

**CITY OF  
Modesto, California**

**COMPREHENSIVE ANNUAL FINANCIAL REPORT  
Fiscal Year Ended June 30, 2010**

**Prepared by  
Finance Department**

**CITY OF MODESTO**  
 June 30, 2010  
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## **INTRODUCTORY SECTION**



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

December 20, 2010

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

The Finance Department is 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, 2010.

City management assumes full responsibility for the completeness and reliability of the information contained in this report. We believe the data fairly represent the financial position and results of operations of the City. The disclosures necessary to enable the reader to understand the City's financial affairs have been included. The City's accounting system has been developed and maintained with due consideration given to the adequacy of internal controls. 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 Charter also requires an annual audit by an independent certified public accountant selected by the City Council. The accounting firm of Brown and Armstrong was selected in 2009 to perform the City's annual financial audits. The auditors have issued an unqualified ("clean") opinion on the financial statements for the year ended June 30, 2010, 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. 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 retail, service and financial center of Stanislaus County. The City currently occupies a land area of approximately 36 square miles and serves a population of over 211,000. Periodically, as allowed by state statute, the City extends its corporate limits by annexation when deemed appropriate by the City Council.

Incorporated in 1884, Modesto adopted its City Charter on March 12, 1951, and has operated under the council-manager form of government since that date. Under this form of government, policy-making and legislative authority are vested in an elected council consisting of the Mayor and six members. Historically, the Modesto City Council has been elected on a non-partisan basis, meaning 6 members

represent the entire City rather than specific geographical areas within the City's boundaries. Beginning with the November 2009 election, the City Council are elected on the basis of district representation as Council seats become vacant or are subject to re-election. The Mayor will continue to be elected separately on a non-partisan city-wide basis. Since February 2008, the Mayor has been responsible for the preparation of the annual budget in accordance with the Accountability Measure that was enacted at that time. Together, the Mayor and City Council are responsible for passing ordinances, adopting and amending the operating and capital budgets, appointing various committee members, and hiring the City Manager, City Attorney, City Clerk and City Auditor. The City Manager of Modesto is charged with carrying out the policies and ordinances of the City Council, overseeing the day-to-day operations of the City and for appointing the Deputy City Manager and department heads, with general responsibilities for the Economic Development and Health, Safety & Culture components of the City's Vision.

The City provides services typically associated with a municipality. These include administrative services; police and fire protection; highway, street, and utility infrastructure construction and maintenance; sanitation; planning and zoning; recreational activities and cultural events. Parking, airport facilities, water, sewer, storm drainage and bus services are also provided.

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 Redevelopment Agency of the City of Modesto, 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 passage of a resolution. The Council's legally adopted budget level is at the fund level. During the fiscal year, the budget may be modified. The City Council has also adopted fiscal policies that delegate budget control authority to the Council, City Manager and the Director of Finance.

### **Local Economy**

The local economy continues to struggle with the effects of the recession and foreclosure crisis. Primary revenue sources of the City have been directly impacted by economic influences. Specifically, sales and property taxes have decreased approximately \$1.53 million and \$1.56 million respectively, from 2009 levels. Total revenues have decreased \$11 million or 10% during this time frame. These reductions have caused a corresponding contraction in governmental services provided to the community and a reduction in the City's General Fund budget.

The Modesto area primarily employs people in the areas in government, retail and manufacturing. Stanislaus County consistently ranks among the top 10 California counties in terms of annual agricultural production values. The county's leading commodities are milk, almonds and poultry.

The unemployment rate within the Modesto Metropolitan Statistical Area has increased significantly. At June, 30 2010, the unemployment rate was 14.02% as compared to 7.9% just over 8 years ago.

Building permit activity boomed over the past decade; however, the City has experienced virtually little building activity during the last 12 months. This lack of activity can be compared to peak levels over the last two decades. In fiscal year 1996, the City issued 4,186 permits with estimated cost of construction valued at \$114 million. Permit activity peaked in 2001, when 7,155 permits with construction valued at \$477 million were issued. In 2005, the total construction was valued at \$360 million. Since that time construction values have fallen and for the calendar year 2007 they totaled \$271 million. In 2010, there were 3,733 permits issued with an estimated cost of construction of \$67.5 million.

