivalents	\$ 68,854,649	\$ 52,921,646	\$ 4,531,924	\$ 6,549,989	\$ 132,858,208	\$ 34,572,907
Cash and cash equivalents with fiscal agent	22,182,781	4,023,789	-	603,150	26,809,720	305,081
Restricted assets-cash and cash equivalents	<u>10,063,311</u>	<u>1,455,092</u>	<u>-</u>	<u>-</u>	<u>11,518,403</u>	<u>12,002,745</u>
TOTAL CASH AND CASH EQUIVALENTS	<u>\$ 101,100,741</u>	<u>\$ 58,400,527</u>	<u>\$ 4,531,924</u>	<u>\$ 7,153,139</u>	<u>\$ 171,186,331</u>	<u>\$ 46,880,733</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, 2012**

	Enterprise				Total Enterprise	Internal Service
	Water	Sewer	Bus	Other Enterprise		
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:						
Operating income (loss)	\$ 11,582,628	\$ 16,674,268	\$ (13,881,734)	\$ (2,970,899)	\$ 11,404,263	\$ (19,372,739)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:						
Depreciation	15,771,300	5,821,148	1,439,223	2,869,467	25,901,138	3,513,676
Rental income	43,941	509,617	88,392	629,627	1,271,577	-
Taxes paid	(89,214)	(13,569)	-	184,030	81,247	-
Special item	(388,651)	(437,482)	-	-	(826,133)	-
Change in assets and liabilities:						
(Increase) in accounts receivable	10,463	(10,213)	(11,005)	(552,504)	(563,259)	(160,050)
(Increase) in utilities receivable	236,260	27,131	-	356,647	620,038	-
(Increase) in taxes receivable	-	-	-	-	-	-
Decrease in due from governments	1,012,381	(1,997,812)	-	-	(985,431)	3,578
(Increase) decrease in prepaid expenses	555,496	1,318	5,312	(1,175)	560,951	412,825
(Increase) in inventories	-	-	-	-	-	(23,014)
(Decrease) in accounts payable and accrued expenses	(2,496,728)	713,574	(624,915)	96,897	(2,311,172)	(23,612)
Increase in accrued salaries and benefits	58,975	34,313	4,329	21,386	119,003	32,936
Increase in compensated absences and OPEB	-	-	-	-	-	11,754,282
(Decrease) in claims liability	-	-	-	-	-	2,138,869
Increase in due to other governments	-	-	-	(43,699)	(43,699)	-
Increase in due to other funds	-	-	-	(155,656)	(155,656)	-
Increase in deferred revenues	(12,073)	(351)	-	(76,452)	(88,876)	-
Increase (decrease) in refundable deposits	50,445	33,911	-	-	84,356	-
Total adjustments	<u>14,752,595</u>	<u>4,681,585</u>	<u>901,336</u>	<u>3,328,568</u>	<u>23,664,084</u>	<u>17,649,490</u>
Net cash provided (used) by operating activities	<u>\$ 26,335,223</u>	<u>\$ 21,355,853</u>	<u>\$ (12,980,398)</u>	<u>\$ 357,669</u>	<u>\$ 35,068,347</u>	<u>\$ (1,723,249)</u>

NONCASH INVESTING, CAPITAL AND FINANCING  
ACTIVITIES:

Capital assets transferred in	\$ 103,081	\$ 958,919	\$ 10,670,078	\$ 289,715	\$ 12,021,793	\$ 3,527
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 ASSETS -AGENCY FUNDS**  
**June 30, 2012**

	<u>Private Purpose</u> <u>Trust Fund</u>	<u>Agency</u> <u>Funds</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 39,711	\$ 11,292,507
Cash and cash equivalents held with fiscal agent	1,977,050	3,639,097
Interest receivable	3,627	-
Other receivable	453,342	-
Capital assets	1,209,315	-
Restricted cash and investments	678,391	-
Total assets	<u>\$ 4,361,436</u>	<u>\$ 14,931,604</u>
<u>LIABILITIES</u>		
Due to special district bondholders	\$ -	\$ 8,273,440
Deposits held as agent for others	-	6,658,164
Other payables	181,490	-
Due to other agencies	1,286,047	-
Notes payable	16,290,000	-
Total liabilities	<u>\$ 17,757,537</u>	<u>\$ 14,931,604</u>
Net Assets		
Net assets held in trust	<u>\$ (13,396,101)</u>	

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

**CITY OF MODESTO**  
**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS - FIDUCIARY FUNDS**  
Year ended June 30, 2012

	Private Purpose Trust Fund
<b><u>ADDITIONS:</u></b>	
Contributions:	
Redevelopment Agency Property Tax Trust Fund	\$ 1,788,196
Total contributions	1,788,196
Interest and Investment Revenue:	
Use of money and property	103,777
Total interest and investment revenue	103,777
Total additions	1,891,973
<b><u>DEDUCTIONS:</u></b>	
Benefits paid:	
Affected taxing entities	1,199,332
Total benefits paid	1,199,332
Obligation retirements:	
Interest on note payable	546,850
Total obligation retirements	546,850
Administrative expenses:	
City administrative expenses	199,553
Direct property management expenses	2,082
Total administrative expenses	201,635
Total deductions	1,947,817
Change in net assets before extraordinary items	(55,844)
Extraordinary items:	
Assets of City of Modesto Redevelopment Agency	4,235,790
Liabilities of City of Modesto Redevelopment Agency	(17,576,047)
Total extraordinary items	(13,340,257)
Change in net assets	(13,396,101)
Net assets held in trust - beginning	-
Net assets held in trust - ending	\$ (13,396,101)

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, 2012**

**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 Redevelopment Agency of the City of Modesto (the Agency) was established by the City as a separate legal entity in accordance with state law. The purpose of the Agency is to encourage new investment and reinvestment within legally designated redevelopment areas in partnership with property owners. Pursuant to the provisions of the Redevelopment Act, the City of Modesto Redevelopment Successor Agency (Successor Agency) was created, and all of the assets, liabilities and obligations of the former Redevelopment Agency were transferred to the Successor Agency on February 1, 2012.
2. 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, 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.
2. The Modesto Public Financing Authority was established as a separate legal entity whose sole purpose is to provide financing for various City capital projects.
3. The Modesto Municipal Sewer District is a separate legal entity formed under the Municipal Sewer and Water Facilities Law of 1911. The purpose of the District is to provide financing for needed sewerage facilities in the Modesto urban area.
4. The City of Modesto has established several Community Facilities Districts to provide funding and reimbursement mechanisms for public facilities and services required by each District Specific Plan. These Districts are the vehicles used to ensure that all landowners in the Districts contribute to the cost of public improvements. There are currently ten active Districts, which are combined for presentation in these financial statements. Individual component unit financial statements are prepared for each District.

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

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

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

The government-wide financial statements (i.e., the statement of net assets and the statement of activities)

report information on all of the 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 activities of the Redevelopment Successor Agency (Successor Agency).

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide – business-type activities and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are exchange or exchange-like transactions between functions of the government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from 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 ASSETS OR EQUITY

### 1. Cash and Cash Equivalents

Cash and investments (including restricted assets) held in the City's investment pool are reported as cash and cash equivalents on the statement of net assets and balance sheet because funds can spend cash at any time without prior notice or penalty. All investments with fiscal agents are also considered cash equivalents because they are highly liquid and have maturities of 3 months or less at the time of purchase. Investments are stated at fair value. Valuations are obtained by using quotations obtained from independent published sources.

### 2. Restricted Assets - Cash and Cash Equivalents

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 assets. 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.

### 3. Receivables and Payables

Balances representing lending/borrowing transactions between funds outstanding at the end of the fiscal year are reported as either "due from/due to other funds" (amounts due within one year), or "advances to/from other funds" (non-current portions of interfund lending/borrowing transactions). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.” Advances to other funds are offset by a fund balance reserve in applicable governmental funds to indicate they are not available for appropriation and are not expendable available financial resources.

All property taxes are collected and allocated by the County of Stanislaus to the various taxing entities. Property taxes are determined annually as of March 1 and attach as an enforceable lien on real property as of January 1. Taxes are due November 1 and February 1 and are delinquent if not paid by December 10 and April 10, respectively. The City participates in the County "Teeter Plan" method of property tax distribution. Under the Teeter Plan, the County remits property taxes to the City based on assessments, not on collections, according to the following schedule: 55 percent in December, 40 percent in April, and 5 percent at the end of the fiscal year. Property tax is recognized when it is available and measurable. The City considers property tax as available if it is received within 60 days after year-end.

Revenue from taxpayer-assessed taxes (sales and use, business license, transient occupancy, utility users, gas, and franchise fees) are accrued in the governmental funds when they are both measurable and available. The City considers these revenues available if they are received during the period when settlement of prior fiscal year accounts payable occurs. Historically, the majority of these taxes are received within 60 days of the fiscal year end; therefore, revenue from taxpayer-assessed taxes is accrued if it is received by August 31.

Grant and entitlement revenues are recorded as receivables in the funds when they are susceptible to accrual (i.e., when all eligibility requirements have been met). The corresponding governmental fund revenues are recorded when they become available, with the differences recorded as deferred revenue. The corresponding proprietary fund revenues are recorded as 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, 2012 is \$15,193,177.

Utility service accounts receivable are reported net of \$1,295,781 allowance for doubtful collections and include unbilled receivables using actual amounts billed in July for June services for governmental funds. City Accounts receivable are reported net of \$2,295,932 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, 2012, \$2,150,357 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. Compensated Absences

All earned vacation, holiday, and compensating time, and a portion of accumulated sick leave payable upon termination or retirement, are accrued in the Employee Benefits Management Internal Service Fund as compensated absences. Estimated sick leave termination payments have been calculated using the Governmental Accounting Standards Board Statement 16 vesting method. Under this method, a liability is accrued for a portion of the sick leave balances of all employees who are currently eligible, or are assumed to become eligible in the future, to receive a payment for sick leave upon termination. As of June 30, 2012, the total estimated liability for all compensated absences, including sick leave, is \$10,887,713.

7. 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, 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.

## 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

Recently released standards by the Governmental Accounting Standards Board (GASB) affecting future fiscal years are as follows:

**GASB Statement No. 60** - *Accounting and Financial Reporting for Service Concession Arrangements* addresses accounting and financial reporting issues related to public-private and public-public partnerships. The statement is effective for periods beginning after December 15, 2011. The City has not fully judged the effect of the implementation of GASB-60 as of the date of the basic financial statements.

**GASB Statement No. 61** - *The Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14 and No. 34* modifies a number of provisions with regard to reporting of component units within a financial reporting entity. The statement is effective for periods beginning after June 15, 2012. As of the date of the basic financial statements, the City has not made an assessment of any changes that will occur

upon this statement's implementation.

**GASB Statement No. 62** - *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements -Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure. The statement is effective for periods beginning after December 15, 2011. However, as the statement codifies what is in current practice, there is no net effect on the City's accounting or financial reporting upon the statement's implementation.

**GASB Statement No. 63** - *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position* modifies current financial reporting of those elements. The largest change will be the replacement of the current Statement of Net Assets with a Statement of Net Position and a Statement of Changes in Net Position instead of the current Statement of Changes in Net Assets upon implementation for periods beginning after December 15, 2011. The City will implement this change for the fiscal year ended June 30, 2013.

**GASB Statement No. 64** - *Derivative instruments: Application of Hedge Accounting Termination Provisions* - amends current accounting and financial reporting related to terminations of swap agreements due to default or other termination events. In certain instances where swap counterparties or credit support providers are replaced, hedge accounting may continue, rather than cease. The provisions of GASB-64 are effective for financial statements beginning after June 15, 2011. As of the date of the basic financial statements, the City has not made an assessment of any changes that will occur upon this statement's implementation.

**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 will implement this change for the fiscal year ended June 30, 2013.

**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. As of the date of the basic financial statements, the City have not made an assessment of any changes that will occur upon the statement's implementation.

**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.

## II. DETAILED NOTES

### A. CASH AND INVESTMENTS

The City maintains a cash and investment pool that is used by all funds. Each fund's portion of the City's cash and investment pool is displayed on the balance sheet and proprietary and fiduciary fund statements of net assets as "cash and cash equivalents." Each fund is allocated interest on average monthly cash balances held by the funds throughout the year. A majority of the interest from the Fleet Management Internal Service Fund is credited to the General Fund in accordance with the City's policy. Certain deposits held in trust are displayed on the governmental funds balance sheet and the proprietary funds statement of net assets as "restricted assets – cash and cash equivalents." The City also maintains "cash and cash equivalents with fiscal agent" which represent monies held by fiscal agents for payment of various City debt and capital projects costs.

#### 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:

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality	Maximum Percentage Of Portfolio	Maximum Investment in One Issuer
City of Modesto Bonds	5 years	N/A	None	None
U.S. Treasury Obligations	5 years	N/A	None	None
State of California Securities	5 years	AAA	None	None
California Municipal Securities	5 years	AAA	None	None
Federal Agency Securities	5 years	N/A	None	None
Bankers' Acceptances	180 days	N/A	40%	10% or \$1 million
Commercial Paper	270 days	Top rating category	25%	10%
Certificates of Deposit	1 years	N/A	20% of surplus	None
Negotiable Certificates of Deposit	5 years	AA	30%	None
Repurchase Agreements	90 years	Top rating category	None	None
Reverse Repurchase Agreements	92 years	N/A	20%	None
Medium Term Corporate Notes	5 years	AA -	30%	None
Money Market Funds	N/A days	Top rating category	None	None
California Local Agency Investment Fund	N/A days	N/A	\$40 million per account	None
Mortgage and Asset-Backed Securities	5 years	AA	20% of surplus	None
California Asset Management Program	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, 2012 the fair value approximated the City's Cost. At June 30, 2012, these investments have an average maturity of 655 days. 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	\$74,219,477		\$31,256,288	\$42,963,189	-
Federal agency securities					
Bonds	22,565,837	3,256,495	19,309,342		
Notes	89,377,632	2,438,424	51,636,252	35,302,956	
Discount Notes	-	-	-	-	-
U.S. Treasury Bills	-	-	-	-	-
CAMP	74,545,295	74,545,295	-	-	-
Cash in banks	12,680,185	12,680,185	-	-	-
Held by trustee:					
Money market funds	6,439,262	6,439,262	-	-	-
MID-Collateral Agreement	19,008,884	19,008,884			
Federal agency securities					
notes	3,474,271	3,474,271	-	-	-
CAMP	18,466,964	18,466,964	-	-	-
Total	\$320,777,807	\$140,309,780	\$102,201,882	\$78,266,145	-

Maturity dates for callable notes are based on call dates. During June 30, 2012 timing difference occurred between our trustee agent and investment reports which triggered a \$1.7 million difference between our investment reports and financial statements.

## 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, 2012 for each investment type:

<u>Investment Type</u>	<u>Total</u>	<u>Exempt from Disclosure</u>	<u>AAA and A-1+</u>	<u>Not Rated</u>
U.S. Treasury Notes	\$74,219,477	\$74,219,477	-	-
Federal agency securities	111,943,469	-	111,943,469	-
U.S. Treasury Bills				
CAMP	74,545,295		74,545,295	
Held by trustee:				
Money market funds	6,439,292	-	6,439,292	-
MID-Collateral Agreement	19,008,884	19,008,884		
Federal agency securities notes	3,474,271	-	3,474,271	-
CAMP	18,466,964	-	18,466,964	-
Guaranteed investment contracts				
<b>Total</b>	<b>\$308,097,622</b>	<b>\$93,228,361</b>	<b>\$214,869,261</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, 2012:

<u>Issuer</u>	<u>Investment Type</u>	<u>Reported Amount</u>	<u>Percent of Portfolio</u>
Freddie Mac (FHLMC)	Federal agency securities	\$36,664,026	11.4%
Federal Home Loan Bank	Federal agency securities	47,259,868	14.7%
Fannie Mae (FNMA)	Federal agency securities	28,019,575	8.7%

### 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, 2012 was as follows:

	Beginning Balance	Additions	Deletions	Prior Yr Adjustment	Ending Balance
Governmental activities:					
Capital assets, not being depreciated:					
Land	33,462,515	-	-	-	33,462,515
Construction in Progress	20,539,102	24,020,427	(4,337,044)	-	40,222,485
Total capital assets, not being depreciated:	\$ 54,001,617	\$ 24,020,427	\$ (4,337,044)	\$ -	\$ 73,685,000
Capital assets being depreciated:					
Building	31,911,836	341,671	-	-	32,253,507
Improvements other than buildings	71,409,359	628,535	-	-	72,037,894
Furnishings & equipment	15,740,070	363,837	(611,135)	-	15,492,772
Intangible Assets	2,453,177	32,348	-	-	2,485,525
Equipment pool	28,542,129	1,957,513	(292,018)	-	30,207,624
Infrastructure					
Streets	487,333,537	6,224,550	-	-	493,558,087
Signals	16,884,800	119,910	-	-	17,004,710
Bridges	26,207,207	-	-	-	26,207,207
Total capital assets, being depreciated:	\$ 680,482,115	\$ 9,668,364	\$ (903,153)	\$ -	\$ 689,247,326
Less accumulated depreciation for:					
Buildings	(16,176,611)	(877,934)	-	-	(17,054,545)
Improvements	(32,765,073)	(2,856,547)	-	-	(35,621,620)
Furnishings & equipment	(11,634,560)	(1,132,767)	574,608	-	(12,192,719)
Intangible Assets	(1,226,338)	(1,068,234)	-	-	(2,294,572)
Equipment pool	(17,796,719)	(2,415,447)	229,444	-	(19,982,722)
Infrastructure					
Streets	(246,688,921)	(9,822,745)	-	-	(256,511,666)
Signals	(13,863,874)	(848,109)	-	-	(14,711,983)
Bridges	(4,013,100)	(524,144)	-	-	(4,537,244)
Total accumulated depreciation	\$ (344,165,196)	\$ (19,545,927)	\$ 804,052	\$ -	\$ (362,907,071)
Total capital assets being depreciated, net	\$ 336,316,919	\$ (9,877,563)	\$ (99,101)	\$ -	\$ 326,340,255
Governmental activities capital assets, net	\$ 390,318,536	\$ 14,142,864	\$ (4,436,145)	\$ -	\$ 400,025,255

Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
General government	486,712
Community development	503,195
Highways and streets, including depreciation of general infrastructure assets	11,525,763
Public works	207,177
Parks and recreation	382,612
Public safety	2,828,645
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	3,513,676
Total depreciation expense – Gov activities*	\$19,447,780

\*The difference between the depreciation expenses and the Additions for accumulated depreciation is related to transfers that occurred during the year.

	Beginning <u>Balance</u>	<u>Additions</u>	<u>Deletions</u>	Prior Year <u>Adjustments</u>	Ending <u>Balance</u>
Business-type activities:					
Capital Assets not being depreciated:					
Land	30,073,929	-	-	-	30,073,929
Construction in Progress	84,970,077	28,148,198	(20,702,185)	-	92,416,090
Total capital assets, not being depreciated:	\$ 115,044,006	\$ 28,148,198	\$ (20,702,185)	\$ -	\$ 122,490,019
Capital Assets being depreciated:					
Capitalized Interest	15,240,804	2,150,357	-	-	17,391,161
Building	83,196,638	-	-	-	83,196,638
Improvements other than buildings	200,283,039	20,060,437	(29,787)	-	220,313,689
Furnishings & equipment	8,422,945	815,776	(398,993)	-	8,839,728
Intangible Asset	149,098	14,785	-	-	163,883
Water Rights	358,226,691	-	-	-	358,226,691
Buses and Fareboxes	18,163,245	582,126	-	-	18,745,371
Pipelines	149,480,988	2,418,156	-	-	151,899,144
Total capital assets, being depreciated:	\$ 833,163,448	\$ 26,041,637	\$ (428,780)	\$ -	\$ 858,776,305
Less accumulated depreciation for:					
Capitalized Interest	(5,716,142)	(762,539)	-	-	(6,478,681)
Buildings	(47,206,545)	(2,429,450)	-	-	(49,635,995)
Improvements	(111,033,315)	(7,660,736)	16,237	-	(118,677,814)
Furnishings & equipment	(4,419,863)	(649,245)	360,944	-	(4,708,164)
Intangible Asset	(68,852)	(95,031)	-	-	(163,883)
Water Rights	-	(11,451,509)	-	(11,451,509)	(22,903,018)
Buses and Fareboxes	(11,905,121)	(954,082)	-	-	(12,859,203)
Pipelines	(30,641,816)	(1,913,330)	-	-	(32,555,146)
Total accumulated depreciation	\$ (210,991,654)	\$ (25,915,922)	\$ 377,181	\$ (11,451,509)	\$ (247,981,904)
Total capital assets being depreciated, net	\$ 622,171,794	\$ 125,715	\$ (51,599)	\$ (11,451,509)	\$ 610,794,401
Business-type activities capital assets, net	\$ 737,215,800	\$ 28,273,913	\$ (20,753,784)	\$ (11,451,509)	\$ 733,284,420

Business-type activities:	
Parking	386,604
Water	15,771,300
Sewer	5,821,148
Storm Drain	612,418
Compost	183,875
Airport	598,211
Bus	1,439,223
Golf	322,606
Community center	765,753
Total depreciation expense – business-type activities*	<u>\$25,901,138</u>

\*The difference between the depreciation expenses and the Additions for accumulated depreciation is related to transfers that occurred during the year.

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; project completion estimated to be March 1, 2009; authorized loan amount up to \$500,000, with a current 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

\$870,368

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.

\$4,423,461

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, 2012. The total loan approved by the State Water Resources board is \$125 million.

\$10,236,708

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.

\$568,329

Total principal balances – Business Type Activities

\$16,098,866

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

Year Ending June 30,	Governmental Activities		Business Activities	
	Principal	Interest	Principal	Interest
2013	-	-	1,250,328	39,804
2014	498,362	-	1,986,533	31,645
2015	-	-	1,995,004	23,174
2016	-	-	487,071	8,090,722
2017	-	-	5,188,124	3,257,310
2018-2022	-	-	4,872,498	3,160,506
2023-2027	-	-	149,743	31,704
2028-2032	-	-	169,565	11,883
Total	<u>\$ 498,362</u>	<u>\$ -</u>	<u>\$ 16,098,866</u>	<u>\$ 14,646,748</u>

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.