During the past ten years, public safety costs have risen not only in amount, but also as a percentage of total expenditures. Public safety represented 73% of total General Fund expenditures in 2010, compared with 63% ten years ago. Expenses for other governmental functions have decreased compared to total fund expenses due to the reduction in the major revenue sources from the decline in the economy. Increased staffing, driven by the growth in the population, as well as higher salaries and charges for retirement, has caused the increase in public safety charges during the past ten years.

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

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 in fiscal year 2010-2011. At the end of Fiscal Year 2010, the General Fund unreserved and undesignated balance was \$10.1 million representing 11.0% of total General Fund outflows (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's and Council's leadership and prudent fiscal management. The Mayor and Council have employed expenditure reduction strategies in direct response to declining revenues and 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.

### **State Impacts**

Between Fiscal Years 1991 and 2005, the State of California diverted \$36.6 million in local revenues from the City of Modesto into its own coffers. In 2005 the State enacted new legislation known as the Triple-Flip. As the name implies, a series of revenue exchanges take place leaving the City with 25% less sales tax revenue and more property tax revenue in its place. A similar exchange takes place leaving the City with property tax revenue in place of 67% of the In-Lieu Vehicle License Fees. These exchanges not only affect the character and amount of the revenues received by the City but also affect the City's cash flow, because a monthly stream of payments has been replaced by semi-annual payments. Legislation in the form of Proposition 1A was enacted by the voters in the 2004-2005 Fiscal Year to protect cities and counties from recurring raids on local revenue by the State. In November 2010, voters approved Proposition 22. Proposition 22 further restricts the State's ability to divert local government revenues to the State, thus securing local revenues for local needs.

### **Important Financial Policies**

Annually, the City Council adopts a series of financial policies that direct how the City's financial business is conducted. In addition to maintaining a stable General Fund balance, these policies include direction on departmental annual budget savings, tracking of all transfers to the Redevelopment Agency for future payback, capital budgeting, interfund loan interest rates and investment pool interest allocation.

### **Local Initiatives and Accomplishments**

Despite the fiscal challenges facing the City, staff has been able to achieve several milestones. In September 2010, the Council adopted the 2010-11 Strategic Plan. This Plan contains six strategic commitments to the community with underlying initiatives from each City department. The six commitments are as follows:

*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.

Staff is in the process of linking this Strategic Plan to performance measures and its budgeting processes. As part of the Strategic Plan, staff has made 9 commitments to the Council and community. These commitments are articulated in an acronym called "EMBRACE IT!" and include:

E – Exceptional Service  
M – Measurable Success  
B – Build Trust  
R – Results Oriented  
A – Accountability  
C – Community Outreach  
E – Excite Pride

I – Innovation  
T – Teamwork

In May 2010, Council awarded contracts for the upgrade and implementation of a new Finance Enterprise (ERP) system. This system will replace several obsolete existing systems and fully integrate the financial, human resources, payroll and budget processes. Implementation is scheduled for 3 waves with a targeted go-live date for the first wave in the Spring of 2011. Staff anticipates the final wave to be implemented in the Fall of 2011.

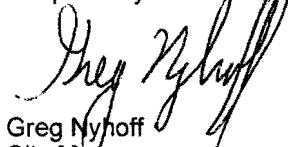
#### **Awards and Acknowledgments**

For the twenty-sixth consecutive year, the Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Modesto for its comprehensive annual financial report for the fiscal year ended June 30, 2008-09. To receive this recognition, the City must publish an easily readable and efficiently organized report. The report must satisfy both generally accepted accounting principles and applicable legal requirements. The award is valid for a period of one year. We believe that the current Comprehensive Annual Financial Report continues to meet the requirements of the program, and it will be submitted to the GFOA to determine its eligibility.

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, Belinda Duerksen, and the staff of the Accounting Division responsible for the preparation of this report. Without their hard work, this report would not be possible.

In addition, we would like to express our appreciation to Mayor Jim Ridenour and the City Council. Their leadership and direction throughout the year has allowed the City to look beyond the current economic storm to strive to become something better. Thank you for your dedicated service to the residents of the City.