\$4,460,000

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, 2012.

	<u>\$46,480,000</u>
Total principal balances – Business-Type Activities	<u>\$50,940,000</u>
Less:	
Unamortized bond discount – 2008 Water Refunding Certificates of Participation	(131,933)
Deferred amount on refunding – 2008 Water Refunding Certificates of Participation	(571,000)
Total Business Type Activities – Certificates of Participation	<u>\$50,237,067</u>

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 \$86,756,508. 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 \$10,888,790, and net revenues of the Fund were \$25,878,555, which represented coverage of 187%.

.Annual debt service requirements to maturity for certificates of participation are as follows:

Year Ending June 30,	Business-Type Activities	
	Principal	Interest
2013	\$585,000	\$2,191,885
2014	600,000	2,162,982
2015	650,000	2,132,124
2016	665,000	2,101,463
2017	705,000	2,069,050
2018-2022	3,955,000	9,821,218
2023-2027	11,210,000	8,186,756
2028-2032	14,700,000	5,311,727
2033-2037	17,870,000	1,839,303
Total	<u>\$50,940,000</u>	<u>\$35,816,508</u>

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, 2012. \$62,130,000

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

Year Ending June 30,	Principal	Interest
2013	\$1,260,000	\$2,830,097
2014	1,395,000	2,767,184
2015	1,505,000	2,698,844
2016	1,665,000	2,624,732
2017	1,835,000	2,540,725
2018-2022	10,115,000	11,390,631
2023-2027	15,070,000	8,445,164
2028-2032	20,010,000	4,300,698
2033-2034	9,275,000	326,866
Total	\$62,130,000	\$37,924,941

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. \$ 27,895,000

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 \$ 44,430,000

Plus: Unamortized bond premium - 2005 Bonds 1,405,805

Less:

Unamortized bond discount – 2006 Bonds (261,185)

Deferred amount on refunding – 2005 Bonds (2,266,443)

Total business-type activities revenue bonds \$ 43,308,177

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 \$66,165,539. The Sewer Fund's principal and interest paid for the current year and total customer net revenues were \$4,014,808 and \$24,165,322 respectively.

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2013	1,955,000	2,064,558
2014	2,050,000	1,964,432
2015	2,160,000	1,859,183
2016	2,270,000	1,748,432
2017	2,385,000	1,643,983
2018-2022	13,845,000	6,257,138
2023-2027	6,995,000	3,294,639
2028-2032	5,710,000	2,127,550
2033-2037	7,060,000	775,625
Total	<u>\$44,430,000</u>	<u>\$21,735,539</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 4.0% to 6.01%; semi-annual installments on August 1 and February 1 through August 2024.

\$3,392,000

Fleet Management Internal Service Fund:

Note payable for the acquisition of property related to the Police Fleet Shop; variable interest rate with a minimum of 6% and a maximum of 9%; monthly payments of \$3,010, including interest, through February 2012. The last payment was paid in full in 2012.

-

Total notes payable

\$3,392,000

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2013	191,000	186,906
2014	201,000	177,064
2015	211,000	166,483
2016	221,000	155,085
2017	233,000	142,777
2018-2022	1,350,000	497,328
2023-2025	985,000	90,444
Total	<u>\$3,392,000</u>	<u>\$1,416,087</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 2012, the City had posted a cumulative total of \$19 million of collateral posting.

Terms – The terms, including the counterparty credit rating of the outstanding swaps, as of June 30, 2012 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>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	\$47,625,000	5/30/2008	Bank of America	A	3.48%	63.7% of USD-LIBOR, plus .154%	10/1/2036
2008 Lease Revenue Refunding and Capital Improvement	65,170,000	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). GASB53 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 assets 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, 2012 (December 31, 2010 for MID bonds), the fair value of the swaps was in favor of the counter party as shown in the following table:

Bond Issue	Fair Value
2008 Water Refunding Revenue Certificates of Participation	(\$13,013,669)
2008 Lease Revenue Bonds	(\$15,502,235)
2007 MID Water Refunding Revenue Bonds	(\$35,352,660)

Credit risk – As of June 30, 2012, 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, 2012, 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 Broker Fees	Total
	Principal	Interest		
2013	\$1,570,000	\$1,615,762	\$3,185,669	\$6,371,431
2014	1,705,000	1,590,694	3,134,743	6,430,437
2015	1,845,000	1,563,544	3,079,494	6,488,038
2016	2,005,000	1,534,069	3,021,001	6,560,070
2017	2,200,000	1,501,800	2,953,475	6,655,275
2018-2022	12,090,000	6,996,338	13,723,513	32,809,851
2023-2027	25,340,000	5,616,674	10,967,745	41,924,419
2028-2032	34,710,000	3,270,188	6,342,236	44,322,424
2033-2037	27,145,000	751,818	1,414,350	29,311,168
<b>Total</b>	<b>\$108,610,000</b>	<b>\$24,440,888</b>	<b>\$47,822,226</b>	<b>\$180,873,113</b>

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

Year Ending June 30,	Principal	Interest
2013	3,980,000	6,809,790
2014	4,175,000	6,603,306
2015	4,395,000	6,383,700
2016	4,615,000	6,152,818
2017	4,855,000	5,913,184
2018-2022	28,120,000	25,642,964
2023-2027	24,725,000	19,214,202
2028-2032	27,955,000	13,639,318
2033-2037	35,100,000	6,671,988
2038	11,870,000	263,514
<b>Total</b>	<b>\$ 149,790,000</b>	<b>\$ 97,294,785</b>

Changes in Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2012, was as follows:

	<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	\$903,362	-	-	\$405,000	\$498,362	-
Certificates of Participation	\$16,975,000		\$1,090,000	\$15,885,000	-	-
Derivative Instrument SWAP	\$8,296,052	\$7,206,183	-	-	\$15,502,235	-
Lease Revenue Bonds:	\$63,255,000	-	\$1,125,000	-	\$62,130,000	\$1,260,000
Notes Payable	\$3,594,658	-	\$202,658	-	\$3,392,000	\$191,000
Obligations under Capital Leases	\$975,955	-	\$233,018	-	\$742,937	\$240,315
Compensated Absences	\$9,071,622	\$2,184,844	\$3,231,602	-	\$8,024,864	\$6,137,363
Net OPEB	\$47,280,753	\$9,113,843	-	-	56,394,596	-
Claims liability	\$21,077,038	\$10,377,253	\$8,238,384	-	\$23,215,907	\$5,215,194
<b>Total govtl activities LTL</b>	<b>\$171,429,440</b>	<b>\$28,882,123</b>	<b>\$14,120,662</b>	<b>\$16,290,000</b>	<b>\$169,900,901</b>	<b>\$13,043,872</b>
<b>Business-type activities:</b>						
Loans Payable	\$6,522,243	\$10,805,036	\$1,228,413	-	\$16,098,866	\$1,250,327
Compensated Absences	\$2,375,902	\$2,235,466	\$1,748,519	-	\$2,862,849	\$2,189,489
Net OPEB	\$10,417,194	\$3,200,249	-	-	\$13,617,443	-
Derivative Instrument SWAP	\$23,975,184	\$24,391,145	-	-	\$48,366,329	-
Certificates of participation:	\$51,490,000	-	\$550,000	-	\$50,940,000	\$585,000
Unamortized Discounts	(\$137,430)	-	(\$5,497)	-	(\$131,933)	-
Deferred amount on refunding	(\$594,791)	-	(\$23,791)	-	(\$571,000)	-
MID Variable Bonds	\$153,580,000	-	\$3,790,000	-	\$149,790,000	\$3,980,000
Sewer Bonds:	\$46,285,000	-	\$1,855,000	-	\$44,430,000	\$1,955,000
Unamortized Premium	\$1,533,605	-	\$127,800	-	\$1,405,805	-
Unamortized Discount	(\$271,632)	-	(\$10,447)	-	(\$261,185)	-
Deferred amount on refunding	(\$2,472,484)	-	(\$206,041)	-	(\$2,266,443)	-
Developer advances	\$1,704,036	-	\$93,139	-	\$1,610,897	\$93,112
<b>Business-type activities LTL</b>	<b>\$294,406,827</b>	<b>\$40,631,896</b>	<b>\$9,147,095</b>	<b>-</b>	<b>\$325,891,628</b>	<b>\$10,052,928</b>

Principal balances are reported on the government-wide and enterprise funds statements of net assets 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 \$534,828 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

In 2005, the City issued refunding Wastewater Revenue Bonds to refund 1993, 1996 and 1997 Wastewater Revenue Bonds. The proceeds were used to purchase U.S. government securities, which were deposited in an irrevocable trust to provide for all future debt service requirements of the three refunded issues. Both the 1993 and 1996 Bonds have been fully redeemed. As of June 30, 2012 \$2,590,000 of 1997 revenue bonds are considered defeased and are not included in the Sewer Fund.

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, 2012:

Year Ending June 30,	
2013	\$189,000
2014	190,674
2015	190,674
Total minimum lease payments	570,348
Less: amount representing interest	<u>(35,521)</u>
Present value of minimum lease payments	<u>\$534,827</u>

Governmental Funds

One Pierce Quantum 1500GPM Fire Apparatus valued at \$422,524 less \$71,799 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, 2012

<u>Year Ending June 30,</u>	
2013	\$77,611
2014	77,611
2015	77,611
Total minimum lease payments	232,833
Less: amount representing interest	<u>(24,723)</u>
Present value of minimum lease payments	<u>\$208,110</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, 2012, the total outstanding balance due under the agreements is \$1,610,897. The total annual payments fluctuate depending on the ending date of each agreement. At June 30, 2012, the amount of \$93,112 due during fiscal year 2013 has been reported as "current portion-developer advances" on the Proprietary Funds statement of net assets. The remaining \$1,517,785 of outstanding principal has been reported under noncurrent liabilities, as "developer advances."

F. INTERFUND BALANCES

Interfund balances as of June 30, 2012 consist of the following:

Due to General Fund from:	
Housing and Community Development	\$543,111
Other governmental funds – total due to/due from	1,411,699
Other enterprise funds - total due to/due from	<u>653,535</u>
Total Due to/from General Fund	<u>\$2,608,345</u>
 Total Due to/Due From:	 <u>\$2,608,345</u>
 Advances from General Fund to:	
Other governmental funds	\$1,204,725
 Other enterprise funds	 <u>1,324,704</u>
Advances from General Fund	<u>\$2,529,429</u>
 Advance from Internal Service Fund to General Fund	 <u>\$2,431,738</u>
 Advance from Enterprise Fund to General Fund	 <u>350,000</u>
 Total Advances from/Advances to	 <u>\$5,311,167</u>

All balances reported as “due to/due from” are short-term loans to cover temporary fund cash shortages as of June 30, 2012, and were repaid early in fiscal year 2013. 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, 2012, are provided below:

	General Fund	Housing and Community Development	Other Governmental	Total Governmental Funds
Non-spendable				
Prepaid Items	123,061	119	-	123,180
Total non-spendable fund balance	<u>123,061</u>	<u>119</u>	<u>-</u>	<u>123,180</u>
Restricted				
Advances to Other Funds	2,529,429	-	-	2,529,429
Capital Facility Fees	-	-	29,464,174	29,464,174
Cash with Fiscal Agent	-	-	14,659,582	14,659,582
Community Facilities District Fees	-	-	14,889,154	14,889,154
Grants and Donations	-	-	2,889,843	2,889,843
Investment FV Adj	132,654	6,277	1,604	140,535
Notes Receivable	-	42,302,157	2,281,179	44,583,336
Property Held for Resale	-	-	784,000	784,000
Restricted deposits	1,336,456	-	-	1,336,456
Traffic Fines	-	-	1,867,071	1,867,071
Total restricted fund balance	<u>3,998,539</u>	<u>42,308,434</u>	<u>66,836,607</u>	<u>113,143,580</u>
Assigned				
Encumbrances	519,051	17,611	1,450,252	1,986,914
Downtown Improvement District	-	-	5,250	5,250
Gas Tax Funding	-	-	328,776	328,776
Public Financing Authority - Debt	-	-	508,579	508,579
Strategic Planning and Development	-	-	293,813	293,813
Total assigned fund balance	<u>519,051</u>	<u>17,611</u>	<u>2,586,670</u>	<u>3,123,332</u>
Unassigned - General Fund	10,806,111	-	-	10,806,111
Unassigned - Special revenue funds	-	(18,681,022)	(10,126)	(18,691,148)
Unassigned - Capital project funds	-	-	(161,091)	(161,091)
Total unassigned fund balance	<u>10,806,111</u>	<u>(18,681,022)</u>	<u>(171,217)</u>	<u>(8,046,128)</u>
Total fund balance	<u>15,446,762</u>	<u>23,645,142</u>	<u>69,252,060</u>	<u>108,343,964</u>

## H. DEFICIT FUND EQUITY

The Local Transportation and Special Fund for Capital Outlays have a deficit fund balance, respectively of \$4,552 and \$63,576. 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 assets deficit of \$2,819,918, 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 assets deficit of \$66,518,424. 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 assets deficit of \$4,905,806, 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):								Total
	General Fund	Housing & Comm Dev	Other Governmental	Water	Sewer	Bus	Other Enterprise Funds	Internal Service	
General Fund	-	-	\$1,521,857	\$65,000	\$68,640	\$8,400	\$ 511,414	\$169,487	\$ 2,344,798
Other Governmental	5,952,560	174,458	2,708,926	-	-	-	66,000	137,718	9,039,662
Bus	1,500	-	130	-	-	-	-	-	1,630
Other Enterprise	1,132,530	-	66,000	700,000	93,940	-	-	-	1,992,470
Internal Service	2,368,091	-	297,611	1,411,439	478,640	2	1,429,498	-	5,985,281
<b>Grand Total</b>	<b>\$ 9,454,681</b>	<b>\$ 174,458</b>	<b>\$ 4,594,524</b>	<b>\$2,176,439</b>	<b>\$ 641,220</b>	<b>\$ 8,402</b>	<b>\$2,006,912</b>	<b>\$ 307,205</b>	<b>\$ 19,363,841</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. 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 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 Certificate of Participation's are as follows:

<u>Year Ended June 30<sup>th</sup></u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 1,150,000	\$ 783,950	\$ 1,933,950
2014	1,215,000	717,730	1,932,730
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
2018-2022	6,615,000	1,645,375	8,260,375
2023-2027	<u>3,145,000</u>	<u>159,125</u>	<u>3,304,125</u>
Total	<u>\$ 15,885,000</u>	<u>\$ 5,048,535</u>	<u>\$ 20,933,535</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 \$18 million. The Redevelopment Agency also has a few outstanding obligation 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 on 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 \$45,605,068 net of \$1,021,732 allowance for doubtful accounts, consist of loans made for low-income housing rehabilitation, property improvement and small business origination. The loans are collateralized by deeds of trust on the improved properties, are generally interest free with the exception of a small number of direct loans bearing annual interest at 3 or 5 percent and, with a few exceptions, require no repayment of principal until the loans reach maturity.

**L. APPROVED LOANS PAYABLE**

The approved loans payable in the Housing and Community Development Special Revenue Fund and other governmental funds of \$2,913,823 consist of amounts being held for rehabilitation of properties using funds provided by federal grants.

The approved loans payable in the Redevelopment Agency Capital Projects Fund 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 \$437,482 and \$388,651.

**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, 2012 is \$23,215,907 consisting of \$18,939,000 workers' compensation, \$4,066,358 general liability, \$166,737 dental, and \$43,812 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 \$22,701,000 and \$4,264,000 respectively. The actuarial liability for workers compensation and general liability were based on June 30, 2012 actuarial reports.

The current portion of the total claims liability is estimated to be \$5,215,194 and the balance of \$18,000,713 is reported as a long-term liability on the statement of net assets. These claim estimates are based on the requirements of Governmental Accounting Standards Board Statement 10, and include estimated claims incurred but not yet reported and allocated loss adjustment expenses as of June 30, 2012 for General Liability and Workers Compensation. Changes in the Insurance Fund claims liability during the fiscal years ended June 30, 2010 through June 30, 2012 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>
2009-10	21,425,553	6,386,687	(6,541,335)	21,270,905
2010-11	21,270,905	5,939,661	(6,133,528)	21,077,038
2011-12	21,077,038	8,089,359	(5,950,490)	23,215,907

#### 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, 2012, the balance of these districts' outstanding debt was as follows:

<u>Issue</u>	<u>Outstanding Amount</u>
Village One #2 Community Facilities District	\$30,465,000
Fairview Village Community Facilities District	4,825,000

#### 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, 2012 there were three series of conduit revenue bonds outstanding. The aggregate principal amount payable for these multiple-family housing bond issues, issued between 1994 and 2002, was \$10,380,000.

#### 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, 2012, 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 \$21,595,531 for the City's governmental funds as of June 30, 2012 for contracts awarded but not completed and other outstanding purchase requisitions and orders. This amount consists of \$519,051 in the General Fund, \$17,611 in the Housing and Community Development, and \$1,476,105 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, 2012, there are major contracts and other purchase orders outstanding for water and sewer system improvements, vehicle purchases, sewer tertiary plan construction, final construction contracts for the new bus maintenance facility, comprehensive update to the City's general plan, major street improvements, and the purchase of buses.

#### 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 \$101,531 for the fiscal year ended June 30, 2012. As of June 30, 2012 the City's investment in this joint venture was \$1,483,598, and is included in governmental activities on the statement of net assets. Financial statements for TRRP are prepared by the City of Modesto Finance Department.

### Stanislaus Drug Enforcement Agency

Stanislaus County (County) and the cities of Modesto, Oakdale, Ceres, Patterson, Turlock, Riverbank, 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, 2012 was \$272,284. The City's investment in this joint venture was estimated to be \$674,623 as of June 30, 2012, based on the most recent available information. This amount is reported in governmental activities in the statement of net assets. 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, 2012, the City's payments to the Agency were \$614,597 for operations and capital reserve. The City's equity interest in the Agency is \$10,655,384, 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 Assets. 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, 2012, 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, 2012, the City's payments to the Agency were \$23,358,566.

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.

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, 1997 Water System Improvement Project Refunding Certificates of Participation, and the California Safe Drinking Water Act loan (Note II-C). The minimum annual amount payable to MID, consisting of the debt service component only, is \$10,888,790. 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. As of June 30, 2012, the total outstanding on the MID bonds is: \$56,600,000 for the 1998 bonds, and \$93,190,000 for the 2007 bonds for a total of \$149,790,000. 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, 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, 2012 there were 487 participants receiving these health care benefits.

The OPEB Plan provisions and benefits in effect at June 30, 2012, are summarized as follows:

	<u>Police (including Management)</u>	<u>General Employees</u>	<u>Management</u>	<u>Fire</u>	<u>Fire Management</u>
Benefit Types Provided	Medical, dental and vision	Medical, dental and vision	Medical, dental and vision	Medical only	Medical, dental and vision
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	\$596.00 for single  \$1,050.00 with dependents	\$621.00 for single  \$1,100.00 with dependents	\$621.00 for single  \$1,100.00 with dependents	\$108.00	\$108 for single

Except for the Fire group, the City health allowance amounts may increase each year based on the health allowance for active employees. 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 June 30, 2010 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) 3.25% projected annual salary increase, (c) 9% inflation rate and (d) 9% health inflation increases. 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, 2012 was 30 years.

The City has set aside \$12,002,745 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, 2012 is set forth below:

Fiscal Year	Annual Required Contribution (ARC)	Interest on Net OPEB Obligations	ARC Adjustments	Annual OPEB Cost	OPEB Percentage Contributed	Net OPEB Obligation
6/30/2008	\$5,752,966	-	-	\$5,752,966	31.90%	\$37,180,914
6/30/2009	\$5,627,617	-	(\$1,599,293)	\$4,028,324	41.54%	\$41,209,238
6/30/2010	\$5,627,617	-	(\$1,309,782)	\$4,317,835	37.34%	\$45,527,073
6/30/2011 *	\$12,170,874	1,821,083	(\$1,749,474)	\$12,242,483	N/A	\$57,769,556
6/30/2012	\$12,170,874	1,821,083	(\$1,749,474)	\$12,242,483	N/A	\$70,012,039

\*In fiscal year 2011, the annual OPEB cost should have been used to increase the OPEB liability instead of the annual required obligation.

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]
12/1/2006	\$0	\$58,780,482	(\$58,780,482)	0.00%	\$75,994,853	-77.35%
12/1/2008	\$0	\$53,361,991	(\$53,361,991)	0.00%	\$82,049,847	-65.00%
12/1/2010	\$0	\$104,399,231	(\$104,399,231)	0.00%	\$81,027,934	-128.84%

Annual OPEB Cost (AOC) for Fiscal Year Ending June 30, 2012.

	Amount
Annual Required Contribution	\$12,170,874
Interest on Net OPEB Obligation	1,821,083
ARC Adjustments	<u>-1,749,474</u>
Total Annual OPEB Cost	\$12,242,483

H. DEFINED BENEFIT PENSION PLAN

Plan Description

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

Funding Policy

Participants are required to contribute 7% (9% for safety employees) of their annual covered salary, of which the City pays the majority on behalf of the employees. The City is required to contribute at an actuarially determined rate; the current rate is 10.935% of annual covered payroll for non-safety employees and 28.520% for safety employees. The contribution requirements of plan members and the City are established and may be amended by CalPERS.

Annual Pension Cost

For 2012, the City's annual pension cost of \$13,183,647 for CalPERS was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 2011 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) 7.75% investment rate of return (net of administrative expenses), (b) projected annual merit or seniority salary increases that vary by length of service, and (c) no post-retirement benefit increases. Both (a) and (b) included an inflation component of 3.0%. 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, 2012 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>
6/30/10	3,975,302	100%	-
6/30/11	3,925,383	100%	-
6/30/12	4,391,827	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>
6/30/10	7,963,518	100%	-
6/30/11	7,843,455	100%	-
6/30/12	8,791,820	100%	-

I. PRIOR YEAR ADJUSTMENTS

Governmental Activities

A prior year adjustment was reported in the General Fund in the amount of \$310,814 to correct a prior year tax rebate that was not accounted correctly and to record a loan from the Stanislaus 911 agency related to the CAD project. The Housing and Community Development reported a prior year adjustment in the amount of \$163,770, to correct a loans payable that had not been disbursed in fiscal year 2011 in error. The prior year adjustments reported in other governmental funds was to correct some deposits related to the Community Facilities districts that should have been recognized as revenue based on work completed prior to 2012 and to record a loan from Stanislaus 911 agency related to the CAD project. This loan was funded through the General Fund and Capital Facility Fees. The total amount for the prior year adjustment for other governmental funds total to \$390,738.

The governmental activity prior year adjustment was from the internal service funds related to a construction project correction which adjusted construction work in progress. Additionally, the Building Services fund had a prior year accrual correction. The total amount for the prior year adjustment for the internal service funds total to \$15,992.

Business-type Activities

The Water fund had a significant prior year adjustment to report an interest accrual correction related to the MID debt that was issued by Modesto Irrigation District on behalf of the City in the amount of \$2.8 million. Additionally, an \$11 million prior year adjustment was made in the Water fund to depreciate the water rights which were reported in 2011.

In the Sewer and Bus Fund a prior year adjustment was to correct construction projects that were capitalized in error and correction of an accrual from the prior year.

Additionally, for other Enterprise funds, a correction was made to the construction work in program for a project

that should not have been reported as capital for the Storm Drain fund. The total for the other Enterprise funds were \$738,750.

J. DEFICIENCY OF EXPENDITURES OVER APPROPRIATIONS

For the year ended June 30, 2012, expenditures exceeded appropriations as follows:

**General Fund**

<b><u>Expenditures</u></b>	<b><u>Amount</u></b>
General Government – Other	\$64,924
Public Works – Graffiti Abatement	\$213
Community Svcs & Neighborhood Connection – Planning and Development	\$7,318
Community Svcs & Neighborhood Connection – Facilities	\$4,254

**Downtown Improvement District**

<b><u>Expenditures</u></b>	<b><u>Amount</u></b>
Professional and contractual services	\$2,535

J. SUBSEQUENT EVENTS

Subsequent events have been evaluated through January 31, 2013, which is the date the financial statements are issued. No events have occurred that would require disclosure, except as statement below.

On September 19, 2012 Governor Brown signed into law SB-1186 which adds a state fee of \$1 on any applicant for a local business license or similar instrument or permit. The purpose is to increase disability access and compliance with construction-related accessibility requirements and to develop educational resources for businesses in order to facilitate compliance with federal and state disability laws.

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## **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>6/30/06:</b>						
Misc.	\$234,337,099	\$248,371,895	\$(14,034,796)	94.3%	\$43,582,742	32.2%
Safety	258,762,829	293,433,828	(34,670,999)	88.2%	32,412,111	107.0%
<b>6/30/07:</b>						
Misc.	\$253,412,785	\$266,796,934	\$(13,384,149)	95.0%	\$45,986,674	29.1%
Safety	281,892,523	317,040,705	(35,148,182)	88.9%	34,438,667	102.1%
<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%

\*\* Most recent actuarial dated information is for June 30, 2011.

### SUMMARY ACTUARIAL INFORMATION FOR PENSION PLAN

Valuation Date	June 30, 2011
Actuarial Cost Method	Entry Age Normal Cost Method
Amortization Method	Level percent of Payroll
Average Remaining Period	30 Years as of the Valuation Date
Asset Valuation Method	15 Year Smoothed Market

### ACTUARIAL ASSUMPTIONS

Investment Rate of Return	7.75% (net of administrative expenses)
Overall Payroll Growth employment	3.25% to 14.45% depending on Age, Service, and type of employment
Inflation Rate	3.00%
Payroll Growth	3.25%
Individual Salary Growth	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 3.00% 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]
12/1/2006	\$0	\$58,780,482	(\$58,780,482)	0.00%	\$75,994,853	-77.35%
12/1/2008	\$0	\$53,361,991	(\$53,361,991)	0.00%	\$82,049,847	-65.00%
12/1/2010	\$0	\$104,399,231	(\$104,399,231)	0.00%	\$81,027,934	-128.84%

\*\* The valuation date available is through 2010.

## **SCHEDULE 3- EMPLOYER CONTRIBUTIONS (OPEB)**

Fiscal Year	Annual Required Contribution (ARC)	Actual Contribution	Percentage of ARC Contributed
6/30/2008	\$5,752,966	\$2,125,269	36.9%
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	N/A	N/A
6/30/2012	\$12,170,874	N/A	N/A

Annual OPEB Cost (AOC) for Fiscal Year Ending June 30, 2012.

	Amount	Percentage of Compensation
Annual Required Contribution	\$12,170,874	15.02%
Interest on Net OPEB Obligation	1,821,083	2.25
ARC Adjustments	<u>-1,749,474</u>	<u>2.16</u>
Total Annual OPEB Cost	\$12,242,483	15.11%

## **SUMMARY ACTUARIAL INFORMATION FOR OPEB**

Valuation Date	June 30, 2010
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percent of Payroll
Amortization Period	10 Year for initial unfunded liability; 30 year for open period for remaining liability

## **ACTUARIAL ASSUMPTIONS**

Investment Rate of Return	4.00%
Health Trend Rate	4.00%
Inflation Rate	9.00%
Payroll Salary Increases	3.25%

**CITY OF MODESTO**  
**SCHEDULE OF REVENUES - BUDGET AND ACTUAL - GENERAL FUND (GAAP BASIS)**  
**Year ended June 30, 2012**

	Budget		Actual	Variance with Final Budget
	Original	Final		
<b><u>TAXES:</u></b>				
Utility users tax	\$ 18,900,000	\$ 18,900,000	\$ 19,230,879	\$ 330,879
Property tax	11,437,425	11,437,425	11,863,902	426,477
Transient occupancy tax	1,600,000	1,600,000	1,769,106	169,106
Franchise tax	3,802,890	3,802,890	4,236,705	433,815
Business license tax	8,971,045	8,971,045	9,694,722	723,677
<b>Total taxes</b>	<b>44,711,360</b>	<b>44,711,360</b>	<b>46,795,314</b>	<b>2,083,954</b>
<b><u>LICENSES AND PERMITS</u></b>	<b>71,972</b>	<b>76,597</b>	<b>71,361</b>	<b>(5,236)</b>
<b><u>INTERGOVERNMENTAL:</u></b>				
Sales tax	17,680,037	17,680,037	19,435,651	1,755,614
In-lieu sales tax	6,401,311	6,401,311	6,522,612	121,301
Motor vehicle license fees	12,683,914	12,683,914	13,072,804	388,890
State	620,000	620,000	761,335	141,335
County	-	-	153,261	153,261
Federal	145,278	145,278	133,378	(11,900)
Other intergovernmental	1,763,500	1,718,900	1,837,719	118,819
<b>Total intergovernmental</b>	<b>39,294,040</b>	<b>39,249,440</b>	<b>41,916,760</b>	<b>2,667,320</b>
<b><u>CHARGES FOR SERVICES:</u></b>				
General government	2,893,456	2,905,907	3,004,255	98,348
Community development	3,116,616	3,427,706	2,430,906	(996,800)
Parks and recreation	2,439,200	2,525,776	2,673,694	147,918
Public safety	711,993	711,993	1,182,445	470,452
Indirect cost recovery	3,685,066	3,685,066	3,685,067	1
<b>Total charges for services</b>	<b>12,846,331</b>	<b>13,256,448</b>	<b>12,976,367</b>	<b>(280,081)</b>
<b><u>SPECIAL ASSESSMENT</u></b>				
<b><u>INTEREST AND RENT</u></b>	<b>179,800</b>	<b>179,800</b>	<b>287,489</b>	<b>107,689</b>
<b><u>NET INCREASE (DECREASE) IN FAIR VALUE OF INVESTMENTS</u></b>	<b>-</b>	<b>-</b>	<b>(126,244)</b>	<b>(126,244)</b>
<b><u>FINES AND FORFEITURES</u></b>	<b>760,000</b>	<b>867,725</b>	<b>1,003,942</b>	<b>136,217</b>
<b><u>MISCELLANEOUS:</u></b>				
Mandated cost recovery	120,000	120,000	84,021	(35,979)
Other	369,294	1,072,618	1,297,005	224,387
<b>Total miscellaneous</b>	<b>489,294</b>	<b>1,192,618</b>	<b>1,381,026</b>	<b>188,408</b>
<b>Total revenues</b>	<b>\$ 98,352,797</b>	<b>\$ 99,533,988</b>	<b>\$ 104,306,015</b>	<b>\$ 4,772,027</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, 2012**

	Budget		Actual	Variance with Final Budget
	Original	Final		
General government:				
City council	\$ 371,673	\$ 353,682	\$ 353,645	\$ 37
Personnel/training	1,029,554	1,058,427	1,041,050	17,377
City manager	1,491,139	1,571,977	1,561,110	10,867
City attorney	2,051,285	2,099,260	2,094,223	5,037
City clerk/auditor	963,553	963,587	804,617	158,970
Finance	4,821,398	4,930,931	4,755,149	175,782
Other	841,503	841,503	906,427	(64,924)
Total general government	<u>11,570,105</u>	<u>11,819,368</u>	<u>11,516,221</u>	<u>303,147</u>
Community development	<u>5,298,823</u>	<u>5,504,680</u>	<u>5,338,983</u>	<u>165,696</u>
Public works:				
Engineering and Transportation Dept:				
Engineering administration				
Operations and Maintenance Dept:				
Service and maintenance	2,155,693	2,250,064	2,157,506	92,557
Graffiti abatement		17,666	17,879	(213)
Total public works	<u>2,155,693</u>	<u>2,267,729</u>	<u>2,175,385</u>	<u>92,345</u>
Parks and recreation:				
Operations and Maintenance Dept:				
Service and maintenance	4,360,532	4,512,749	4,407,326	105,423
Community Services & Neighborhood Connection:				
Administration	756,888	1,596,597	1,584,833	11,764
Planning and development	274,849	286,925	294,243	(7,318)
Culture	921,875	926,133	892,966	33,167
Recreation division	1,736,669	1,777,857	1,740,792	37,065
Facilities	257,902	257,981	262,235	(4,254)
Total parks and recreation	<u>8,308,715</u>	<u>9,358,242</u>	<u>9,182,395</u>	<u>175,847</u>
Public safety:				
Fire protection	25,093,361	23,388,508	23,358,590	29,918
Police protection	47,223,959	47,501,884	45,475,994	2,025,890
Total public safety	<u>72,317,320</u>	<u>70,890,392</u>	<u>68,834,584</u>	<u>2,055,808</u>
Total expenditures by department	<u>99,650,656</u>	<u>99,840,410</u>	<u>97,047,568</u>	<u>2,792,843</u>
Total expenditures	\$ <u><u>99,650,656</u></u>	\$ <u><u>99,840,410</u></u>	\$ <u><u>97,047,568</u></u>	\$ <u><u>2,792,843</u></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, 2012**

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

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

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

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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 FOR CAPITAL OUTLAYS FUND** – To account for State-collected, locally-shared gas tax monies. These funds may be used for all street purposes including construction, purchase of rights-of-way, and maintenance.

### 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.

**McHENRY MANSION RESTORATION FUND** – To account for donations and other revenues received and appropriated for the purpose of restoring the McHenry Mansion.

**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.

**REDEVELOPMENT AGENCY FUND** – To account for the construction of capital projects financed by the Redevelopment Agency of the City of Modesto.

**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, parks, new traffic signals, City hall expansion, wastewater treatment, streets, 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:

**REDEVELOPMENT AGENCY FUND** – To account for certificates of participation issued to finance the acquisitions and construction of the Modesto Centre Plaza.

**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, 2012**

	Special Revenue				
	Operating Grants	Local Transportation	Traffic Safety	Downtown Improvement District	Strategic Planning and Development
<b>ASSETS</b>					
Cash and cash equivalents	\$ 2,193,096	\$ 939,362	\$ 1,800,956	\$ 5,041	\$ 306,237
Cash and cash equivalents with fiscal agent	-	-	-	-	-
Receivables:					
Accounts	70,208	-	-	223	-
Interest	8,215	3,005	-	15	813
Utilities, net	15,504	-	-	-	-
Taxes	-	-	-	-	-
Due from governments	614,865	12,263	79,851	-	-
Notes receivable, net	70,179	-	-	-	-
Property held for resale	-	-	-	-	-
Restricted assets:	-	-	-	-	-
Total assets	<u>\$ 2,972,067</u>	<u>\$ 954,630</u>	<u>\$ 1,880,807</u>	<u>\$ 5,279</u>	<u>\$ 307,050</u>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Accounts payable	\$ 156,497	\$ -	\$ 513	\$ -	\$ 11,728
Accrued salaries and benefits	167,944	-	13,223	-	-
Interest Payable	7	-	-	-	-
Due to other funds	-	-	-	-	-
Due to other governments	-	-	-	-	-
Approved loans payable	-	-	-	-	-
Deferred revenues	150,113	959,182	-	-	-
Refundable deposits	-	-	-	-	-
Advances from other funds	-	-	-	-	-
Total liabilities	<u>474,561</u>	<u>959,182</u>	<u>13,736</u>	<u>-</u>	<u>11,728</u>
Fund balances:					
Restricted	2,497,506	5,574	1,867,071	29	1,509
Assigned	-	-	-	5,250	293,813
Unassigned	-	(10,126)	-	-	-
Total fund balances	<u>2,497,506</u>	<u>(4,552)</u>	<u>1,867,071</u>	<u>5,279</u>	<u>295,322</u>
Total liabilities and fund balances	<u>\$ 2,972,067</u>	<u>\$ 954,630</u>	<u>\$ 1,880,807</u>	<u>\$ 5,279</u>	<u>\$ 307,050</u>

Capital Projects									
Special Gas Tax Street Improvement	Special Fund for Capital Outlays	Parks	McHenry Mansion Restoration	Capital Grants	Community Facilities Districts	Redevelop- ment Agency	Successor Revelopment Housing Agency	Capital Facility Fees	
\$ 13,173,724	\$ -	\$ 553,037	\$ 327	\$ 80	\$ 15,047,050	\$ -	\$ 119,970	\$ 29,271,103	
-	-	481,674	-	-	9,328,370	-	-	-	
48,841	1,847	-	-	-	-	-	-	-	
51,367	-	1,813	-	-	49,802	-	36	95,853	
231,838	-	-	-	-	-	-	-	-	
-	-	-	-	-	279	-	-	-	
605,788	-	2,754	-	1,455,398	-	-	1,192,004	2,004,553	
-	-	-	-	-	-	-	2,211,000	-	
-	-	-	-	-	-	-	784,000	-	
-	-	-	-	-	-	-	-	-	
<u>\$ 14,111,558</u>	<u>1,847</u>	<u>\$ 1,039,278</u>	<u>\$ 327</u>	<u>\$ 1,455,478</u>	<u>\$ 24,425,501</u>	<u>\$ -</u>	<u>\$ 4,307,010</u>	<u>31,371,509</u>	
635,786	\$ 2,639	\$ 267,204	-	\$ 202,794	\$ 118,172	\$ -	\$ 135	847,914	
121,172	-	-	-	-	6,698	-	-	-	
15,113	53	-	-	-	4,626	-	-	-	
-	61,668	-	-	1,209,436	-	-	140,595	-	
-	-	-	-	-	-	-	548,002	-	
-	-	-	-	-	-	-	575,000	-	
11,437,492	1,063	-	-	-	-	-	-	423	
-	-	-	-	-	78,481	-	-	-	
-	-	-	-	-	-	-	145,727	1,058,998	
<u>12,209,563</u>	<u>65,423</u>	<u>267,204</u>	<u>-</u>	<u>1,412,230</u>	<u>207,977</u>	<u>-</u>	<u>1,409,459</u>	<u>1,907,335</u>	
123,294	-	772,074	-	43,248	24,217,524	-	2,995,066	29,464,174	
1,778,701	-	-	327	-	-	-	-	-	
-	(63,576)	-	-	-	-	-	(97,515)	-	
<u>1,901,995</u>	<u>(63,576)</u>	<u>772,074</u>	<u>327</u>	<u>43,248</u>	<u>24,217,524</u>	<u>-</u>	<u>2,897,551</u>	<u>29,464,174</u>	
<u>\$ 14,111,558</u>	<u>\$ 1,847</u>	<u>\$ 1,039,278</u>	<u>\$ 327</u>	<u>\$ 1,455,478</u>	<u>\$ 24,425,501</u>	<u>\$ -</u>	<u>\$ 4,307,010</u>	<u>31,371,509</u>	

**CITY OF MODESTO**  
**COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS (Continued)**  
**June 30, 2012**

	Debt Service		Total
	Redevelopment Agency	Public Financing Authority	
<u>ASSETS</u>			
Cash and cash equivalents	\$ -	\$ 510,579	\$ 63,920,562
Cash and cash equivalents with fiscal agent	-	4,849,538	14,659,582
Receivables:			
Accounts	-	-	121,119
Interest	-	-	210,919
Utilities, net	-	-	247,342
Taxes	-	-	279
Due from governments	-	-	5,967,476
Notes receivable, net	-	-	2,281,179
Property held for resale	-	-	784,000
Restricted assets:	-	-	
Total assets	\$ -	\$ 5,360,117	\$ 88,192,458
 <u>LIABILITIES AND FUND BALANCES</u>			
Liabilities:			
Accounts payable	\$ -	\$ 2,000	\$ 2,245,382
Accrued salaries and benefits	-	-	309,037
Interest payable	-	-	19,799
Due to other funds	-	-	1,411,699
Due to other governments	-	-	548,002
Approved loans payable	-	-	575,000
Deferred revenues	-	-	12,548,273
Refundable deposits	-	-	78,481
Advances from other funds	-	-	1,204,725
Total liabilities	-	2,000	18,940,398
Fund balances:			
Restricted	-	4,849,538	66,836,607
Assigned	-	508,579	2,586,670
Unassigned	-	-	(171,217)
Total fund balances	-	5,358,117	69,252,060
Total liabilities and fund balances	\$ -	\$ 5,360,117	\$ 88,192,458

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**CITY OF MODESTO**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS**  
Year ended June 30, 2012

	Special Revenue				
	Operating Grants	Local Transportation	Traffic Safety	Downtown Improvement District	Strategic Planning and Development
REVENUES:					
Taxes	\$ -	\$ -	\$ -	\$ 177,026	\$ -
Licenses and permits	54,366	-	-	-	-
Intergovernmental	5,503,103	144,151	-	-	-
Charges for services	3,792,454	-	240,500	-	-
Special assessments levied	36,551	-	-	-	-
Interest and rent	27,001	6,586	-	9	2,794
Net increase (decrease) in fair value of investments	(21,004)	(5,574)	-	(29)	(1,509)
Fines and forfeits	-	-	1,165,540	-	-
Miscellaneous	255,740	-	-	-	-
Total revenues	<u>9,648,211</u>	<u>145,163</u>	<u>1,406,040</u>	<u>177,006</u>	<u>1,285</u>
EXPENDITURES:					
Current:					
General government	283,721	-	-	-	-
Community development	792,002	-	-	169,677	47,641
Highways and streets	-	94	-	-	-
Public works	3,107,738	-	-	-	-
Parks and recreation	282,491	-	-	-	-
Public safety	2,706,070	-	612,193	-	-
Capital outlay:					
General government	-	-	-	-	-
Community development	-	-	-	-	-
Highways and streets	-	23,440	-	-	-
Public works	2,351,373	-	-	-	-
Parks and recreation	-	-	-	-	-
Public safety	-	-	-	-	-
Debt service:					
Principal retirement	-	-	-	-	-
Interest	-	-	-	-	-
Other	-	-	-	-	-
Total expenditures	<u>9,523,395</u>	<u>23,534</u>	<u>612,193</u>	<u>169,677</u>	<u>47,641</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>124,816</u>	<u>121,629</u>	<u>793,847</u>	<u>7,329</u>	<u>(46,356)</u>
OTHER FINANCING SOURCES (USES):					
Transfers in	372,343	-	150,000	-	-
Transfers out	<u>(274,497)</u>	<u>(127,203)</u>	<u>(500,000)</u>	<u>-</u>	<u>(6,954)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>97,846</u>	<u>(127,203)</u>	<u>(350,000)</u>	<u>-</u>	<u>(6,954)</u>
EXTRAORDINARY ITEMS:					
RDA dissolution transactions	-	-	-	-	-
RDA advance receivable elimination	-	-	-	-	-
Total extraordinary items	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	222,662	(5,574)	443,847	7,329	(53,310)
FUND BALANCES, July 1	2,377,421	1,022	1,423,224	(2,050)	348,632
PRIOR PERIOD ADJUSTMENT	(102,577)	-	-	-	-
FUND BALANCES, June 30	<u>\$ 2,497,506</u>	<u>\$ (4,552)</u>	<u>\$ 1,867,071</u>	<u>\$ 5,279</u>	<u>\$ 295,322</u>