Respectfully submitted,

  
Greg Nyhoff  
City Manager

  
Gloriette Beck  
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, 2009

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



President

Executive Director

**CITIZENS OF MODESTO**

**CITY COUNCIL**  
 Jim Ridenour, Mayor  
 Dave Geer, Brad Hawn, Dave Lopez, Garrad Marsh, Joe Muratore, Kristin Olsen

*Voters Elect*

**City Manager**  
 Greg Nyhoff

**City Attorney**  
 Susana Wood

**City Clerk**  
 Stephanie Lopez

*Mayor &  
 Council Appoint*

**Acting Deputy City  
 Manager**  
 Dee Williams-Ridley

**Community &  
 Economic  
 Development**  
 Brent Sinclair  
 Director

*City Manager  
 Appoints*

**Finance**  
 Gloriette Beck  
 Director

**Police**  
 Mike Harden  
 Chief

**Information  
 Technology**  
 Kevin Harless  
 Acting CIO

**Fire**  
 Mike Kraus  
 Acting Chief

**Personnel**  
 Dee Williams-Ridley  
 Director

**Parks, Recreation  
 & Neighborhoods**  
 Julie Hannon  
 Director

**Public Works**  
 Nick Pinhey  
 Director

**CITIZENS ADVISORY BOARDS, COMMISSIONS & COMMITTEES**

- Airport Advisory Committee
- Board of Building Appeals
- Board of Zoning Adjustment
- Charter Review Committee
- Citizens Advisory Committee on Recycling
- Citizens Housing & Community Development Committee
- Citizens Redevelopment Advisory Committee
- Citizens Salary Setting Commission
- Comprehensive Fee Task Force
- Culture Commission
- Disabled Access Appeals Board
- Districting Commission

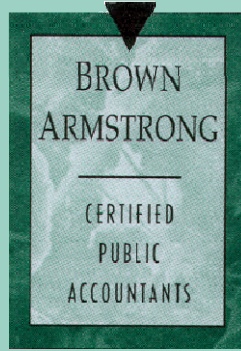
- Downtown Improvement District Advisory Board
- Entertainment Commission
- Golf Courses Advisory Committee
- Housing Rehabilitation Loan Committee
- Human Relations Commission
- Landmark Preservation Commission
- Local Cable Programming Committee
- Planning Commission
- Solid Waste Advisory Committee
- Tuolumne River Regional Park Citizens  
 Advisory Committee
- Youth Commission

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## **FINANCIAL SECTION**



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## INDEPENDENT AUDITOR'S REPORT

The Honorable City Council of the  
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, as of and for the year ended June 30, 2010, which collectively comprise the City of Modesto's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Modesto'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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City of Modesto's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and 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 of Modesto, California, as of June 30, 2010, 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.

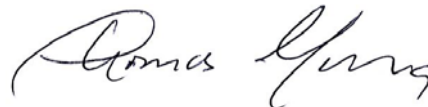
As discussed in Note 1 to the financial statements, the City of Modesto has adopted the provisions of Governmental Accounting Standards Board Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, and Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, in 2010.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2010, on our consideration of the City of Modesto'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 the 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, budgetary comparison information, and the schedule of funding progress of the City of Modesto's other postemployment benefit plan (OPEB), 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 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 of Modesto, California's financial statements as a whole. The introductory section, combining and individual nonmajor fund financial statements, 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 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 it.

BROWN ARMSTRONG  
ACCOUNTANCY CORPORATION



Bakersfield, California  
November 30, 2010

## 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, 2010. 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 2010 fiscal year by \$824,207,474 (*total net assets*). Of this amount, \$162,061,296 (*unrestricted net assets*) may be used to meet ongoing obligations to citizens and creditors, \$81,528,516 is restricted for a specific purpose (*restricted net assets*), and \$580,617,662 is invested in capital assets, net of related debt.
- The City's total net assets decreased by \$5,569,973 compared to the prior year. All of this decrease is attributable to Governmental Activities.
- As of June 30, 2010, the City's governmental funds reported combined fund balances of \$113,871,596, a decrease of \$12,016,939 in comparison with the prior year. Approximately 63% of the combined fund balances, \$71,312,989 is available to meet the City's current and future needs (*unreserved fund balance*).
- At the end of the fiscal year, the General Fund balance was \$12,975,360, or 13% of total General Fund expenditures. Of this, \$2,871,715 million is reserved for encumbrances and non-current assets. The unreserved/undesignated balance of \$10,103,645 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 \$23,948,241 in comparison with the prior year. The increase is due to the derivative interest swap for both the 2008 Water Refunding Revenue Certificates of Participation and the 2008 Lease Revenue Refunding Bonds. Additionally, a \$6.4 million notes payable was reported for the Water fund due to an MID reimbursement agreement for the EIFS roofing project.

### 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 17 individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures and changes in fund balances for the General Fund, the Capital Facility Fees Fund and the Special Gas Tax Street Improvement Fund. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* elsewhere in this report.

**The governmental funds financial statements can be found on pages 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 and Community Center operations. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its Fleet Management, Central Services, Information and Technology Services, Insurance, Employee Benefits Management and Building Services functions. Because these services predominantly benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements. 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 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 29-59** 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 63-67 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 71-107** 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 \$824,207,474 at the close of the most recent fiscal year.

#### Net Assets

	Governmental activities		Business-type activities		Total	
	2010	2009	2010	2009	2010	2009
Current and other assets	\$220,010,362	\$215,486,724	\$183,857,214	\$197,977,889	\$403,867,576	\$413,464,613
Capital assets	398,476,708	402,097,561	372,756,536	336,708,420	771,233,244	738,805,981
Total assets	<u>618,487,070</u>	<u>617,584,285</u>	<u>556,613,750</u>	<u>534,686,309</u>	<u>1,175,100,820</u>	<u>1,152,270,594</u>
Current and other liabilities	26,219,061	21,092,495	16,793,089	17,467,696	43,012,150	\$38,560,191
Long-term liabilities	166,747,546	154,786,927	141,133,650	129,146,029	307,881,196	283,932,956
Total liabilities	<u>192,966,607</u>	<u>175,879,422</u>	<u>157,926,739</u>	<u>146,613,725</u>	<u>350,893,346</u>	<u>322,493,147</u>
Net assets:						
Invested in capital assets, net of related debt	329,592,169	347,357,492	251,025,494	218,432,739	580,617,663	\$565,790,231
Restricted net assets	81,528,516	94,819,773			81,528,516	\$94,819,773
Unrestricted net assets	14,399,778	(472,402)	147,661,517	169,639,845	162,061,295	169,167,443
Total net assets	<u>\$425,520,463</u>	<u>\$441,704,863</u>	<u>\$398,687,011</u>	<u>\$388,072,584</u>	<u>\$824,207,474</u>	<u>\$829,777,447</u>

The largest portion of the City's net assets, \$580,617,663 (71 percent), reflects its investment in capital assets (e.g. land, 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 \$162,061,295 (20 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 \$81,528,516 (9 percent) represents resources that are subject to external restrictions on how they may be used.