Capital Projects

Special Gas Tax Street Improvement	Special Fund for Capital Outlays	Parks	McHenry Mansion Restoration	Capital Grants	Community Facilities Districts	Redevelopment Agency	Successor Revelopment Housing Agency	Capital Facility Fees
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 123,160	\$ 577,962	\$ -
5,575	-	-	-	-	-	-	-	-
5,827,457	-	141,471	-	4,467,974	-	-	-	2,855,733
1,289,692	-	950	-	-	342,737	-	-	895,064
-	-	-	-	-	1,824,354	-	-	-
122,187	(52)	21,214	(14)	-	165,251	4,188	27,230	302,579
-	-	-	-	-	-	-	-	-
(67,237)	99	(3,362)	(1)	-	(83,783)	(1,664)	(66)	(159,286)
-	-	-	-	-	-	-	-	-
131,809	-	4,847	-	21	76	1,737	13,090	1,300
<u>7,309,483</u>	<u>47</u>	<u>165,120</u>	<u>(15)</u>	<u>4,467,995</u>	<u>2,248,635</u>	<u>127,421</u>	<u>618,216</u>	<u>3,895,390</u>
-	-	-	-	-	-	-	-	-
-	-	-	-	-	1,915,581	233,115	42,159	60,384
8,320,302	-	-	-	114,285	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	292,002	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	3,466	-	-	797,317	-	-	-	-
-	-	-	-	944,189	628,654	-	3,725,080	-
673,016	-	-	-	2,867,578	-	-	-	6,537,116
-	-	-	-	-	-	-	-	-
-	-	714,630	-	-	-	-	-	1,142,808
-	23,207	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
<u>8,993,318</u>	<u>26,673</u>	<u>1,006,632</u>	<u>(15)</u>	<u>4,723,369</u>	<u>2,544,235</u>	<u>233,115</u>	<u>3,767,239</u>	<u>7,740,308</u>
(1,683,835)	(26,626)	(841,512)	(15)	(255,374)	(295,600)	(105,694)	(3,149,023)	(3,844,918)
2,878,480	-	370,000	-	571,247	-	-	-	1,166,550
<u>(1,864,666)</u>	<u>-</u>	<u>(28,657)</u>	<u>-</u>	<u>(152,903)</u>	<u>(1,181,379)</u>	<u>-</u>	<u>-</u>	<u>(458,265)</u>
1,013,814	-	341,343	-	418,344	(1,181,379)	-	-	708,285
-	-	-	-	-	-	(403,850)	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	(403,850)	-	-
(670,021)	(26,626)	(500,169)	(15)	162,970	(1,476,979)	(509,544)	(3,149,023)	(3,136,633)
2,572,016	(36,950)	1,272,243	342	(119,722)	25,400,498	509,544	6,046,574	32,401,497
-	-	-	-	-	294,005	-	-	199,310
<u>\$ 1,901,995</u>	<u>\$ (63,576)</u>	<u>\$ 772,074</u>	<u>\$ 327</u>	<u>\$ 43,248</u>	<u>\$ 24,217,524</u>	<u>\$ -</u>	<u>\$ 2,897,551</u>	<u>\$ 29,464,174</u>

**CITY OF MODESTO**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS**  
**Year ended June 30, 2012**

	Debt Service		Total
	Redevelopment Agency	Public Financing Authority	
<b>REVENUES:</b>			
Taxes	\$ 2,183,235	\$ -	\$ 3,061,383
Licenses and permits	-	-	59,941
Intergovernmental	-	1,170,996	20,110,885
Charges for services	-	-	6,561,397
Special assessments levied	-	-	1,860,905
Interest and rent	36,413	8,593	723,979
Net increase (decrease) in fair value of investments	(1,651)	6	(345,061)
Fines and forfeits	-	-	1,165,540
Miscellaneous	31,358	-	439,978
<b>Total revenues</b>	<b><u>2,249,355</u></b>	<b><u>1,179,595</u></b>	<b><u>33,638,947</u></b>
<b>EXPENDITURES:</b>			
Current:			
General government	-	611,471	895,192
Community development	712,656	-	3,973,215
Highways and streets	-	-	8,434,681
Public works	-	-	3,107,738
Parks and recreation	-	-	574,493
Public safety	-	-	3,318,263
Capital outlay:			
General government	-	-	800,783
Community development	-	-	5,297,923
Highways and streets	-	-	10,101,150
Public works	-	-	2,351,373
Parks and recreation	-	-	1,857,438
Public safety	-	-	23,207
Debt service:			
Principal retirement	1,090,000	1,125,000	2,215,000
Interest	438,595	2,594,843	3,033,438
Other	-	48,738	48,738
<b>Total expenditures</b>	<b><u>2,241,251</u></b>	<b><u>4,380,052</u></b>	<b><u>46,032,632</u></b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b><u>8,104</u></b>	<b><u>(3,200,457)</u></b>	<b><u>(12,393,685)</u></b>
<b>OTHER FINANCING SOURCES (USES):</b>			
Transfers in	-	3,531,042	9,039,662
Transfers out	-	-	(4,594,524)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b><u>-</u></b>	<b><u>3,531,042</u></b>	<b><u>4,445,138</u></b>
<b>EXTRAORDINARY ITEMS:</b>			
RDA dissolution transactions	-	-	(403,850)
RDA advance receivable elimination	(966,127)	-	(966,127)
<b>Total extraordinary items</b>	<b><u>(966,127)</u></b>	<b><u>-</u></b>	<b><u>(1,369,977)</u></b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>(958,023)</b>	<b>330,585</b>	<b>(9,318,524)</b>
FUND BALANCES, July 1	958,023	5,027,532	78,179,846
PRIOR PERIOD ADJUSTMENT	-	-	390,738
<b>FUND BALANCES, June 30</b>	<b><u>\$ -</u></b>	<b><u>\$ 5,358,117</u></b>	<b><u>\$ 69,252,060</u></b>

**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, 2012**

	Budget		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Licenses and permits	\$ 50,000	\$ 50,000	\$ 54,366	\$ 4,366
Intergovernmental	22,631,837	24,183,268	5,503,103	(18,680,165)
Charges for services	5,411,292	5,283,636	3,792,454	(1,491,182)
Special assessments	36,872	36,872	36,551	(321)
Interest and rent - interest	32,977	32,977	27,001	(5,976)
Net increase in fair value of investments	-	-	(21,004)	(21,004)
Fines and forfeits	30,592	30,592	-	(30,592)
Miscellaneous	450,568	152,475	255,740	103,265
Total revenues	<u>28,644,138</u>	<u>29,769,820</u>	<u>9,648,211</u>	<u>(20,121,609)</u>
<b>EXPENDITURES:</b>				
General government	287,382	287,382	283,721	3,661
Community development	6,840,221	6,840,221	792,002	6,048,219
Public works	5,127,893	9,115,203	5,459,111	3,656,092
Parks and recreation	1,414,020	572,483	282,491	289,992
Public safety	14,310,714	14,227,303	2,706,070	11,521,233
Total expenditures	<u>27,980,230</u>	<u>31,042,592</u>	<u>9,523,395</u>	<u>21,519,197</u>
DEFICIENCY OF REVENUES (UNDER) EXPENDITURES	<u>663,908</u>	<u>(1,272,772)</u>	<u>124,816</u>	<u>1,397,588</u>
<b>OTHER FINANCING SOURCES:</b>				
Transfers in	197,500	374,234	372,343	(1,891)
Transfers out	0	(142,866)	(274,497)	(131,631.00)
TOTAL OTHER FINANCING SOURCES (USES)	<u>197,500</u>	<u>231,368</u>	<u>97,846</u>	<u>(133,522)</u>
NET CHANGE IN FUND BALANCE	861,408	(1,041,404)	222,662	1,264,066
FUND BALANCES, JULY 1	2,377,421	2,377,421	2,377,421	-
PRIOR PERIOD ADJUSTMENT	-	-	(102,577)	(102,577)
FUND BALANCES, JUNE 30	<u>\$ 3,238,829</u>	<u>\$ 1,336,017</u>	<u>\$ 2,497,506</u>	<u>\$ 1,161,489</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, 2012**

	Budget		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Intergovernmental	\$ 221,325	\$ 221,325	\$ 144,151	\$ (77,174)
Interest and rent - interest	-	-	6,586	6,586
Net increase in fair value of investments	-	-	(5,574)	(5,574)
Miscellaneous	-	-	-	-
Total revenues	<u>221,325.00</u>	<u>221,325.00</u>	<u>145,163</u>	<u>(76,162)</u>
<b>EXPENDITURES:</b>				
Highways and streets	<u>250,000</u>	<u>250,000</u>	<u>23,534</u>	<u>226,466</u>
Total expenditures	<u>250,000</u>	<u>250,000</u>	<u>23,534</u>	<u>226,466</u>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	<u>(28,675)</u>	<u>(28,675)</u>	<u>121,629</u>	<u>150,304</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	-	-	-	-
Transfers out	<u>(226,595)</u>	<u>(226,595)</u>	<u>(127,203)</u>	<u>99,392</u>
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>(226,595)</u>	<u>(226,595.00)</u>	<u>(127,203)</u>	<u>99,392</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>(255,270)</u>	<u>(255,270)</u>	<u>(5,574)</u>	<u>249,696</u>
<b>FUND BALANCES, JULY 1</b>	<u>1,022</u>	<u>1,022</u>	<u>1,022</u>	<u>-</u>
<b>FUND BALANCE (DEFICITS), JUNE 30</b>	<u><u>\$ (254,248)</u></u>	<u><u>\$ (254,248)</u></u>	<u><u>\$ (4,552)</u></u>	<u><u>\$ 249,696</u></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, 2012**

	Budget		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Charges for services	\$ 391,800	\$ 391,800	\$ 240,500	\$ (151,300)
Motor vehicle fines	1,080,000	1,080,000	1,165,540	85,540
Total revenues	<u>1,471,800</u>	<u>1,471,800</u>	<u>1,406,040</u>	<u>(65,760)</u>
EXPENDITURES:				
Public safety	1,069,203	1,069,168	612,193	456,975
EXCESS OF REVENUES OVER EXPENDITURES	<u>402,597</u>	<u>402,632</u>	<u>793,847</u>	<u>391,215</u>
OTHER FINANCING USES:				
Transfers in	-	150,000	150,000	-
Transfers out	(500,000)	(500,000)	(500,000)	-
Total other financing uses	<u>(500,000)</u>	<u>(350,000)</u>	<u>(350,000)</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	(97,403)	52,632	443,847	391,215
FUND BALANCES, JULY 1	<u>1,423,224</u>	<u>1,423,224</u>	<u>1,423,224</u>	<u>-</u>
FUND BALANCES, JUNE 30	<u>\$ 1,325,821</u>	<u>\$ 1,475,856</u>	<u>\$ 1,867,071</u>	<u>\$ 391,215</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, 2012

	Budget		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Taxes - business license tax	\$ 174,800	\$ 174,800	\$ 177,026	\$ 2,226
Interest and rent - interest	100	100	9	(91)
Net decrease in fair value of investments	-	-	(29)	(29)
Total revenues	<u>174,900</u>	<u>174,900</u>	<u>177,006</u>	<u>2,106</u>
<b>EXPENDITURES - community development</b>				
Downtown improvement district administration:				
Professional and contractual services	132,103	130,295	132,830	(2,535)
Materials and supplies	40,397	38,705	36,847	1,858
Other	-	1,230	-	1,230
Total expenditures	<u>172,500</u>	<u>170,230</u>	<u>169,677</u>	<u>553</u>
<b>NET CHANGE IN FUND BALANCE</b>	2,400	4,670	7,329	2,659
<b>FUND BALANCES, JULY 1</b>	<u>(2,050)</u>	<u>(2,050)</u>	<u>(2,050)</u>	<u>-</u>
<b>FUND BALANCES, JUNE 30</b>	<u>\$ 350</u>	<u>\$ 2,620</u>	<u>\$ 5,279</u>	<u>\$ 2,659</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, 2012**

	Budget		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Charges for services	\$ 1,402,140	\$ 1,402,140	\$ -	\$ (1,402,140)
Special assessments levied	-	-	-	-
Interest and rent - interest	-	-	2,794	2,794
Net decrease in fair value of investments	-	-	(1,509)	(1,509)
Miscellaneous	-	-	-	-
Total revenues	<u>1,402,140</u>	<u>1,402,140</u>	<u>1,285</u>	<u>(1,400,855)</u>
EXPENDITURES:				
Community development	1,481,131	1,514,207	47,641	1,466,566
Public works	-	-	-	-
Total expenditures	<u>1,481,131</u>	<u>1,514,207</u>	<u>47,641</u>	<u>1,466,566</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(78,991)</u>	<u>(112,067)</u>	<u>(46,356)</u>	<u>65,711</u>
OTHER FINANCING USES:				
Transfers in	-	-	-	-
Transfers out	-	(6,954)	(6,954)	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>(6,954)</u>	<u>(6,954)</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	(78,991)	(112,067)	(53,310)	58,757
FUND BALANCES, JULY 1	<u>348,632</u>	<u>348,632</u>	<u>348,632</u>	<u>-</u>
FUND BALANCES, JUNE 30	<u>\$ 269,641</u>	<u>\$ 236,565</u>	<u>\$ 295,322</u>	<u>\$ 58,757</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, 2012**

	Budget		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Intergovernmental:				
Federal grants	\$ 5,633,038	\$ 7,160,655	5,827,457	\$ (1,333,198)
Total intergovernmental revenues	<u>5,633,038</u>	<u>7,160,655</u>	<u>5,827,457</u>	<u>(1,333,198)</u>
Taxes	800,000	800,000	-	(800,000)
Licenses and permits	10,000	10,000	5,575	(4,425)
Charges for services	2,421,076	908,607	1,289,692	381,085
Interest and rent	25,001	25,001	122,187	97,186
Net increase in fair value of investments	-	-	(67,237)	(67,237)
Miscellaneous	14,400	14,400	131,809	117,409
Total revenues	<u>8,903,515</u>	<u>8,918,663</u>	<u>7,309,483</u>	<u>(1,609,180)</u>
<b>EXPENDITURES:</b>				
Current:				
Highway and streets	22,503,322	21,426,390	8,993,318	12,433,072
Total expenditures	<u>22,503,322</u>	<u>21,426,390</u>	<u>8,993,318</u>	<u>12,433,072</u>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	<u>(13,599,807)</u>	<u>(12,507,727)</u>	<u>(1,683,835)</u>	<u>10,823,892</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	2,010,095	2,010,095	2,878,480	868,385
Transfers out	(852,200)	(1,406,201)	(1,864,666)	(458,465)
Sale of assets	-	-	-	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>1,157,895.00</u>	<u>603,894.00</u>	<u>1,013,814</u>	<u>409,920</u>
<b>NET CHANGE IN FUNDS BALANCE</b>	(12,441,912)	(11,903,833)	(670,021)	11,233,812
<b>FUND BALANCES, JULY 1</b>	2,572,016	2,572,016	\$ 2,572,016	-
<b>PRIOR PERIOD ADJUSTMENT</b>	-	-	-	-
<b>FUND BALANCES, JUNE 30</b>	<u>\$ (9,869,896)</u>	<u>\$ (9,331,817)</u>	<u>\$ 1,901,995</u>	<u>\$ 11,233,812</u>

**CITY OF MODESTO**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN**  
**FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL - HOUSING**  
**AND COMMUNITY DEVELOPMENT SPECIAL REVENUE FUND**  
**Year ended June 30, 2012**

	Budget		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Intergovernmental - federal grants	\$ 57,185,240	\$ 57,384,320	\$ 6,655,133	\$ (50,729,187)
Charges for services	1,239,801	1,239,801	359,395	(880,406)
Interest and rent - interest	950,090	900,090	133,783	(766,307)
Net increase in fair value of investments	-	-	18,318	18,318
Miscellaneous	-	-	332	332
Total revenues	<u>59,375,131</u>	<u>59,524,211</u>	<u>7,166,961</u>	<u>(52,357,250)</u>
<b>EXPENDITURES</b>				
Community development	43,551,758	43,501,758	3,906,184	39,595,574
Debt service:				
Principal retirement	182,000	182,000	182,000	-
Interest	196,002	196,002	196,002	-
Total expenditures	<u>43,929,760</u>	<u>43,879,760</u>	<u>4,284,186</u>	<u>39,595,574</u>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	<u>15,445,371</u>	<u>15,644,451</u>	<u>2,882,775</u>	<u>(12,761,676)</u>
<b>OTHER FINANCING USES:</b>				
Transfers in	393,535	393,535	-	(393,535)
Transfers out	<u>(3,125,182)</u>	<u>(3,125,182)</u>	<u>(174,458)</u>	<u>2,950,724</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(3,125,182)</u>	<u>(2,731,647)</u>	<u>(174,458)</u>	<u>2,557,189</u>
<b>NET CHANGE IN FUND BALANCE</b>	12,320,189	12,912,804	2,708,317	(10,204,487)
FUND BALANCES, JULY 1	20,773,055	20,773,055	20,773,055	-
PRIOR PERIOD ADJUSTMENT	-	-	163,770	163,770
<b>FUND BALANCES, JUNE 30</b>	<u>\$ 33,093,244</u>	<u>\$ 33,685,859</u>	<u>\$ 23,645,142</u>	<u>\$ (10,040,717)</u>

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## 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 ASSETS - NON MAJOR ENTERPRISE FUNDS**  
**June 30, 2012**

	Parking	Storm Drain	Compost
<u>ASSETS</u>			
Current assets:			
Cash and cash equivalents	\$ 6,088	\$ 3,695,311	\$ 948,178
Cash and cash equivalents with fiscal agent	-	-	-
Receivables:			
Accounts	6,894	-	776,309
Interest	195	11,631	3,942
Utilities, net	-	495,099	72,665
Prepaid Expenses	-	215	89
Due from governments	533	19,632	2,240
Property held for resale	630,000	-	-
Total current assets	643,710	4,221,888	1,803,423
Capital assets:			
Land and construction in progress	3,529,293	1,425,368	-
Other capital assets, net of accumulated depreciation	6,294,271	14,547,079	1,169,105
Total assets	10,467,274	20,194,335	2,972,528
<u>LIABILITIES</u>			
Current liabilities:			
Accounts payable	18,366	40,351	32,123
Accrued salaries and benefits	14,123	37,517	59,840
Interest payable	295	-	-
Due to other funds	-	-	-
Current portion - long-term debt	-	-	-
Deferred revenues	-	-	-
Total current liabilities	32,784	77,868	91,963
Noncurrent liabilities:			
Obligations under capital leases	-	-	-
Certificates of participation	-	-	-
Advances from other funds	-	1,324,704	-
Total liabilities	32,784	1,402,572	91,963
<u>NET ASSETS</u>			
Invested in capital assets, net of related debt	9,823,564	15,972,447	1,169,105
Unrestricted	610,926	2,819,316	1,711,460
Total net assets	\$ 10,434,490	\$ 18,791,763	\$ 2,880,565

<u>Airport</u>	<u>Golf</u>	<u>Community Center</u>	<u>Abatement and Public Nuisance Fund</u>	<u>Total</u>
\$ 1,775,361	\$ -	\$ 35,832	\$ 89,219	\$ 6,549,989
-	603,150	-	-	603,150
1	16,866	53,954	750	854,774
5,047	-	136	44	20,995
-	-	-	-	567,764
1,038	-	-	-	1,342
174,249	-	847	-	197,501
-	-	-	-	630,000
<u>1,955,696</u>	<u>620,016</u>	<u>90,769</u>	<u>90,013</u>	<u>9,425,515</u>
2,492,508	279,428	3,667,020	-	11,393,617
<u>7,781,588</u>	<u>1,547,782</u>	<u>7,209,155</u>	<u>-</u>	<u>38,548,980</u>
<u>12,229,792</u>	<u>2,447,226</u>	<u>10,966,944</u>	<u>90,013</u>	<u>59,368,112</u>
127,131	5,398	29,547	-	252,916
13,953	-	25,431	-	150,864
-	40,901	-	-	41,196
-	653,535	-	-	653,535
-	275,000	-	-	275,000
-	107,310	-	-	107,310
<u>141,084</u>	<u>1,082,144</u>	<u>54,978</u>	<u>-</u>	<u>1,480,821</u>
-	-	-	-	-
-	4,185,000	-	-	4,185,000
-	-	-	-	1,324,704
<u>141,084</u>	<u>5,267,144</u>	<u>54,978</u>	<u>-</u>	<u>6,990,525</u>
10,274,096	(2,632,790)	10,876,175	-	45,482,597
<u>1,814,612</u>	<u>(187,128)</u>	<u>35,791</u>	<u>90,013</u>	<u>6,894,990</u>
<u>\$ 12,088,708</u>	<u>\$ (2,819,918)</u>	<u>\$ 10,911,966</u>	<u>\$ 90,013</u>	<u>\$ 52,377,587</u>

**CITY OF MODESTO**  
**COMBINING STATEMENT OF REVENUES, EXPENSES, AND**  
**CHANGES IN FUND NET ASSETS - NON MAJOR ENTERPRISE FUNDS**  
**Year ended June 30, 2012**

	<u>Parking</u>	<u>Storm Drain</u>	<u>Compost</u>
<b>OPERATING REVENUES:</b>			
Charges for services	\$ 1,281,527	\$ 5,781,737	\$ 4,639,931
Miscellaneous	<u>9,874</u>	<u>1,957</u>	<u>32,586</u>
Total operating revenues	<u>1,291,401</u>	<u>5,783,694</u>	<u>4,672,517</u>
<b>OPERATING EXPENSES:</b>			
Salaries and wages	315,979	781,241	1,305,169
Contractual services	234,406	651,554	225,769
Utilities	142,782	21,502	14,047
Maintenance and supplies	52,453	1,830,608	1,393,259
Insurance	28,753	45,036	77,809
Employee benefits	127,791	393,618	539,328
Administration services	67,841	1,534,253	433,731
Allocated indirect administrative costs	28,884	134,897	146,882
Depreciation	<u>386,604</u>	<u>612,418</u>	<u>183,875</u>
Total operating expenses	<u>1,385,493</u>	<u>6,005,127</u>	<u>4,319,869</u>
<b>OPERATING INCOME (LOSS)</b>	<u>(94,092)</u>	<u>(221,433)</u>	<u>352,648</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Gain (Loss) on disposition of capital assets	-	-	(12,885)
Operating grants	-	-	236,559
Tax revenue	-	-	-
Tax expense	(19,902)	-	-
Interest income	(290)	38,242	14,042
Net increase in fais	187	(21,570)	(7,312)
Rental income	-	-	-
Interest expense	-	-	-
Trustee fees	-	-	-
Total nonoperating revenues (expenses)	<u>(20,005)</u>	<u>16,672</u>	<u>230,404</u>
<b>INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS</b>	(114,097)	(204,761)	583,052
Capital contributions	-	-	-
Transfers in	-	793,940	66,000
Transfers out	<u>(55,007)</u>	<u>(1,230,343)</u>	<u>(667,854)</u>
<b>CHANGE IN NET ASSETS</b>	(169,104)	(641,164)	(18,802)
<b>NET ASSETS (DEFICIT), July 1</b>	10,603,594	20,171,677	2,899,367
<b>PRIOR PERIOD ADJUSTMENT</b>	<u>-</u>	<u>(738,750)</u>	<u>-</u>
<b>NET ASSETS (DEFICIT), June 30</b>	<u>\$ 10,434,490</u>	<u>\$ 18,791,763</u>	<u>\$ 2,880,565</u>

	Airport	Golf	Community Center	Abatement and Public Nuisance Fund	Total
\$	611,732	\$ 1,759,141	\$ 416,926	\$ 71,567	\$ 14,562,561
	<u>7,957</u>	<u>677</u>	<u>3,133</u>	<u>-</u>	<u>56,184</u>
	<u>619,689</u>	<u>1,759,818</u>	<u>420,059</u>	<u>71,567</u>	<u>14,618,745</u>
	307,203	-	637,941	-	3,347,533
	117,426	1,635,696	110,872	31,515	3,007,238
	108,925	1,736	214,210	-	503,202
	104,195	4,568	242,468	-	3,627,551
	14,565	13,734	79,074	-	258,971
	122,721	-	206,363	-	1,389,821
	140,192	43,198	12,595	-	2,231,810
	29,178	14,210	-	-	354,051
	<u>598,211</u>	<u>322,606</u>	<u>765,753</u>	<u>-</u>	<u>2,869,467</u>
	<u>1,542,616</u>	<u>2,035,748</u>	<u>2,269,276</u>	<u>31,515</u>	<u>17,589,644</u>
	<u>(922,927)</u>	<u>(275,930)</u>	<u>(1,849,217)</u>	<u>40,052</u>	<u>(2,970,899)</u>
	-	-	-	-	(12,885)
	33,060	-	-	-	269,619
	253,974	-	-	-	253,974
	(468)	(618)	-	-	(20,988)
	17,107	(7,948)	(2,105)	44	59,092
	(9,361)	5,302	1,728	(83)	(31,109)
	172,382	99,012	358,233	-	629,627
	-	(233,197)	-	-	(233,197)
	-	<u>(2,800)</u>	<u>-</u>	<u>-</u>	<u>(2,800)</u>
	<u>466,694</u>	<u>(140,249)</u>	<u>357,856</u>	<u>(39)</u>	<u>911,333</u>
	(456,233)	(416,179)	(1,491,361)	40,013	(2,059,566)
	289,715	-	-	-	289,715
	-	400,000	682,530	50,000	1,992,470
	<u>(1)</u>	<u>-</u>	<u>(53,707)</u>	<u>-</u>	<u>(2,006,912)</u>
	(166,519)	(16,179)	(862,538)	90,013	(1,784,293)
	12,255,227	(2,803,739)	11,774,504	-	54,900,630
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(738,750)</u>
\$	<u><u>12,088,708</u></u>	<u><u>(2,819,918)</u></u>	<u><u>10,911,966</u></u>	<u><u>90,013</u></u>	<u><u>52,377,587</u></u>

**CITY OF MODESTO**  
**COMBINING STATEMENT OF CASH FLOWS - NONMAJOR ENTERPRISE FUNDS**  
**Year ended June 30, 2012**

	Parking	Storm Drain	Compost
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Receipts from customers and users	\$ 1,297,280	\$ 5,839,221	\$ 4,610,705
Receipts from interfund services provided	-	18,537	-
Payments to suppliers	(524,564)	2,598,509	4,200,745
Payments to employees	(440,585)	(1,174,364)	(1,836,032)
Payments for interfund services used	(253,578)	(6,791,105)	(6,462,673)
Net cash provided (used) by operating activities	78,553	490,798	512,745
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>			
Operating grants received	-	-	236,559
Taxes received	-	-	-
Transfers in	-	793,940	66,000
Transfers out	(55,007)	(1,230,343)	(667,854)
Net cash provided (used) by noncapital financing activities	(55,007)	(436,403)	(365,295)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>			
Acquisition and construction of capital assets	(16,467)	540,178	(167,947)
Proceeds from sale of capital assets	-	-	(12,885)
Principal repayments	-	-	-
Interest paid	(346)	-	1
Trustee fees	-	-	-
Capital grants received	(533)	(17,447)	49,161
Net cash used by capital and related financing activities	(17,346)	522,731	(131,670)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Interest received	(299)	37,514	13,400
Net increase in the fair value of investments	187	(21,570)	(7,312)
Net cash provided by investing activities	(112)	15,944	6,088
Net increase (decrease) in cash and cash equivalents	6,088	593,070	21,868
CASH AND CASH EQUIVALENTS, JULY 1	-	3,840,991	926,310
PRIOR PERIOD ADJUSTMENT	-	(738,750)	-
CASH AND CASH EQUIVALENTS, JUNE 30	\$ 6,088	\$ 3,695,311	\$ 948,178
<b>RECONCILIATION TO STATEMENT OF NET ASSETS:</b>			
Cash and cash equivalents	\$ 6,088	\$ 3,695,311	\$ 948,178
Cash and cash equivalents with fiscal agent	-	-	-
TOTAL CASH AND CASH EQUIVALENTS	\$ 6,088	\$ 3,695,311	\$ 948,178

<u>Airport</u>	<u>Golf</u>	<u>Community Center</u>	<u>Abatement and Public Nuisance Fund</u>	<u>Total</u>
\$ 812,179	\$ 1,773,228	\$ 758,810	\$ 70,817	\$ 15,162,240
-	-	-	-	18,537
(800,995)	(1,751,463)	(493,419)	(31,515)	3,197,298
(427,106)	-	(837,881)	-	(4,715,968)
291,543	83,497	(172,122)	-	(13,304,438)
<u>(124,379)</u>	<u>105,262</u>	<u>(744,612)</u>	<u>39,302</u>	<u>357,669</u>
-	-	(847)	-	235,712
458,992	-	-	-	458,992
-	400,000	682,530	50,000	1,992,470
<u>(1)</u>	<u>-</u>	<u>(53,707)</u>	<u>-</u>	<u>(2,006,912)</u>
<u>458,991</u>	<u>400,000</u>	<u>627,976</u>	<u>50,000</u>	<u>680,262</u>
23,774	(2)	172	-	379,708
-	(265,000)	-	-	(12,885)
-	(234,815)	-	-	(265,000)
-	(2,800)	-	-	(235,160)
<u>(72,500)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,800)</u>
<u>(48,726)</u>	<u>(502,617)</u>	<u>172</u>	<u>-</u>	<u>(41,319)</u>
15,822	(7,947)	(1,875)	-	56,615
(9,361)	5,302	1,728	(83)	(31,109)
<u>6,461</u>	<u>(2,645)</u>	<u>(147)</u>	<u>(83)</u>	<u>25,506</u>
292,347	-	(116,611)	89,219	885,981
1,483,014	603,150	152,443	-	7,005,908
-	-	-	-	(738,750)
<u>\$ 1,775,361</u>	<u>\$ 603,150</u>	<u>\$ 35,832</u>	<u>\$ 89,219</u>	<u>\$ 7,153,139</u>
\$ 1,775,361	\$ -	\$ 35,832	\$ 89,219	\$ 6,549,989
-	603,150	-	-	603,150
<u>\$ 1,775,361</u>	<u>\$ 603,150</u>	<u>\$ 35,832</u>	<u>\$ 89,219</u>	<u>\$ 7,153,139</u>

(continued)

**CITY OF MODESTO**  
**COMBINING STATEMENT OF CASH FLOWS - NON MAJOR ENTERPRISE FUNDS (Continued)**  
**Year ended June 30, 2012**

	<u>Parking</u>	<u>Storm Drain</u>	<u>Compost</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
Operating income (loss)	\$ (94,092)	\$ (221,433)	\$ 352,648
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	386,604	612,418	183,875
Rental income	-	-	-
Taxes paid	(19,902)	-	-
Change in assets and liabilities:			
(Increase) decrease in accounts receivable	5,879	1,500	(345,591)
(Increase) in utilities receivable	-	72,779	283,868
Increase (decrease) in accounts payable and accrued expenses	1,063	25,254	29,569
Increase in accrued salaries and benefits	3,185	495	8,465
(Increase) decrease in prepaid expenses	-	(215)	(89)
Increase (decrease) in due to other funds	(204,184)	-	-
Increase (decrease) in due to other governments	-	-	-
Increase (decrease) in deferred revenues	-	-	-
Total adjustments	<u>172,645</u>	<u>712,231</u>	<u>160,097</u>
Net cash provided (used) by operating activities	<u>\$ 78,553</u>	<u>\$ 490,798</u>	<u>\$ 512,745</u>
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:			
Capital assets transferred from other funds	\$ -	\$ -	\$ -

<u>Airport</u>	<u>Golf</u>	<u>Community Center</u>	<u>Abatement and Public Nuisance Fund</u>	<u>Total</u>
\$ <u>(922,927)</u>	\$ <u>(275,930)</u>	\$ <u>(1,849,217)</u>	\$ <u>40,052</u>	\$ <u>(2,970,899)</u>
598,211	322,606	765,753	-	2,869,467
172,382	99,012	358,233	-	629,627
204,550	(618.00)	-	-	184,030
(184,910)	(9,150)	(19,482)	(750)	(552,504)
-	-	-	-	356,647
50,067	(2,734)	(6,322)	-	96,897
2,818	-	6,423	-	21,386
(871)	-	-	-	(1,175)
-	48,528	-	-	(155,656)
(43,699)	-	-	-	(43,699)
-	(76,452)	-	-	(76,452)
<u>798,548</u>	<u>381,192</u>	<u>1,104,605</u>	<u>(750)</u>	<u>3,328,568</u>
\$ <u><u>(124,379)</u></u>	\$ <u><u>105,262</u></u>	\$ <u><u>(744,612)</u></u>	\$ <u><u>39,302</u></u>	\$ <u><u>357,669</u></u>
\$ 289,715	\$ -	\$ -	\$ -	\$ 289,715

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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 ASSETS - INTERNAL SERVICE FUNDS**  
**June 30, 2012**

	Fleet Management	Central Services	Information & Technology Services
<b><u>ASSETS</u></b>			
Current assets:			
Cash and cash equivalents	\$ 9,750,372	\$ 1,197,366	\$ 4,605,756
Cash from fiscal agent	-	-	-
Receivables:			
Accounts receivable	-	-	-
Interest	22,868	3,305	14,800
Prepaid expenses	-	-	189,785
Due from governments	2,420	399	4,085
Inventories	-	451,280	-
Advances to other funds	-	-	-
Total current assets	9,775,660	1,652,350	4,814,426
Noncurrent assets:			
Restricted assets:			
Cash and cash equivalents	-	-	-
Land and construction in progress	1,066,140	-	7,102,249
Other capital assets, net of accumulated depreciation	11,714,393	46,003	774,461
Total assets	22,556,193	1,698,353	12,691,136
<b><u>LIABILITIES</u></b>			
Current liabilities:			
Accounts payable	212,278	332,340	82,329
Accrued salaries and benefits	59,101	10,242	95,755
Interest Payable	-	-	-
Current portion - compensated absences	-	-	-
Current portion - claims liability	-	-	-
Current portion - capital lease	-	-	174,837
Total current liabilities	271,379	342,582	352,921
Noncurrent liabilities:			
Compensated absences	-	-	-
Claims liability	-	-	-
Net OPEB obligation	-	-	-
Long-term debt:			
Obligations under capital leases	-	-	359,990
Total liabilities	271,379	342,582	712,911
<b><u>NET ASSETS</u></b>			
Invested in capital assets, net of related debt	12,780,533	46,003	7,516,720
Unrestricted	9,504,281	1,309,768	4,461,505
Total net assets	\$ 22,284,814	\$ 1,355,771	\$ 11,978,225

	Insurance	Employee Benefits Management	Building Services	Total
\$	18,507,639	\$ -	\$ 511,774	\$ 34,572,907
	305,081	-	-	305,081
	709,294	18,750	59,319	787,363
	16,573	15,715	1,330	74,591
	-	-	-	189,785
	456	294	768	8,422
	-	-	-	451,280
	-	2,431,738	-	2,431,738
	<u>19,539,043</u>	<u>2,466,497</u>	<u>573,191</u>	<u>38,821,167</u>
	-	12,002,745	-	12,002,745
	-	-	-	8,168,389
	-	1,637	94,906	12,631,400
	<u>19,539,043</u>	<u>14,470,879</u>	<u>668,097</u>	<u>71,623,701</u>
	1,216,831	75,464	70,828	1,990,070
	11,434	12,785	19,160	208,477
	677	1,301	-	1,978
	-	8,326,852	-	8,326,852
	5,215,194	-	-	5,215,194
	-	-	-	174,837
	<u>6,444,136</u>	<u>8,416,402</u>	<u>89,988</u>	<u>15,917,408</u>
	-	2,560,862	-	2,560,862
	18,000,713	-	-	18,000,713
	-	70,012,039	-	70,012,039
	-	-	-	359,990
	<u>24,444,849</u>	<u>80,989,303</u>	<u>89,988</u>	<u>106,851,012</u>
	-	1,637	94,906	20,439,799
	<u>(4,905,806)</u>	<u>(66,520,061)</u>	<u>483,203</u>	<u>(55,667,110)</u>
\$	<u>(4,905,806)</u>	<u>(66,518,424)</u>	<u>578,109</u>	<u>(35,227,311)</u>

**CITY OF MODESTO**  
**COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES**  
**IN FUND NET ASSETS - INTERNAL SERVICE FUNDS**  
Year ended June 30, 2012

	<u>Fleet Management</u>	<u>Central Services</u>
<b>OPERATING REVENUES:</b>		
Charges for services	\$ 6,317,089	\$ 21,441
Sales	-	3,400,703
Cost of sales	-	(3,125,905)
Total operating revenues	<u>6,317,089</u>	<u>296,239</u>
<b>OPERATING EXPENSES:</b>		
Salaries and wages	1,038,646	205,028
Contractual services	1,348,105	109,227
Utilities	10,437	832
Maintenance and supplies	2,111,454	124,203
Insurance	90,441	10,099
Claims expense	-	-
Employee benefits	520,602	108,901
Administration services	600,468	37,815
Allocated indirect administrative costs	269,173	-
Depreciation	2,617,656	13,223
Total operating expenses	<u>8,606,982</u>	<u>609,328</u>
<b>OPERATING INCOME (LOSS)</b>	<u>(2,289,893)</u>	<u>(313,089)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Loss on disposition of capital assets	(6,696)	(32,456)
Interest income	70,367	13,086
Net increase (decrease) in fair value of investments	(42,411)	(6,130)
Interest expense	(421)	-
Total nonoperating revenues (expenses)	<u>20,839</u>	<u>(25,500)</u>
<b>INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS</b>	(2,269,054)	(338,589)
Capital contributions	-	3,527
Transfers in	2,576,546	171
Transfers out	-	(25,000)
<b>CHANGE IN NET ASSETS</b>	307,492	(359,891)
<b>NET ASSETS (DEFICITS), July 1, (as restated)</b>	21,977,322	1,715,662
<b>PRIOR PERIOD ADJUSTMENTS</b>	-	-
<b>NET ASSETS (DEFICITS), June 30</b>	<u>\$ 22,284,814</u>	<u>\$ 1,355,771</u>

Information & Technology Services	Insurance	Employee Benefits Management	Building Services	Total
\$ 5,637,926	\$ 21,849,684	\$ 3,504,736	\$ 2,371,172	\$ 39,702,048
-	-	-	-	3,400,703
-	-	-	-	(3,125,905)
<u>5,637,926</u>	<u>21,849,684</u>	<u>3,504,736</u>	<u>2,371,172</u>	<u>39,976,846</u>
2,064,925	237,244	124,133	385,202	4,055,178
362,910	334,263	268,882	1,153,023	3,576,410
125,493	818	-	115,957	253,537
774,185	7,574	9,113	64,213	3,090,742
79,023	15,643,013	4,125	71,200	15,897,901
-	8,089,359	-	-	8,089,359
814,167	98,071	16,665,028	236,658	18,443,427
7,062	1,211,679	86,993	216,165	2,160,182
-	-	-	-	269,173
878,178	-	-	4,619	3,513,676
<u>5,105,943</u>	<u>25,622,021</u>	<u>17,158,274</u>	<u>2,247,037</u>	<u>59,349,585</u>
<u>531,983</u>	<u>(3,772,337)</u>	<u>(13,653,538)</u>	<u>124,135</u>	<u>(19,372,739)</u>
(18,754)	-	-	(2,917)	(60,823)
54,080	312,821	66,677	5,179	522,210
(27,447)	(29,482)	(26,732)	(3,154)	(135,356)
-	-	-	-	(421)
<u>7,879</u>	<u>283,339</u>	<u>39,945</u>	<u>(892)</u>	<u>325,610</u>
539,862	(3,488,998)	(13,613,593)	123,243	(19,047,129)
-	-	-	-	3,527
1,040,473	1,750,000	618,091	-	5,985,281
<u>(142,205)</u>	<u>(100,000)</u>	<u>-</u>	<u>(40,000)</u>	<u>(307,205)</u>
1,438,130	(1,838,998)	(12,995,502)	83,243	(13,365,526)
10,521,346	(3,066,808)	(53,522,922)	497,623	(21,877,777)
<u>18,749</u>	<u>-</u>	<u>-</u>	<u>(2,757)</u>	<u>15,992</u>
<u>\$ 11,978,225</u>	<u>\$ (4,905,806)</u>	<u>\$ (66,518,424)</u>	<u>\$ 578,109</u>	<u>\$ (35,227,311)</u>

**CITY OF MODESTO**  
**COMBINING STATEMENT OF CASH FLOWS - INTERNAL SERVICE FUNDS**  
**Year ended June 30, 2012**

	<u>Fleet Management</u>	<u>Central Services</u>	<u>Information &amp; Technology Services</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Receipts from customers and users	\$ 64,219	\$ 8,922	\$ 13,915
Receipts from interfund services provided	6,251,024	286,918	5,631,926
Payments to suppliers	(3,859,926)	(55,680)	(1,393,814)
Payment of insurance claims	-	-	-
Payments to employees	(1,547,829)	(312,438)	(2,868,592)
Payments for interfund services used	(1,383,391)	(116,564)	(117,209)
Net cash provided (used) by operating activities	<u>(475,903)</u>	<u>(188,842)</u>	<u>1,266,226</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>			
Advances to other funds	-	-	-
Transfers in	2,576,546	171	1,040,473
Transfers out	-	(25,000)	(142,205)
Due from other funds	-	-	-
Interest paid	-	-	-
Operating grants received	-	-	-
Net cash provided (used) by noncapital financing activities	<u>2,576,546</u>	<u>(24,829)</u>	<u>898,268</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>			
Acquisition and construction of capital assets	(2,597,078)	20,508	(2,860,290)
Proceeds from sale of capital assets	(6,696)	(32,456)	(18,754)
Principal repayments	(20,658)	-	(171,148)
Interest paid	(421)	-	-
Net cash used by capital and related financing activities	<u>(2,624,853)</u>	<u>(11,948)</u>	<u>(3,050,192)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Interest received	74,329	14,076	48,900
Net increase in the fair value of investments	(42,411)	(6,130)	(27,447)
Net cash provided by investing activities	<u>31,918</u>	<u>7,946</u>	<u>21,453</u>
Net increase (decrease) in cash and cash equivalents	(492,292)	(217,673)	(864,245)
PRIOR PERIOD ADJUSTMENTS	-	-	18,749
CASH AND CASH EQUIVALENTS, JULY 1	<u>10,242,664</u>	<u>1,415,039</u>	<u>5,451,252</u>
CASH AND CASH EQUIVALENTS, JUNE 30	<u>\$ 9,750,372</u>	<u>\$ 1,197,366</u>	<u>\$ 4,605,756</u>
<b>RECONCILIATION TO STATEMENT OF NET ASSETS:</b>			
Cash and cash equivalents	\$ 9,750,372	\$ 1,197,366	\$ 4,605,756
Cash and cash equivalents with fiscal agent	-	-	-
Restricted cash and cash equivalents	-	-	-
TOTAL CASH AND CASH EQUIVALENTS	<u>\$ 9,750,372</u>	<u>\$ 1,197,366</u>	<u>\$ 4,605,756</u>

	Insurance	Employee Benefits Management	Building Services	Total
\$	(8,373)	\$ 3,313,227	\$ 262,880	\$ 3,654,790
	21,717,431	172,465	2,105,820	36,165,584
	(15,197,280)	(204,998)	(1,179,039)	(21,890,737)
	(5,539,896)	-	-	(5,539,896)
	(332,623)	(5,028,280)	(618,610)	(10,708,372)
	(1,260,211)	(106,545)	(420,698)	(3,404,618)
	<u>(620,952)</u>	<u>(1,854,131)</u>	<u>150,353</u>	<u>(1,723,249)</u>
	-	-	-	-
	1,750,000	618,091	-	5,985,281
	(100,000)	-	(40,000)	(307,205)
	-	-	-	-
	677	1,301	-	1,978
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>1,650,677</u>	<u>619,392</u>	<u>(40,000)</u>	<u>5,680,054</u>
	-	-	2,915	(5,433,945)
	-	-	(2,917)	(60,823)
	-	-	-	(191,806)
	-	-	-	(421)
	<u>-</u>	<u>-</u>	<u>(2)</u>	<u>(5,686,995)</u>
	311,624	98,954	4,740	552,623
	(29,482)	(26,732)	(3,154)	(135,356)
	<u>282,142</u>	<u>72,222</u>	<u>1,586</u>	<u>417,267</u>
	1,311,867	(1,162,517)	111,937	(1,312,923)
	-	-	(2,757)	15,992
	<u>17,500,853</u>	<u>13,165,262</u>	<u>402,594</u>	<u>48,177,664</u>
\$	<u>18,812,720</u>	<u>\$ 12,002,745</u>	<u>\$ 511,774</u>	<u>\$ 46,880,733</u>
				(continued)
\$	18,507,639	\$ -	\$ 511,774	\$ 34,572,907
	305,081	-	-	305,081
	-	12,002,745	-	12,002,745
\$	<u>18,812,720</u>	<u>\$ 12,002,745</u>	<u>\$ 511,774</u>	<u>\$ 46,880,733</u>
				(continued)