At the end of the 2010 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 decreased by \$5,569,973 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	
	2010	2009	2010	2009	2010	2009
Revenues:						
Program revenues:						
Charges for services	\$25,775,676	\$29,979,644	\$106,214,203	\$103,112,157	\$131,989,879	133,091,801
Operating grants and contributions	14,559,357	11,424,548	13,706,512	11,462,346	28,265,869	22,886,894
Capital grants and contributions	10,876,018	6,595,213	2,898,489	4,527,875	13,774,507	11,123,088
General revenues:						
Taxes	52,606,197	55,345,729	265,587	202,460	52,871,784	55,548,189
Intergovernment revenue not restricted for specific purposes	37,532,698	43,119,384			37,532,698	43,119,384
Unrestricted investment earnings	1,211,702	5,247,506	3,155,954	6,227,615	4,367,656	11,475,121
Settlements and recoveries			447,102	253,032	447,102	253,032
Miscellaneous	2,502,397	5,809,581			2,502,397	5,809,581
Total revenues	145,064,045	157,521,605	126,687,847	125,785,485	271,751,892	283,307,090
Expenses:						
General government	12,093,091	12,700,264			12,093,091	12,700,264
Community development	18,912,766	14,694,997			18,912,766	14,694,997
Highways and streets	23,668,779	23,682,253			23,668,779	23,682,253
Public works	6,759,562	9,151,786			6,759,562	9,151,786
Parks and recreation	13,268,871	15,070,007			13,268,871	15,070,007
Public safety	80,254,834	84,395,987			80,254,834	84,395,987
Interest on long-term debt	5,766,421	6,114,875			5,766,421	6,114,875
Parking			1,826,401	2,011,386	1,826,401	2,011,386
Water			43,619,704	38,190,214	43,619,704	38,190,214
Sewer			28,055,056	22,416,713	28,055,056	22,416,713
Storm drain			5,201,741	6,140,963	5,201,741	6,140,963
Compost			1,480,068	1,130,816	1,480,068	1,130,816
Airport			1,918,113	1,682,644	1,918,113	1,682,644
Bus			15,671,731	15,210,224	15,671,731	15,210,224
Golf			2,473,968	2,440,599	2,473,968	2,440,599
Community center			2,346,175	2,303,256	2,346,175	2,303,256
Total expenses	160,724,324	165,810,169	102,592,957	91,526,815	263,317,281	257,336,984
Increase in net assets before transfers	(15,660,279)	(8,288,564)	24,094,890	34,258,670	8,434,611	25,970,106
Transfers	402,303	(5,490,881)	(402,303)	5,490,881	0	
Special item			(1,326,309)	(2,211,514)	(1,326,309)	(2,211,514)
Change in net assets	(15,257,976)	(13,779,445)	22,366,278	37,538,037	7,108,302	23,758,592
Net assets - beginning, as restated	441,704,863	446,626,848	388,072,584	358,227,618	829,777,447	804,854,466
Prior year adjustments	(926,424)	8,857,460	(11,751,851)	(7,693,071)	(12,678,275)	1,164,389
Net assets - ending	\$425,520,463	\$441,704,863	\$398,687,011	\$388,072,584	\$824,207,474	\$829,777,447

**Governmental activities.** Governmental activities decreased the City's net assets by \$16,184,400. Taxes declined about \$2.7 million compared to 2009 due to the continuous reassessment of property values due to the housing crisis. Intergovernmental revenues reflect a decrease of approximately \$5.6 million, mostly due to sales tax declined by \$2.3 million and Motor Vehicle License revenue decrease by \$1.3 million due to the economic conditions. Finally, investment earnings dropped by \$4 million due to absorbing cash flows to cover the reduction in major revenue sources. Charges for services have decreased by \$4.2 million compared to the prior year, due to two divisions moving to the Water Fund. The main services provided by Utilities and Collections and Cashiering is in support of the utility funds.

## Management's Discussion and Analysis (continued)

Expenses in total were lower compared to the prior year by \$5.1 million, or 4%, due mainly to strategic spending reductions implemented by the City Council in response to lower revenue estimates and a cyclical decline in the value of construction projects undertaken.

**Business-type activities.** Business-type activities increased the City's net assets by \$10,614,427. As detailed in the schedule on **page 12**, net losses were experienced by Parking, Compost, Airport, Golf and Community Center operations. Depreciation expense, which is the major cause of these net losses, is not included in these funds' budgets or revenue-setting processes.

Charges for services increased by approximately \$3.1 million due to a 2.1% CPI rate increase for water rates and a sewer rate increase in this fiscal year.

### FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental funds.** The general government functions are contained in the general, special revenue, capital projects, and debt service funds. The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At June 30, 2010, the City's governmental funds reported combined fund balances of \$113,871,596, a decrease of \$12,016,939 from the prior year. Approximately 63% of the combined fund balances (\$71,312,989) constitute *unreserved fund balance*, which is available to meet the City's current and future needs. The remainder of fund balance is *reserved* to indicate that it is *not* available for new spending because it has been committed: 1) to pay debt service (\$6,050,302); 2) to reflect advances to other funds, loans receivable and property held for resale that are long-term and/or do not represent available spendable resources (\$22,912,438); 3) to liquidate contractual commitments of the period (\$12,540,475); and 4) to meet Redevelopment Agency low and moderate income housing set-aside requirements (\$1,055,392).

The General Fund is the chief operating fund of the City. At June 30, 2010, unreserved fund balance of the General Fund was \$10,103,645 while total fund balance was \$12,975,360. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 11.0% of total fund expenditures, while total fund balance represents 13.2% of that same amount. The prior year ratios were 10.0% and 13%, respectively. The use of the fund balance reserves was planned and budgeted during the year.