**CITY OF MODESTO**  
**COMBINING STATEMENT OF CASH FLOWS - INTERNAL SERVICE FUNDS (Continued)**  
**Year ended June 30, 2012**

	<u>Fleet Management</u>	<u>Central Services</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating income (loss)	\$ <u>(2,289,893)</u>	\$ <u>(313,089)</u>
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	2,617,656	13,223
Change in assets and liabilities:		
(Increase) decrease in accounts receivable	574	-
(Increase) decrease in due from governments	(2,420)	(399)
(Increase) in prepaid expenses	3,016	-
Decrease in inventories	-	(23,014)
Increase (decrease) in accounts payable and accrued expenses	(813,239)	132,945
Increase in accrued salaries and benefits payable	8,403	1,492
Increase in compensated absences and OPEB	-	-
Decrease in claims liability	-	-
Total adjustments	<u>1,813,990</u>	<u>124,247</u>
Net cash provided (used) by operating activities	<u>\$ (475,903)</u>	<u>\$ (188,842)</u>
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:		
Capital contributions	-	3,527
New capital lease transaction		

Information & Technology Services	Insurance	Employee Benefits Management	Building Services	Total
\$ 531,983	\$ (3,772,337)	\$ (13,653,538)	\$ 124,135	\$ (19,372,739)
878,178	-	-	4,619	3,513,676
-	(140,170)	(18,750)	(1,704)	(160,050)
7,915	(456.00)	(294.00)	(768.00)	3,578
(785.00)	410,594	-	-	412,825
-	-	-	-	(23,014)
(161,565)	739,856	57,570	20,821	(23,612)
10,500	2,692	6,599	3,250	32,936
-	-	11,754,282	-	11,754,282
-	2,138,869	-	-	2,138,869
<u>734,243</u>	<u>3,151,385</u>	<u>11,799,407</u>	<u>26,218</u>	<u>17,649,490</u>
\$ <u>1,266,226</u>	\$ <u>(620,952)</u>	\$ <u>(1,854,131)</u>	\$ <u>150,353</u>	\$ <u>(1,723,249)</u>
\$ -	-	-	-	\$ 3,527

## 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 City of Modesto, 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, 2012**

	Balance June 30, 2011	Additions	Deletions	Balance June 30, 2012
<u>Special Districts</u>				
<u>ASSETS</u>				
Cash and cash equivalents	\$ 4,551,792	\$ 2,220,795	\$ 2,113,244	\$ 4,659,343
Cash and cash equivalents with fiscal agent	3,608,271	2,044,769	2,038,943	3,614,097
	<u>\$ 8,160,063</u>	<u>\$ 4,265,564</u>	<u>\$ 4,152,187</u>	<u>\$ 8,273,440</u>
<u>LIABILITIES</u>				
Due to special district bondholders	\$ 8,160,063	\$ 4,265,564	\$ 4,152,187	\$ 8,273,440
<u>Tuolumne River Regional Park</u>				
<u>ASSETS</u>				
Cash and cash equivalents	\$ 498,590	\$ 305,303	\$ 352,333	\$ 451,560
<u>LIABILITIES</u>				
Deposits held as agent for others	\$ 498,590	\$ 305,303	\$ 352,333	\$ 451,560
<u>Stanislaus Drug Enforcement Agency</u>				
<u>ASSETS</u>				
Cash and cash equivalents	\$ 3,613,337	\$ 2,923,356	\$ 3,030,488	\$ 3,506,205
<u>LIABILITIES</u>				
Deposits held as agent for others	\$ 3,613,337	\$ 2,923,356	\$ 3,030,488	\$ 3,506,205
<u>Industrial Fire District</u>				
<u>ASSETS</u>				
Cash and cash equivalents	\$ 439,843	\$ 558,602	\$ 555,489	\$ 442,956
<u>LIABILITIES</u>				
Deposits held as agent for others	\$ 439,843	\$ 558,602	\$ 555,489	\$ 442,956
<u>Stanislaus Regional Water Authority</u>				
<u>ASSETS</u>				
Cash and cash equivalents	\$ -	\$ 17,937	\$ 16,724	\$ 1,213
<u>LIABILITIES</u>				
Deposits held as agent for others	\$ -	\$ 17,937	\$ 16,724	\$ 1,213
<u>Modesto Regional Fire Authority</u>				
<u>ASSETS</u>				
Cash and cash equivalents	\$ -	\$ 34,131,632	\$ 31,910,691	\$ 2,220,941
Cash and cash equivalents with fiscal agent	-	193,503	168,503	25,000
	<u>-</u>	<u>34,325,135</u>	<u>32,079,194</u>	<u>2,245,941</u>
<u>LIABILITIES</u>				
Deposits held as agent for others	\$ -	\$ 34,325,135	\$ 32,079,194	\$ 2,245,941
<u>City/County Joint Powers Financing Authority</u>				
<u>ASSETS</u>				
Cash and cash equivalents	\$ -	\$ 10,289	\$ -	\$ 10,289
<u>LIABILITIES</u>				
Deposits held as agent for others	\$ -	\$ 10,289	\$ -	\$ 10,289
<u>Totals - All Agency Funds</u>				
<u>ASSETS</u>				
Cash and cash equivalents	\$ 9,103,562	\$ 40,167,914	\$ 37,978,969	\$ 11,292,507
Cash and cash equivalents with fiscal agent	3,608,271	2,238,272	2,207,446	3,639,097
	<u>\$ 12,711,833</u>	<u>\$ 42,406,186</u>	<u>\$ 40,186,415</u>	<u>\$ 14,931,604</u>
<u>LIABILITIES</u>				
Due to special district bondholders	\$ 8,160,063	\$ 4,265,564	\$ 4,152,187	\$ 8,273,440
Deposits held as agent for others	4,551,770	38,140,622	36,034,228	6,658,164
	<u>\$ 12,711,833</u>	<u>\$ 42,406,186</u>	<u>\$ 40,186,415</u>	<u>\$ 14,931,604</u>

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## **STATISTICAL SECTION**



## 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 Assets by Component
2. Changes in Net Assets
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

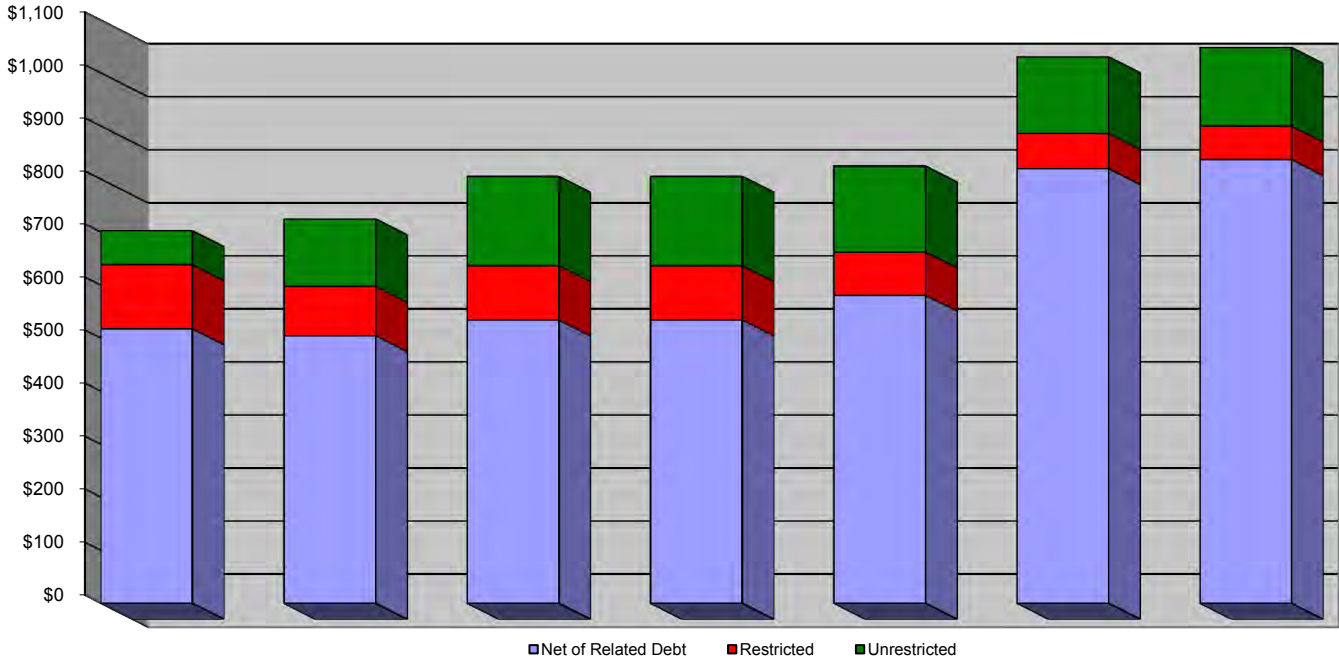
### Operating Information

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 include information beginning in fiscal year 2005.

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



	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
<b>Governmental activities</b>							
Invested in capital assets, net of related debt	\$296,401,824	\$333,409,532	\$339,396,266	\$347,357,492	\$329,592,169	\$338,010,133	\$362,755,958
Restricted	120,937,678	93,168,664	102,602,698	94,819,773	81,528,516	66,570,581	63,498,187
Unrestricted	(2,303,306)	(12,566,297)	4,627,884	(472,402)	14,399,778	6,540,870	(4,326,456)
Total governmental activities net assets	<u>\$415,036,196</u>	<u>\$414,011,899</u>	<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>
<b>Business-type activities</b>							
Invested in capital assets, net of related debt	\$220,881,691	\$170,791,021	\$194,435,373	\$218,432,739	\$251,025,494	\$481,186,894	\$473,757,198
Restricted	66,550,276	139,613,374	163,792,245	169,639,845	147,661,517	138,033,147	152,003,655
Total business-type activities net assets	<u>\$287,431,967</u>	<u>\$310,404,395</u>	<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>
<b>Primary government</b>							
Invested in capital assets, net of related debt	\$517,283,515	\$504,200,553	\$533,831,639	\$533,831,639	\$580,617,663	\$819,197,027	\$836,513,156
Restricted	120,937,678	\$93,168,664	102,602,698	102,602,698	81,528,516	66,570,581	63,498,187
Unrestricted	64,246,970	127,047,077	168,420,129	168,420,129	162,061,295	144,574,017	147,677,199
Total primary government net assets	<u>\$702,468,163</u>	<u>\$724,416,294</u>	<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>

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

	2006	2007	2008	2009	2010	2011	2012
<b>Expenses</b>							
<b>Governmental Activities:</b>							
General Government	\$15,529,735	\$17,227,876	\$15,997,582	\$12,700,264	\$12,093,091	\$12,473,794	\$14,236,573
Community Development	\$12,241,213	12,025,105	14,619,525	14,694,997	18,912,766	28,301,160	14,206,876
Highways and streets	26,025,311	26,246,306	26,436,475	23,682,253	23,668,779	24,114,799	21,009,521
Public works	6,491,062	12,557,512	11,471,344	9,151,786	6,759,562	7,393,809	6,780,882
Parks and Recreation	11,733,698	14,568,192	14,264,334	15,070,007	13,268,871	10,310,549	11,741,352
Public safety	74,500,043	83,793,361	88,651,249	84,395,987	80,254,834	83,381,310	83,568,633
Interest on Long Term Debt	5,178,130	7,286,026	4,998,482	6,114,875	5,766,421	3,609,345	3,066,897
<b>Total Governmental Activities Expenses</b>	<b>151,699,192</b>	<b>173,704,378</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>Business-Type Activities:</b>							
Parking	1,287,450	1,475,340	1,982,066	2,011,386	1,826,401	1,518,955	1,482,640
Water	29,989,775	35,540,918	36,713,351	38,190,214	43,619,704	36,305,860	53,730,665
Sewer	22,716,100	24,156,577	23,974,989	22,416,713	28,055,056	28,497,430	29,366,025
Storm Drain	5,795,746	6,924,335	6,349,113	6,140,963	5,201,741	7,619,939	6,674,100
Compost	941,919	1,225,462	1,312,511	1,130,816	1,480,068	4,112,837	4,426,031
Airport	1,342,645	2,039,988	1,444,667	1,682,644	1,918,113	2,157,180	1,640,733
Bus	12,119,311	13,758,421	14,834,612	15,210,224	15,671,731	16,064,104	16,944,803
Golf	2,461,470	2,479,447	2,497,161	2,440,599	2,473,968	2,366,052	2,279,650
Community Center	2,465,644	2,543,121	2,465,825	2,303,256	2,346,175	2,284,082	2,352,173
Abatement and Public Nuisance	-	-	-	-	-	-	34,609
<b>Total Business-Type Activities Expenses</b>	<b>79,120,060</b>	<b>90,143,609</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>Total Primary Government Expenses</b>	<b>\$230,819,252</b>	<b>\$263,847,987</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>Program Revenues</b>							
<b>Governmental Activities:</b>							
<b>Charges for Services:</b>							
General Government	\$4,179,505	\$3,775,368	\$6,726,893	\$6,987,127	\$6,323,865	\$6,804,398	\$6,799,202
Community Development	9,466,082	10,873,541	7,869,742	4,788,324	2,941,932	4,730,263	4,430,690
Highway and streets	12,104,089	10,719,009	5,804,342	8,222,178	2,801,213	3,179,788	4,178,567
Public Works	1,986,957	1,757,648	5,110,428	1,349,956	3,344,967	2,909,677	2,936,299
Parks and Recreation	4,928,366	4,437,320	5,590,196	4,006,123	6,038,468	3,105,490	3,221,072
Public Safety	7,124,387	8,414,456	4,868,612	4,625,935	4,325,231	4,977,440	3,338,783
Operating Grants and Contributions	11,892,511	12,701,177	14,221,390	11,424,548	14,559,357	19,861,492	10,270,642
Capital Grants and Contributions	38,484,548	4,207,389	17,930,957	6,595,213	10,876,018	7,334,967	9,509,584
<b>Total Government Activities Program Revenues</b>	<b>90,166,445</b>	<b>56,885,908</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>Business-Type Activities:</b>							
<b>Charges for Services:</b>							
Parking	1,176,061	1,128,755	1,297,484	1,256,360	1,239,995	1,274,482	1,291,401
Water	42,639,348	49,305,033	51,679,042	53,218,692	54,670,041	55,345,414	57,534,190
Sewer	23,083,280	24,833,019	29,340,615	35,854,857	37,310,731	39,142,045	41,825,928
Storm Drain	5,277,304	5,403,474	5,338,838	5,301,150	5,428,291	6,152,211	5,783,694
Compost	1,317,105	1,254,137	1,075,032	1,397,708	1,706,189	4,490,110	4,672,517
Airport	577,688	604,214	593,349	661,524	675,565	1,019,177	619,689
Bus	2,645,622	2,545,790	3,182,762	2,944,108	2,769,814	2,877,492	2,892,539
Golf	2,222,738	2,189,384	2,124,672	1,984,769	1,924,015	1,647,400	1,759,818
Community Center	543,085	552,878	532,471	492,989	489,562	433,460	420,059
Abatement and Public Nuisance	-	-	-	-	-	-	71,567
Operating Grants and Contributions	8,317,889	11,059,129	12,459,707	11,462,346	13,706,512	12,629,219	12,694,058
Capital Grants and Contributions	10,467,873	7,962,675	9,793,356	4,527,875	2,898,489	4,856,649	12,021,793
<b>Total Business-Type Activities Program Revenue</b>	<b>98,267,993</b>	<b>106,838,488</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>Total Primary Government Program Revenues</b>	<b>\$188,434,438</b>	<b>\$163,724,396</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>Net (Expense)/Revenue</b>							
Governmental Activities	(\$61,532,747)	(116,818,470)	(108,316,431)	(117,810,765)	(109,513,273)	(116,681,251)	(109,925,895)
Business-Type Activities	19,147,933	16,694,879	25,843,033	27,575,563	20,226,247	28,941,220	22,655,824
<b>Total Primary Government Net Expense</b>	<b>(\$42,384,814)</b>	<b>(\$100,123,591)</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>

(continued)

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

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011 (1)</u>	<u>2012</u>
General Revenues and Other Changes in Net Assets							
Governmental Activities:							
Taxes:							
Utility Users Tax	\$17,583,690	\$ 18,319,573	\$ 19,173,295	\$ 19,093,222	\$ 19,117,518	\$ 19,119,037	\$ 19,230,879
Property taxes, levied for general purposes	14,318,747	16,456,379	16,202,587	13,863,471	12,306,702	12,107,226	11,863,902
Tax increments for redevelopment agency	4,450,836	5,303,521	5,813,822	6,228,634	6,521,515	5,750,235	2,884,357
Transient occupancy tax	2,181,467	2,264,699	2,038,255	1,853,732	1,460,613	1,639,761	1,769,106
Franchise tax	3,693,307	3,823,216	7,735,131	4,779,854	3,962,159	3,940,364	4,236,705
Business license tax - for general purposes	10,374,157	10,359,058	9,680,721	9,330,563	9,068,219	9,339,077	9,694,722
Business license tax - for downtown improvement district	214,022	221,487	202,100	196,253	169,471	172,520	177,026
Grants and contributions not restricted to specific programs:							
Sales tax	29,627,835	27,884,852	26,305,982	24,578,230	22,301,060	24,110,596	25,958,263
Motor vehicle license fee	14,986,883	16,233,262	16,856,108	15,255,503	13,945,172	13,419,232	13,072,804
Other	4,070,593	4,169,354	917,347	3,285,651	1,286,466	9,718,308	11,794,261
Unrestricted investment earnings	3,255,401	8,330,079	9,960,367	5,247,506	1,211,702	696,848	(411,571)
Miscellaneous	2,827,161	3,582,325	3,469,916	5,809,581	2,502,397	1,630,466	1,821,336
Settlements							
Transfers	(1,416,790)	(1,153,632)	(779,437)	(5,490,881)	402,303	1,503,170	2,838,873
Special Item - PCE legal fees							
<b>Total Government Activities</b>	<u>106,167,309</u>	<u>115,794,173</u>	<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>
Business-Type Activities:							
Taxes:							
Property taxes, generated by and allocated to the airport	166,641	209,722	182,031	202,460	265,587	309,699	253,974
Business license tax, generated by and allocated to the airport	41,108	13,054	19,188				
Unrestricted investment earnings	2,504,291	5,406,639	7,099,765	6,227,615	3,155,954	1,947,417	2,095,947
Miscellaneous				253,032			
Transfers	1,416,790	1,153,632	779,437	5,490,881	(402,303)	(1,503,170)	(2,838,873)
Settlements and Recoveries	3,784,295		14,525,389		447,102	187,096	222,379
Special Item	(1,736,054)	(505,498)	(625,620)	(2,211,514)	(1,326,309)	(727,310)	(826,133)
<b>Total Business-Type Activities</b>	<u>6,177,071</u>	<u>6,277,549</u>	<u>21,980,190</u>	<u>9,962,474</u>	<u>2,140,031</u>	<u>213,732</u>	<u>(1,092,706)</u>
<b>Total Primary Government</b>	<u>\$112,344,380</u>	<u>\$122,071,722</u>	<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>
Change in Net Assets							
Governmental Activities	\$44,634,562	(\$1,024,297)	\$9,259,763	(\$13,779,446)	(\$15,257,976)	(\$13,534,411)	(\$4,995,232)
Business-Type Activities	\$25,325,004	22,972,428	47,823,223	37,538,037	22,366,278	29,154,952	21,563,118
<b>Total Primary Government</b>	<u>\$69,959,566</u>	<u>\$21,948,131</u>	<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>

(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.