Revenues of governmental funds totaled \$144,321,053 in fiscal year 2009-10, which represents a decrease of 8.8% from fiscal year 2008-09.

Expenditures of governmental funds totaled \$155,605,865 in fiscal year 2009-10, representing a decrease of 8.4% over the prior year.

## 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 2010		FY 2009		Increase (Decrease)	
	Amount	Percent	Amount	Percent	Amount	% Change
Taxes	\$52,606,197	36.5%	\$55,345,729	35.0%	(\$2,739,532)	-4.9%
Licenses and permits	138,811	0.1%	132,459	0.1%	6,352	4.8%
Intergovernmental	61,551,617	42.6%	63,606,634	40.2%	(2,055,017)	-3.2%
Charges for services	23,509,170	16.3%	27,051,151	17.1%	(3,541,981)	-13.1%
Special assessments	38,520	0.0%	37,299	0.0%	1,221	3.3%
Interest and rent	1,322,005	0.9%	2,909,155	1.8%	(1,587,150)	-54.6%
Net increase (decrease) in fair value	399,322	0.03%	860,820	0.5%	(461,498)	-53.6%
Fines and forfeits	2,253,014	1.6%	2,443,506	1.5%	(190,492)	-7.8%
Miscellaneous	2,502,397	1.6%	5,809,581	3.6%	(3,307,184)	-56.9%
<b>Total</b>	<b>\$144,321,053</b>	<b>100.0%</b>	<b>\$158,196,334</b>	<b>100.0%</b>	<b>(\$13,875,281)</b>	<b>-8.8%</b>

- Taxes –Property taxes and Redevelopment Agency Tax Increment (an allocation of property taxes) decreased by \$1,556,769 and \$563,560 respectively, due mainly to the drop in the sales prices of homes affecting the amount of supplemental tax payments received.
- Intergovernmental – State sales taxes and motor vehicle license fees make up over half of these revenues. Sales tax revenues were lower by \$1.5 million, and vehicle license fees decreased by \$1.3 million due mainly from a decline in consumer spending and an increase in the unemployment rate.
- 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 were down significantly due to the halt in new housing starts.
- Investment revenues decreased due to a reduction of cash balances and interest rates.

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

### Expenditures by Functions Governmental Funds

Exp by Function	FY 2010		FY 2009		Increase (Decrease)	
	Amount	Percent	Amount	Percent	Amount	% Change
General government	\$11,482,240	7.4%	\$13,715,577	8.1%	(\$2,233,337)	-16.3%
Community development	18,536,120	11.9%	14,137,095	8.3%	4,399,025	31.1%
Highways and streets	8,102,327	5.2%	9,721,445	5.7%	(1,619,118)	-16.7%
Public works	6,124,685	3.9%	7,667,125	4.5%	(1,542,440)	-20.1%
Parks and recreation	12,138,077	7.8%	13,307,764	7.8%	(1,169,687)	-8.8%
Public safety	75,081,791	48.3%	78,103,260	46.0%	(3,021,469)	-3.9%
Capital outlay	16,655,242	10.7%	27,663,037	16.3%	(11,007,795)	-39.8%
Debt Service-principal retirement	2,045,000	1.3%	1,093,000	0.6%	952,000	87.1%
Debt Service-interest charges	4,032,612	2.6%	3,033,829	1.8%	998,783	32.9%
Debt Service- other	1,408,771	0.9%	1,395,211	0.8%	13,560	1.0%
<b>Total</b>	<b>\$155,606,865</b>	<b>100.0%</b>	<b>\$169,837,343</b>	<b>100.0%</b>	<b>(\$14,230,478)</b>	<b>-8.4%</b>

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

- General government –Expenditures decreased about \$2,233,337 or 16.3% over the prior year, due to the continuous budget reductions put into place due to a reduction in the major revenue sources.