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

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011 (b)</u>	<u>2012</u>
General Fund							
Reserved	2,702,381	\$3,734,973	\$3,816,559	\$3,568,273	\$2,871,715	-	-
Unreserved	20,607,134	10,713,910	11,942,168	11,185,485	10,103,645	-	-
Non-spendable	-	-	-	-	-	-	123,061
Restricted	-	-	-	-	-	\$4,313,287	\$3,998,539
Committed	-	-	-	-	-	-	-
Assigned	-	-	-	-	-	458,415	519,051
Unassigned	-	-	-	-	-	10,215,682	10,806,111
Total General Fund	<u>\$23,309,515</u>	<u>\$14,448,883</u>	<u>\$15,758,727</u>	<u>\$14,753,758</u>	<u>\$12,975,360</u>	<u>14,987,384</u>	<u>\$15,446,762</u>
All Other Governmental Funds							
Reserved	\$40,168,886	\$40,174,920	\$42,799,130	\$39,607,945	\$39,686,892	-	-
Unreserved, reported in:							
Special revenue funds	13,431,304	11,885,910	8,746,111	12,808,809	6,867,750	-	-
Capital project funds	72,752,412	72,253,464	71,780,583	58,718,023	54,341,594	-	-
Non-spendable	-	-	-	-	-	-	119
Restricted	-	-	-	-	-	\$118,919,268	\$109,145,041
Committed	-	-	-	-	-	-	-
Assigned	-	-	-	-	-	3,647,941	2,604,281
Unassigned	-	-	-	-	-	(23,614,308)	(18,852,239)
Total all other governmental funds	<u>\$126,352,602</u>	<u>\$124,314,294</u>	<u>\$123,325,824</u>	<u>\$111,134,777</u>	<u>\$100,896,236</u>	<u>\$98,952,901</u>	<u>\$92,897,202</u>

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)**

	2006	2007	2008	2009	2010	2011	2012
<b>Revenues</b>							
Taxes	\$52,816,596	\$56,748,017	\$57,142,392	\$55,345,729	\$52,606,197	\$52,068,220	\$49,856,697
Licenses, permits and fees	146,854	187,289	153,545	132,459	138,811	139,073	131,302
Intergovernmental	64,759,658	66,129,862	71,179,504	63,606,634	61,551,617	74,242,596	68,682,778
Charges for services	37,802,149	36,979,023	33,319,642	27,051,151	23,509,170	22,638,801	19,897,159
Special assessments levied	65,909	51,634	35,294	37,299	38,520	1,852,529	1,860,905
Interest and rent	3,755,169	4,837,419	5,236,476	2,909,155	1,322,005	838,178	1,145,251
Net increase in fair value of investments	103,036	1,168,857	1,404,913	860,820	399,322	(89,608)	(452,987)
Fines and forfeits	1,675,926	2,699,445	2,614,523	2,443,506	2,253,014	2,929,182	2,169,482
Contribution from property owners	30,473,773	-	-	-	-	-	-
Miscellaneous	2,821,161	2,814,421	3,469,916	5,809,581	2,502,397	1,630,467	1,821,336
<b>Total Revenues</b>	<b>194,420,231</b>	<b>171,615,967</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>Expenditures</b>							
<b>Current:</b>							
General government	14,111,535	15,517,544	15,107,461	13,715,577	11,482,240	10,879,751	12,411,413
Community development	12,296,072	11,789,640	13,820,295	14,137,095	18,536,120	26,077,905	12,831,734
Highways and streets	14,357,041	12,553,681	12,549,018	9,721,445	8,102,327	11,530,856	8,434,681
Public works	5,647,023	11,307,307	9,719,098	7,667,125	6,124,685	6,035,524	5,283,123
Parks and recreation	11,662,263	13,348,613	12,605,651	13,307,764	12,138,077	8,722,311	9,756,888
Public safety	74,527,875	80,988,650	82,707,285	78,103,260	75,081,791	73,207,608	72,131,852
Capital outlay	21,563,774	30,194,778	22,745,308	27,663,037	16,655,242	11,219,489	20,839,517
<b>Debt service:</b>							
Principal retirement	1,901,827	2,008,538	2,265,000	1,093,000	2,045,000	2,234,000	2,397,000
Interest	4,576,780	4,413,300	3,473,369	3,033,829	4,032,612	3,620,851	3,229,440
Advance refunding escrow	-	822,228	-	-	-	-	-
Other	618,742	1,333,129	1,337,611	1,395,211	1,408,771	57,557	48,738
<b>Total Expenditures</b>	<b>161,262,932</b>	<b>184,277,408</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>Excess of revenues over (under) expenditures</b>	<b>33,157,299</b>	<b>(12,661,441)</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>Other Financing Sources (Uses)</b>							
Transfers in	17,724,718	23,985,863	24,429,880	19,237,526	12,346,246	10,557,218	11,384,460
Transfers out	(20,267,476)	(26,399,280)	(22,579,265)	(18,149,564)	(12,402,937)	(13,069,195)	(14,223,663)
Proceeds of capital lease	-	-	-	-	-	-	-
Proceeds of loan payable	-	44,138	244,650	209,575	-	-	-
Proceeds of notes payable	-	-	-	-	-	-	-
Proceeds of lease revenue bonds	-	62,275,000	-	65,170,000	-	-	-
Refunding of lease revenue bonds	-	-	-	(65,210,000)	-	-	-
Sale of Assets	6,000	767,904	-	34,900	-	-	-
Payments to refunded debt escrow agent	-	(58,911,124)	-	(2,431,247)	-	-	-
<b>Total other financing sources (uses)</b>	<b>(2,536,758)</b>	<b>1,762,501</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>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>-</b>	<b>-</b>	<b>(1,369,977)</b>
<b>Net Change in fund balances</b>	<b>30,620,541</b>	<b>(10,898,940)</b>	<b>321,374</b>	<b>(12,779,819)</b>	<b>(11,342,503)</b>	<b>151,609</b>	<b>(6,461,643)</b>
FUND BALANCES, July 1	119,041,576	149,662,117	138,763,177	139,084,551	125,888,535	113,871,596	113,940,285
PRIOR PERIOD ADJUSTMENT				(416,197)	(674,436)	(82,920)	865,322
<b>FUND BALANCES, June 30</b>	<b>\$149,662,117</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>
Debt service as a percentage of noncapital expenditures	0.05352	0.05330	0.04830	0.04041	0.05695	0.04333	0.02672

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

**CITY OF MODESTO**  
**REVENUE CAPACITY - MOST SIGNIFICANT LOCAL REVENUE SOURCE**  
**WATER UTILITY CHARGES**  
**(Fiscal Year ended June 30, 2012)**

Ten Largest Customers of Water Utility System, Year Ended 06/30/12

<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	439,042	1.51%	\$821,553	1.59%
2) Modesto City Schools	419,776	1.44%	687,746	1.33%
3) Signature Fruits Co. LLC	421,718	1.45%	576,841	1.12%
4) Stanislaus Food Products	381,935	1.31%	535,620	1.04%
5) Foster Farms	347,255	1.19%	469,501	0.91%
6) Stan County Housing Auth	178,618	0.61%	307,522	0.60%
7) E & J Gallo	206,891	0.71%	302,684	0.59%
8) Modesto Irrigation Dist.	197,659	0.68%	296,832	0.57%
9) Stan County Bldg Mntc.	109,988	0.38%	220,019	0.43%
10) Yosemite Comm. Clg Dist	131,126	0.45%	213,886	0.41%
Total Top Ten	<u>2,834,008</u>	<u>9.74%</u>	<u>\$4,432,204</u>	<u>8.58%</u>

Total Flat/Metered Revenues (Water Sales)

\$51,627,550

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

Water Sales Revenue, Year Ended 06/30/12

Residential - flat rates

\$14,464,689

Commercial, Industrial and municipal - metered rates

37,162,861

Total Water Sales

\$51,627,550

Water Rates and Charges as of 07/01/2011

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

\$43.98

Commercial Accounts:

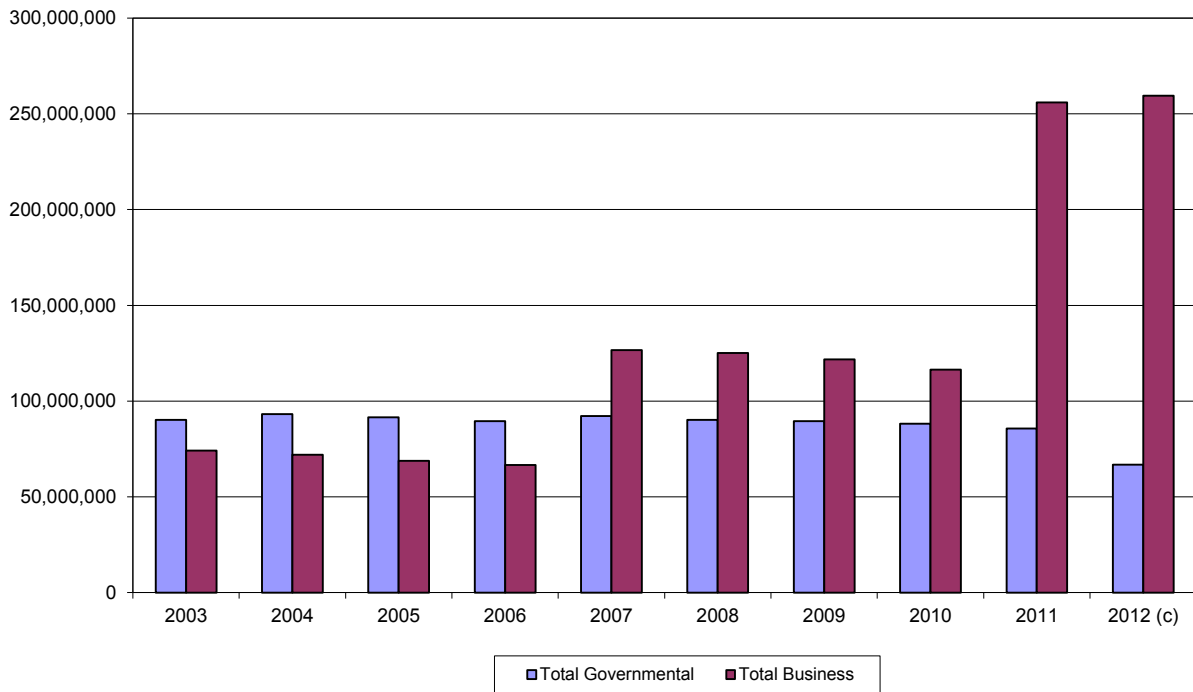
<u>Meter Size</u>	
3/4"	\$14.25
1"	20.22
1 1/2"	34.99
2"	52.79
3"	100.31
4"	153.71
6"	301.95
8"	479.94
10"	687.63
12"	1,280.84

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 on July 1, 2011

Source:

City of Modesto-Customer Services

**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
2003	348,273	23,935,000	63,865,000	241,880	1,753,685	90,143,838
2004	523,363	23,215,000	63,455,000	4,719,663	1,335,182	93,248,208
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

**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)
2003	2,713,066	28,965,000	42,490,000	-	74,168,066	164,311,904	3.07%	808.22
2004	2,533,380	28,125,000	41,285,000	-	71,943,380	165,191,588	2.97%	801.12
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

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, 2012**

<u>Jurisdiction</u>	<u>Net Debt Outstanding (1)</u>	<u>Percentage Applicable to City of Modesto (2)</u>	<u>Amount Applicable to City of Modesto</u>
Direct debt:			
City of Modesto	\$ -	100%	\$ -
Overlapping General Obligation debt - school districts:			
Ceres Unified District	65,523,591	5.71	3,741,397
Hart-Ransom Union School District	3,876,151	34.75	1,346,962
Modesto Elementary School District	13,747,035	79.23	10,891,776
Modesto High School District	52,431,851	67.18	35,223,718
Paradise Elementary School District	400,000	0.00	-
Salida Union Elementary District	810,000	28.99	234,819
Stanislaus Union School District	19,248,479	27.09	5,214,413
Sylvan School District	42,141,169	77.27	32,562,481
Yosemite Community College District	<u>306,156,151</u>	35.62	109,052,821
Total overlapping debt	<u>504,334,427</u>		<u>198,268,389</u>
Total direct and overlapping debt	\$ <u><u>504,334,427</u></u>		\$ <u><u>198,268,389</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, 2012**

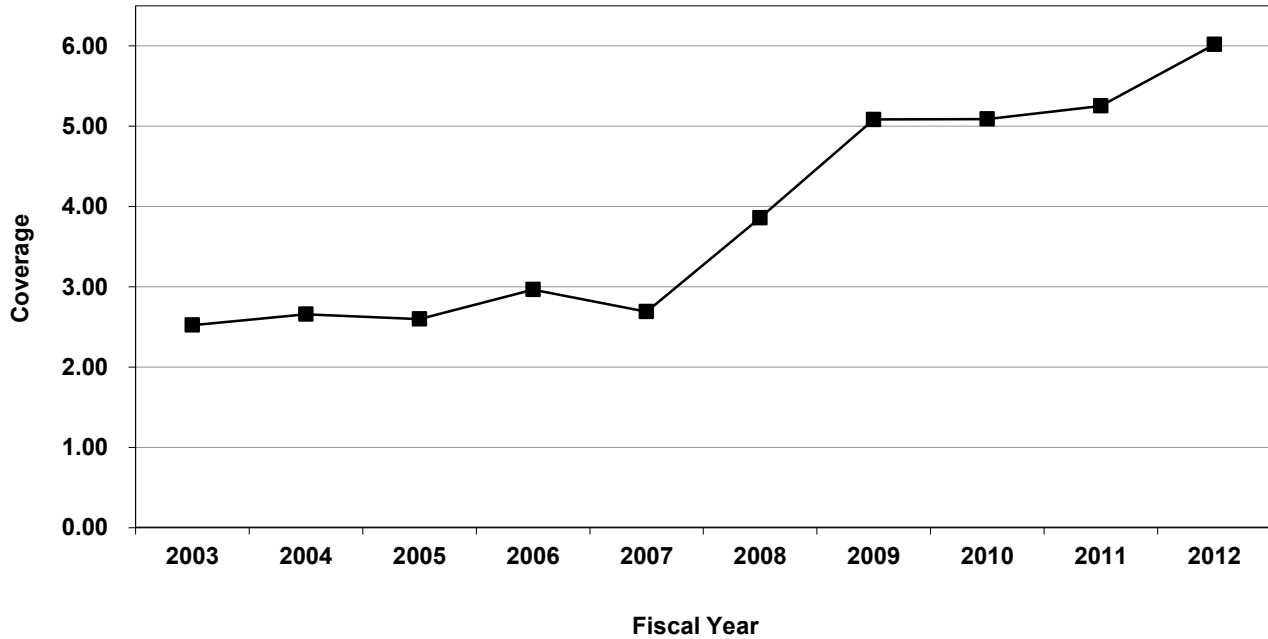
Net assessed value (1)		\$	11,934,661,556
Plus homeowners' exemption (1)			<u>222,351,371</u>
Gross assessed value (1)		\$	12,157,012,927
Debt limit - 15% of gross assessed value (2)		\$	1,823,551,939
Amount of debt applicable to debt limit:			
Total general bonded debt, including special assessment 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>1,823,551,939</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
2008	\$ 2,327,946,572	\$ -	\$ 2,327,946,572	0%
2009	\$ 2,138,574,915	\$ -	\$ 2,138,574,915	0%
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%

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>
2003	24,623,786	15,664,660	8,959,126	3,551,958	2.52
2004	26,123,771	16,687,958	9,435,813	3,550,120	2.66
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

- 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, 2012**

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>Category</u>	<u>Customer Base by Type of Account</u>		
	<u>Number of Accounts</u>	<u>% of Total Accounts</u>	<u>% of Sewer Fee Operating Revenue</u>
Residential	58,082	93.40%	55.18%
Commercial	4,059	6.53%	11.64%
Industrial	46	0.07%	33.18%
Total	<u>62,187</u>	<u>100.00%</u>	<u>100.00%</u>

Ten Largest Users of Sewer Facilities, Year Ended 6/30/12

<u>User</u>	<u>Sewer Fee Revenue</u>	<u>% of Sewer Fee Operating Revenue</u>
1) Stanislaus Food Products	\$ 2,495,341	6.26%
2) Del Monte Food Plant 1	2,106,930	5.28%
3) Signature Fruit CO, LLC	2,025,048	5.08%
4) E & J Gallo Winery	1,221,725	3.06%
5) Frito Lay, Site #34390	895,658	2.25%
6) Foster Farms	818,510	2.05%
7) City of Ceres	707,780	1.77%
8) Nestle Food Company	457,856	1.15%
9) Modesto City Schools	203,258	0.51%
10) Stan CO Housing Authority	173,200	0.43%
Total (Top Ten Customers)	<u>\$ 11,105,306</u>	<u>27.85%</u>
Total (All Customers)	<u>\$ 39,883,028</u>	

The average single-family residence monthly sewer charge is \$26.82

<u>Commercial Group</u>	<u>Charge Per 1,000 Gallons</u>	<u>Fixed Charge</u>
Group 1 (no food, just toilets or working facilities)	\$1.96	\$3.70
Group 2 (commercial laundromats, service stations, hotels without food)	\$2.41	\$3.70
Group 3 (industrial laundromats, hotels with food)	\$2.87	\$3.70
Group 4 (restaurants, bakeries, auto steam, markets)	\$3.41	\$3.70

Industrial users pay a minimum account charge of \$3.93 with additional charges of: \$2,284.00 per million gallons of flow, \$113.00 per 1,000 pounds of excess biochemical oxygen demand (BOD), and \$198.00 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 Assets	Page 25	
Principal Amount of Bonds and Other Parity Debt	Page 46-47	(Note III-C)
Historical Debt Service Coverage	Page 125	
	(continued)	

**CITY OF MODESTO**  
**WASTEWATER COMPARISON INFORMATION**  
**Year Ending June 30, 2012**

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>
2006/07	0.00
2007/08	30.00
2008/09	30.00
2009/10	0.00
2010/11	3.00
2011/12	8.00

**Comparative Monthly Wastewater Service Charges.** The City's residential charges as of July 1, 2009 are set forth in the table 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, 2011**

<u>City</u>	<u>Monthly Residential Charge</u>
Modesto	\$26.82
Stockton	31.22
Fresno(1)	25.75
Lodi(2)	42.00
Turlock	35.20
Tracy	31.00

(1) Minimum charge.

(2) Based upon a three-bedroom residence.

**CITY OF MODESTO**  
**CONTINUING DISCLOSURE REQUIREMENTS**  
**Year Ending June 30, 2012**

**CITY OF MODESTO**  
**WASTEWATER SYSTEM**  
**Wastewater Connection Fees Comparison**  
**As of July 1, 2011**

<u>City</u>	<u>Connection Fee</u>
<b>Modesto</b>	\$ 4,905
Turlock (1)	2,330
Fresno	2,119
Stockton-South of the Calaveras River (2)	6,172
Tracy	2,850
Stockton-North of the Calaveras River (3)	3,534
Lodi (4)	6,140

- 
- (1) Based on 4" service
  - (2) Represents an average of six fee zones.
  - (3) Represents an average of three fee zones.
  - (4) Based upon a two-bedroom residence.

**CITY OF MODESTO**  
**CONTINUING DISCLOSURE REQUIREMENTS INFORMATION (continued)**  
**Year Ended June 30, 2012**

Water Revenue Refinancing Certificates of Participation, 2008 Series A  
Modesto Irrigation District Financing Authority Domestic Water Project Refunding Revenue Bonds, Series 1998D<sup>(1)</sup>  
Modesto Irrigation District Financing Authority Domestic Water Project Revenue Bonds, Series 2007F<sup>(1)</sup>

Reserve Account Requirement as of 6/30/12	\$4,246,467
Surety Policy Value:	(2,082,513)
Balance in Parity Reserve Account as of 6/30/12	<u>(2,530,636)</u>
Shortfall/(Excess) Reserve Coverage:	<u><u>(366,682)</u></u>

Balance in Rate Stabilization Account as of 6/30/12: 3,000,000

Ten Largest Customers of Water Utility System, Year Ended 6/30/12

Customer	Business Type	Usage (ccf) (2)	% of Total Usage	Water Sales Revenue (\$)	% of Total Water Sales Revenue
1) City of Modesto-Stores	Local Government	439,042	1.51%	\$821,553	1.59%
2) Modesto City Schools	Education	419,776	1.44%	687,746	1.33%
3) Signature Fruits Co. LLC	Cannery	421,718	1.45%	576,841	1.12%
4) Stanislaus Food Products	Cannery	381,935	1.31%	535,620	1.04%
5) Foster Farms	Dairy Processor	347,255	1.19%	469,501	0.91%
6) Stan County Housing Auth	Housing Authority	178,618	0.61%	307,522	0.60%
7) E & J Gallo	Winery	206,891	0.71%	302,684	0.59%
8) Modesto Irrigation Dist.	Power Company	197,659	0.68%	296,832	0.57%
9) Stan County Bldg Mntc.	County Offices	109,988	0.38%	220,019	0.43%
10) Yosemite Comm. Clg Dist	Education	131,126	0.45%	213,886	0.41%
Total Top Ten		<u>2,834,008</u>	<u>9.74%</u>	<u>\$4,432,204</u>	<u>8.60%</u>

Total Flat/Metered Revenues (Water Sales) \$51,627,550  
(1) Grover Landscaping maintains City parks  
(2) "ccf" means "hundred cubic feet"

Water Sales Revenue, Year Ended 6/30/12

Residential - flat rates	\$14,464,689
Commercial, industrial and municipal - metered rates	37,162,861
Total Water Sales	<u><u>\$51,627,550</u></u>

The average monthly flat rate service charge for residential customers is \$43.98

Current Water Rates as of 07/01/2012- Commercial Accounts

Meter Size	
3/4"	\$14.25
1"	20.22
1 1/2"	34.99
2"	52.79
3"	100.31
4"	153.71
6"	301.95
8"	479.94
10"	687.63
12"	1,280.84

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 July 1, 2012

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. As of 6/30/12, the balance of the 1998 Bonds was \$52,620,000 and the balance of the 2007 Bonds 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 2007	Fiscal Year 2008	Fiscal Year 2009	Fiscal Year 2010	Fiscal Year 2011	Fiscal Year 2012
Charges for services	\$ 49,258,673	\$ 52,927,134	\$ 52,990,138	\$ 51,572,801	\$ 51,876,505	\$ 53,453,708
Connection charges	2,289,994	1,943,456	1,113,082	647,579	452,021	516,839
Refunds, Damages & Recoveries	566,307	232,570	29,033	428,083	460,766	166,522
Interest and rental income	735,396	1,984,517	2,055,531	1,006,611	588,917	670,046
Draw from (Deposit to) rate stabilization fund	-	-	-	-	-	-
Service Credits <sup>(2)</sup>	314,930	604,082	501,671	2,170,367	2,562,986	2,966,465
Miscellaneous	-	13,190	32,586	25,782	58,083	118,203
<b>Total Gross Operating Revenues</b>	<b>53,165,300</b>	<b>57,704,949</b>	<b>56,722,041</b>	<b>55,851,223</b>	<b>55,999,278</b>	<b>57,891,783</b>
Operating expenses <sup>(3)</sup>	23,983,380	23,664,217	28,359,392	30,219,002	26,638,348	30,755,822
Operating transfers <sup>(4)(5)</sup>	65,000	65,000	482,503	765,000	776,000	1,257,406
CIP expenses moved to operating <sup>(6)</sup>	2,023,261	2,156,833	3,054,407	1,127,185	-	-
<b>Total Operating Expenses <sup>(7)</sup></b>	<b>26,071,641</b>	<b>25,886,050</b>	<b>31,896,302</b>	<b>32,111,187</b>	<b>27,414,348</b>	<b>32,013,228</b>
<b>Net Operating Revenues \$</b>	<b>27,093,659</b>	<b>\$ 31,818,899</b>	<b>\$ 24,825,739</b>	<b>\$ 23,740,036</b>	<b>\$ 28,584,930</b>	<b>\$ 25,878,555</b>
1997 Refunding Certificate of Participation <sup>(8)</sup>	1,794,120	1,791,930	1,792,258	1,794,688	1,797,013	-
2006 Revenue Certificates of Participation	1,082,432	1,982,256	-	-	-	-
2008 Revenue Certificates of Participation	-	-	2,262,117	2,145,966	2,271,034	2,684,462
MID Treatment & Delivery Agreement <sup>(9)</sup>	6,687,444	6,681,894	6,672,406	7,455,918	10,794,041	10,888,790
CDWR Loan	264,719	264,719	263,079	264,719	264,719	255,942
ARRA Grant	-	-	-	-	-	5,137
<b>Total Debt Service \$</b>	<b>9,828,715</b>	<b>10,720,799</b>	<b>10,989,860</b>	<b>11,661,291</b>	<b>15,126,807</b>	<b>\$ 13,834,331</b>
<b>Debt Service Coverage</b>	<b>2.76</b>	<b>2.97</b>	<b>2.26</b>	<b>2.04</b>	<b>1.89</b>	<b>1.87</b>

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

(2) 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.

(3) 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.

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

(5) 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.

(6) 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.

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

(8) 1997 COPS were prepaid in full in Fiscal Year 2011

(9) 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 2013-17. 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 2013	Fiscal Year Projected 2014	Fiscal Year Projected 2015	Fiscal Year Projected 2016	Fiscal Year Projected 2017
Charges for services <sup>(2)</sup>	\$ 54,810,773	\$ 55,906,988	\$ 57,025,128	\$ 58,165,631	\$ 59,328,943
Connection charges	331,001	331,001	331,001	331,001	331,001
Refunds, Damages & Recoveries	-	-	-	-	-
Interest and rental income	332,509	290,228	230,035	163,886	164,837
Draw from (Deposit to) rate stabilization fund	-	-	-	-	-
Service Credits	2,980,463	3,040,073	3,100,874	3,162,892	3,226,150
Miscellaneous	110,146	112,349	114,596	116,888	119,226
GF (Parks Loan) P/I	53,500	53,000	52,500	52,000	52,000
Total Gross Operating Revenues	<u>\$58,618,392</u>	<u>\$59,733,639</u>	<u>\$60,854,134</u>	<u>\$61,992,298</u>	<u>\$63,222,157</u>
Operating expenses <sup>(3)</sup>	37,142,820	37,235,470	38,842,254	40,204,544	41,798,125
Operating transfers	765,000	765,000	765,000	765,000	765,000
Total Operating Expenses <sup>(4)</sup>	<u>\$37,907,820</u>	<u>\$38,000,470</u>	<u>\$39,607,254</u>	<u>\$40,969,544</u>	<u>\$42,563,125</u>
Net Operating Revenues	<u>20,710,572</u>	<u>21,733,169</u>	<u>21,246,880</u>	<u>21,022,754</u>	<u>20,659,032</u>
2008 Revenue Certificates of Participation	2,632,225	2,619,139	2,835,077	2,835,077	2,835,077
MID Treatment & Delivery Agreement	10,789,791	10,778,307	10,778,701	10,767,819	10,767,819
CDWR Loan	264,719	264,719	264,719	264,719	132,359
ARRA Grant	36,289	36,289	36,289	36,289	36,289
Total Debt Service	<u>\$13,723,024</u>	<u>\$13,698,454</u>	<u>\$13,914,786</u>	<u>\$13,903,904</u>	<u>\$13,771,544</u>
Debt Service Coverage	1.51	1.59	1.53	1.53	1.50

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

(2) Revenues includes a Consumer Price Index (CPI) increase in 2013 of 3.1%. Assumes a 2% annual CPI increase not yet approved in 2014-17.

(3) Operating expenses has assumed an inflationary rate of 2% in 2014 and 4% 2015-17.

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

Source: City of Modesto.

**CITY OF MODESTO  
CITY WATER UTILITY SYSTEM STATISTICS  
CONTINUING DISCLOSURE REQUIREMENTS  
Year Ended June 30, 2012**

**CITY WATER UTILITY SYSTEM STATISTICS  
(Calendar Years 2007 through 2012)**

	2007	2008	2009	2010	2011	2012
Number of Service Accounts	76,661.0	76,852.0	76,899.0	76,508.0	76,983.0	76,788.0
Total Water Production (MG)(1)	25,886.0	25,182.0	23,824.0	21,712.0	20,892.0	21,765.0
Capacity (MGD)(2)	166.0	166.0	166.0	166.0	166.0	175.2
Peak Daily Distribution (MGD)	115.4	116.5	113.0	110.0	98.5	97.2
Average Daily Distribution (MGD)	70.9	68.8	65.3	59.5	57.2	59.5

(1) "MG" means million gallons.

(2) "MGD" means million gallons daily.

**CITY WATER UTILITY SYSTEM  
Service Area Total Production (Billion Gallons)  
(Calendar Years 2007 through 2012)**

Year Ending December 31	Well Water	Surface Water	Total
2007	13.97	11.92	25.89
2008	14.74	10.44	25.18
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

**CITY WATER UTILITY SYSTEM  
Comparison of  
Average Monthly, Water Rates  
Flat Rate (1" Service)  
As of July 1, 2011**

<u>City</u>	<u>Flat Rate Typical Home</u>
Modesto	42.21-48.06
Stockton(1)	67.30
Tracy(2)	56.65
Turlock(3)	31.50
Lodi(4)	41.99
Fresno(5)	22.57

(1) All water is metered. A monthly base rate of \$26.25 plus an estimated monthly consumption of 25 units (CCF) (consumption charges are \$1.40 per ccf), are used to calculate the average monthly water charges.

(2) Water rates based on a monthly base rate of \$20.40 plus an estimated consumption of 25 units (CCF) (consumption charges are \$1.45 per ccf), are used to calculate the average monthly water charges.

(3) Based on a typical 7 room dwelling (one living room, 3 bedrooms 2 bathrooms and 1 kitchen) and a lot size 7,500 sqf.

(4) Based on a 3 bedroom single family unit.

(5) Based rate for a lot size 6,000 square feet or less, (a fee of \$0.204 is added for every additional 100 Square feet)

**CITY OF MODESTO**  
**CONTINUING DISCLOSURE REQUIREMENTS**  
**Year Ended June 30, 2012**

The following table sets forth connection fees for all users except multi-family units by meter size for year 2011-2012

**CITY WATER UTILITY SYSTEM**  
**Connection Fees for All users**  
**Except Multiple Family Units**  
**(Fiscal Year 2011-2012)**

<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, 2012**

**CITY WATER UTILITY SYSTEM**  
**Sale of Water**  
**(Fiscal Year Ended June 30, 2012)\***

	2008	2009	2010	2011	2012
Revenues (\$000)					
Residential (Flat Rates)	\$ 31,495	\$ 30,585,450	\$ 21,256,928	\$ 16,888,754	\$ 14,464,689
Commercial, Industrial and Municipal (Metered)	17,890	20,445,393	28,758,412	33,190,426	37,162,861
Total Water Sales	<u>\$ 49,385</u>	<u>\$ 51,030,843</u>	<u>\$ 50,015,340</u>	<u>\$ 50,079,180</u>	<u>\$ 51,627,550</u>

The table below sets forth the adopted single family residential flat rates approved through fiscal year 2011-12.

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

Lot Size	Effective July 1, 2008	Effective July 1, 2009	Effective July 1, 2010	Effective November 1, 2010	Effective July 1, 2011
0-5,000 sq. ft. lot	\$ 37.23	\$ 37.23	\$ 37.23	\$ 38.01	\$ 38.69
5,001-7,000 sq. ft. lot	42.31	42.31	42.31	43.20	43.98
7,001-11,000 sq. ft. lot	50.21	50.21	50.21	51.26	52.18
11,001-17,000 sq. ft. lot	53.30	53.30	53.30	54.42	55.40
over 17,000 sq. ft. lot	62.66	62.66	62.66	63.98	65.13

(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, 2012**

The following table sets forth the adopted monthly service charge and volume charge for commercial accounts through fiscal year 2011-12.

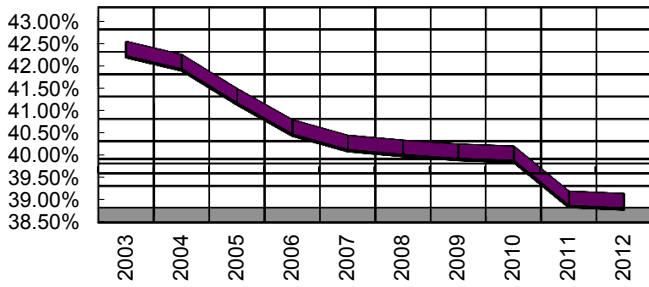
**CITY WATER UTILITY SYSTEM**  
**Water Rates and Charges**  
**Commercial Accounts**

	<b>Effective July 1, 2007</b>	<b>Effective July 1, 2008</b>	<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>Volume-based Rate (\$/hcf)</b>	\$ 1.22	\$ 1.28	\$ 1.28	\$ 1.28	\$ 1.33	\$ 1.33
<b>Fixed Monthly Meter Charge (in addition to volume-based charges)</b>						
5/8"-3/4" meter	13.06	13.71	13.71	13.71	14.00	14.25
1" meter	18.52	19.45	19.45	19.45	19.86	20.22
1-1/2" meter	32.06	33.66	33.66	33.66	34.37	34.99
2" meter	48.37	50.79	50.79	50.79	51.86	52.79
3" meter	91.91	96.51	96.51	96.51	98.54	100.31
4" meter	140.83	147.88	147.88	147.88	150.99	153.71
6" meter	276.68	290.51	290.51	290.51	296.61	301.95
8" meter	439.76	461.75	461.75	461.75	471.45	479.94
10" meter	630.08	661.58	661.58	661.58	675.47	687.63
12" meter	1,173.62	1,232.31	1,232.31	1,232.31	1,258.19	1,280.84

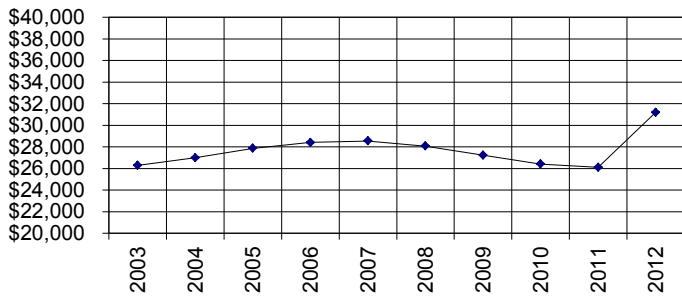
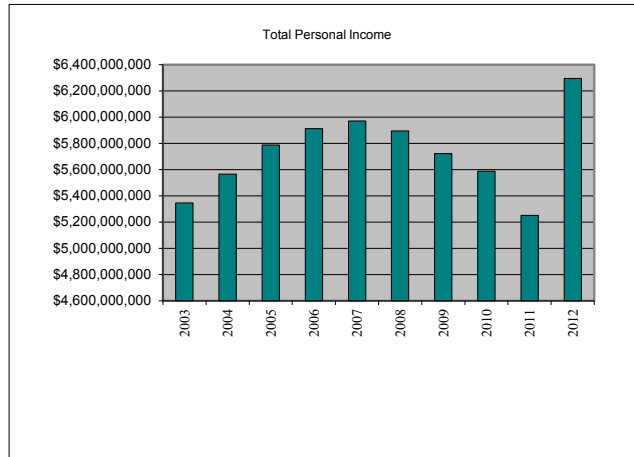
Note: The City has elected to show only five years of data for these schedules

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

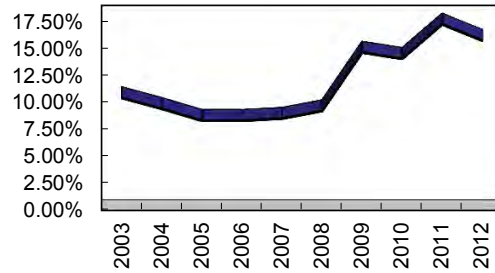
**CITY OF MODESTO  
 DEMOGRAPHIC AND ECONOMIC STATISTICS  
 Last ten fiscal years**



■ 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
2003	203,300	\$5,344,960,300	\$26,291	10.4%	481,604	42.21%
2004	206,200	\$5,565,131,800	\$26,989	9.4%	491,900	41.92%
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	40.00%
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	15.70%	519,940	38.80%

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

**CITY OF MODESTO  
Principal Employers**

Employer	<b>2011/12</b>		
	Number of Employees	Rank	Percentage of Total City Employment
E&J Gallo Winery	3,181	1	3.13%
Memorial Medical Center	3,023	2	2.98%
Modesto City Schools	3,010	3	2.96%
Seneca	2,100	4	2.07%
Doctors Medical Center	1,962	5	1.93%
Stanislaus Food Products	1,784	6	1.76%
Kaiser Permanente	1,759	7	1.73%
Del Monte Foods	1,700	8	1.67%
Modesto Junior College	1,522	9	1.50%
City of Modesto	1,250	10	1.23%
Subtotal	21,291		20.96%
Total City Employment	101,600		
Total City Population	201,761		

\* 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**  
**CAPITAL ASSET STATISTICS BY FUNCTION/PROGRAM**

<b>Function/Program</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
<b>Public safety:</b>					
Fire stations	11	11	11	11	11
Police stations	1	1	1	1	1
Police patrol units	102	70	100	98	98
<b>Public works</b>					
<b>Streets:</b>					
Miles of streets (1)	675	675	675	676	684
<b>Water:</b>					
Miles of water mains	994	1,007	1,008	1,008	1,008
Fire hydrants	7,301	7,412	7,516	7,536	7,566
Storage capacity (thousands of gallons)	9,400,000	9,400,000	13,100,000	12,300,000	12,300,000
<b>Wastewater:</b>					
Miles of sanitary sewers	656.7	642	642	642	642
Miles of storm sewers	133.6	183	183	183	183
Number of treatment plants (2)	2	2	2	2	2
Treatment capacity (millions of gallons)	70	72	72	72	72
<b>Community services:</b>					
City parks	76	76	76	6	76
City parks acreage	1,088	1,088	1,088	1,088	1,088
Playgrounds	55	55	55	55	55
City trails	4	4	4	4	7
City trails miles	12	12	12	12	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	6	7	7	6	6
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	13	13	4	4
Tennis courts	37	37	37	37	37
Baseball/softball diamonds	24	24	24	24	24
Soccer/football fields	22	22	22	22	22
Splash play in Existing parks	0	0	0	0	10

(1) Information now reported from the City's GIS system and is more accurate.

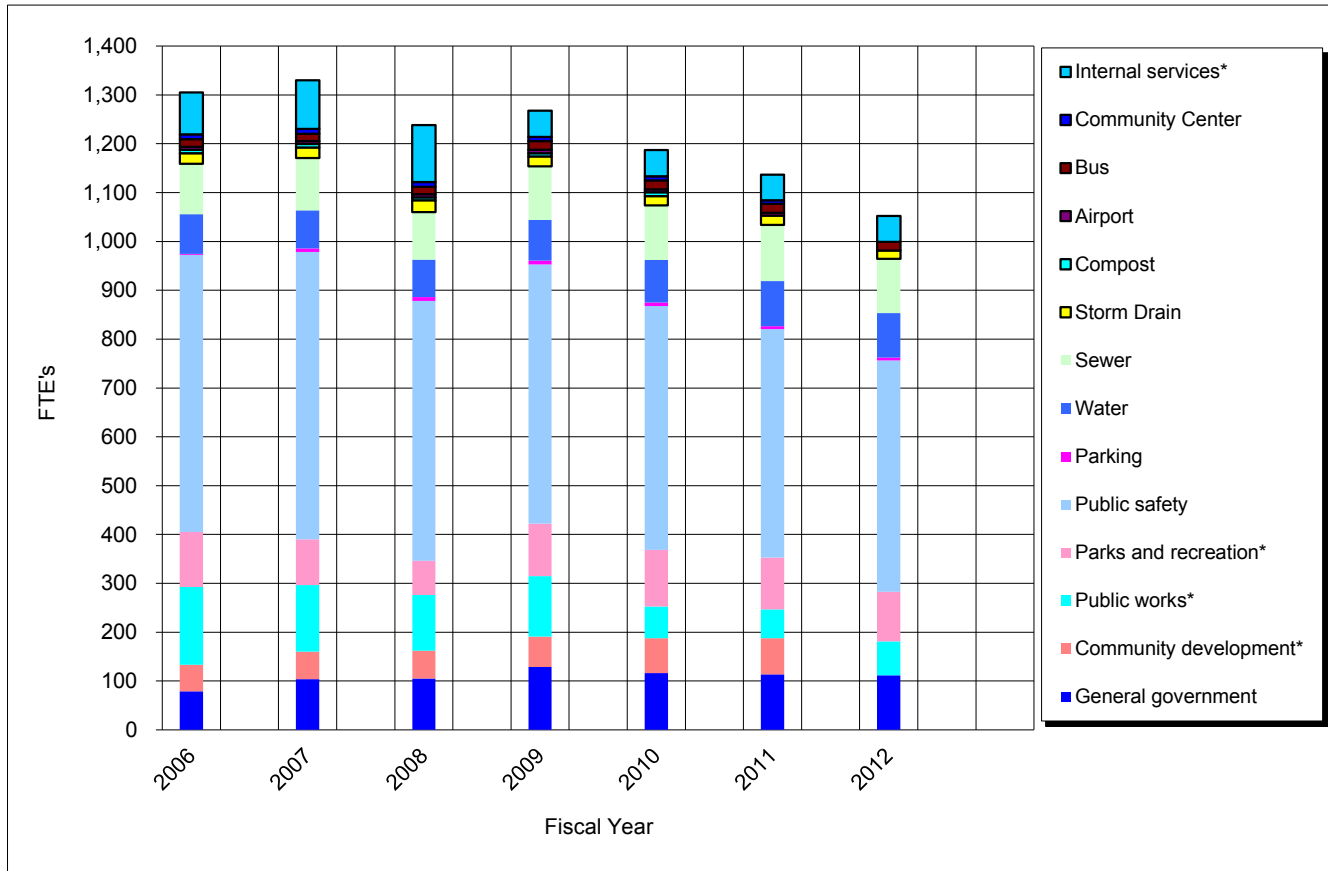
(2) The City has both a Primary and a Secondary treatment facility.

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

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



	2006	2007	2008	2009	2010	2011	2012
<b>Function</b>							
General government	79.00	104.10	105.00	128.60	116.60	113.60	112.00
Community development*	54.00	56.00	57.00	62.20	71.20	74.20	72.20
Public works*	159.50	136.50	114.00	124.00	65.00	59.00	69.00
Parks and recreation*	112.50	93.25	70.00	107.25	116.00	106.23	101.48
Public safety	567.75	588.75	532.00	530.75	499.00	467.75	473.75
Parking	2.00	7.00	8.00	8.00	7.00	6.00	6.00
Water	81.00	78.00	77.00	83.00	87.00	92.00	91.00
Sewer	103.00	107.00	97.00	110.00	112.00	115.00	111.00
Storm Drain	22.00	22.00	24.00	20.00	19.00	19.00	17.00
Compost	7.00	7.00	6.00	7.00	8.00	8.00	8.00
Airport	6.00	6.00	7.00	6.75	6.00	6.00	6.00
Bus	16.00	15.00	15.00	18.00	18.00	18.00	18.00
Community Center	9.50	9.50	9.50	8.50	8.50	7.25	7.25
Internal services*	86.00	99.60	117.00	54.00	54.00	53.00	53.00
<b>Total</b>	<b>1,219.25</b>	<b>1,329.70</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>

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**

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
<b>Function/Program</b>					
Public safety:					
Fire:					
Fire calls for service	23,246	22,911	20,888	20,400	20,970
Primary fire inspections conducted	976	1,069	1,012	1,214	1,618
Police:					
Police calls for Service	121,434	116,383	167,576	154,549	168,242
Law violations:					
Part I and Part II crimes	60,595	57,844	52,182	49,914	47,175
Physical arrests (adult and juvenile)	14,185	12,471	15,105	11,872	11,536
Traffic violations	25,739	26,914	30,941	24,278	16,330
Parking violations	16,079	21,391	18,041	20,452	15,772
Public works					
Street resurfacing ( lane miles)	9.32	1	7	6.48	
Potholes repaired (square miles)	40,411	39,473	39,705	27,724	38,290
Water Utility Cust repaired (sq. ft)		58,737	6,990	58,044	112,136
Crack Sealing (lane miles)			15.70	22.90	
Airport:					
Number of passengers enplaned	49,525	28,470	25,640	22,514	19,188
Number of tenant aircraft	195	184	190	183	184
Number of hangars	109	109	118	118	118
Number of runways	2	2	2	2	2
Annual fuel consumption in gallons	1,140,426	672,406	639,971	311,500	664,467
Bus Service:					
Number of buses	56	56	56	63	55
Number of routes	20	20	20	20	20
Total route miles	362	362	362	362	362
Average weekday number of passengers	12,599	12,599	12,524	10,688	11,553
Total number of passengers carried	3,699,846	3,699,846	3,478,120	3,145,400	3,413,421
Community Development					
Permits issued	4,182	3,242	3,733	3,801	3,288
Estimated cost of construction	\$157,006,451	\$96,127,131	\$67,488,906	\$73,397,148	76,362,371
Building Inspections made	39,172	32,362	32,846	29,034	25,549
Traffic Electrical:					
Street lights	13,595	13,764	13,765	13,765	13,765
Traffic Signals	140	146	149	143	143
Lighted Ped Walks*		28	28	28	30
Beacons*		1	12	5	8
Four Way Flashers*		9	9	9	9
School Flashers*		22	22	22	22
CCTV*		38	38	38	38
Hubs*		5	5	5	5
Culture and recreation:					
Recreation class participants	4,255	3,271	3,171	2,297	2,072
Solid Waste:					
Recyclables Processed (tons per year)(1)	106,664	74,288	47,170	50,789	50,789
Yard waste	38,889	41,235	48,856	60,408	58,406
Commercial food waste	280	597	667	814	120
Waste tires(1)	7,120	5,214	3,683	2,388	2,388

\* Counts prior to 2009 are not available.

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

Source: City of Modesto - Various Departments

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