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

- Community development – Expenditures increased \$4,399,025, or 31.1% over the prior year, due to the funding received from the Neighborhood Stabilization program and American Recovery and Reinvestment Act of 2009.
- Public Works – Expenditures decreased \$1,542,440, or 20.1% over the prior year, due to budget reductions put into place due to a reduction in gas tax revenues and General Fund subsidies.
- Public safety – Expenditures decreased \$3,021,469, or 3.9% over the prior year, due to budget reductions put into place due to a reduction in the major revenue sources.
- Capital outlay – The decreased by \$11,007,795 or 39.8% 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 2010	FY 2009	Increase/(Decrease)	
			Amount	Percent
Transfers in	\$12,346,246	\$19,237,526	(\$6,891,280)	-35.8%
Transfers out	(12,402,937)	(18,149,564)	(5,749,627)	-31.7%
Issuance of loans payable		209,575	(209,575)	-100.0%
Issuance of lease revenue bonds		65,170,000)	(65,170,000)	-100.0%
Refunding of lease revenue bonds		(65,210,000)	(65,210,000)	-100.0%
Other debt issuance cost		(2,431,247)	(2,431,247)	-100.0%
Sale of assets		34,900	(34,900)	-100.0%
Net financing sources (uses)	(\$56,691)	(\$1,138,810)	(\$145,693,629)	-567.5%

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 2010 were \$56,691 compared to \$1,087,962, 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 Redevelopment Agency to 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. A new capital lease was reported for the new Oracle Financial system in the amount of \$893K.

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

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

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

	Major Funds			Nonmajor Funds			
	General Fund	Capital Facility Fees Fund	Special Gas Tax Street Improvement	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	Total
Revenues	\$100,952,900	\$2,215,647	\$5,067,841	\$23,219,183	\$7,599,380	\$5,266,102	\$144,321,053
Expenditures	(99,791,303)	(7,854,573)	(8,119,412)	(20,256,046)	(10,514,640)	(9,070,891)	(155,606,865)
Other financing sources/(uses), net	(2,939,995)	(911,720)	364,814	(502,001)	139,170	3,793,041	(56,691)
Net change in fund balances	(1,778,398)	(6,550,646)	(2,686,757)	2,461,136	(2,776,090)	(11,748)	(11,342,503)
Fund balance-July 1	14,753,758	39,650,167	6,877,454	23,961,736	33,677,448	6,967,972	125,888,535
Prior year adjustment			(674,436)				(674,436)
Fund balance June 30	<u>\$12,975,360</u>	<u>\$33,099,521</u>	<u>\$3,516,261</u>	<u>\$26,422,872</u>	<u>\$30,901,358</u>	<u>\$6,956,224</u>	<u>\$113,871,596</u>

The fund balance of the City's General Fund decreased by \$1,778,398 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.

Capital Facility Fee revenues, derived from impact fees on new development, decreased \$6.6 million from the prior year, due to of the overall market conditions in the housing market. Spending on capital projects decreased by \$10.9 million for major construction projects. The remaining fund balance is targeted to be spent on large, multi-year capital projects to mitigate the effects of growth on the community.

**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						
	Water	Sewer	Bus	Storm		Community			Total	
			Parking	Drain	Compost	Airport	Golf	Center		
Operating revenues	\$54,670,041	\$37,310,731	\$2,769,814	\$1,239,995	\$5,428,291	\$1,706,189	\$675,565	\$1,924,015	\$489,562	\$106,214,203
Operating expenses	(42,186,300)	(25,301,269)	(15,490,948)	(1,791,282)	(5,126,315)	(1,469,551)	(1,906,686)	(2,206,793)	(2,336,480)	(97,815,624)
Non-operating revenues (expenses), net	285,360	(1,249,564)	13,558,808	(19,333)	54,467	8,966	450,984	(183,414)	418,211	\$13,324,485
Income (loss) before capital contributions, transfers and special items	12,769,101	10,759,898	837,674	(570,620)	356,443	245,604	(780,137)	(466,192)	(1,428,707)	21,723,064
Contributions, transfers and special items	(951,773)	(191,455)	860,240	(59,046)	491,841	(113,902)	599,938	270,000	264,034	1,169,877
Net income (loss)	<u>\$11,817,328</u>	<u>\$10,568,443</u>	<u>\$1,697,914</u>	<u>(\$629,666)</u>	<u>\$848,284</u>	<u>\$131,702</u>	<u>(\$180,199)</u>	<u>(\$196,192)</u>	<u>(\$1,164,673)</u>	<u>\$22,892,941</u>

The Water, Sewer, Storm Drain, and Compost enterprises 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 operations did receive an operating subsidy from the General Fund in 2010. The Community Center operation also receive its annual operating subsidy from the General Fund, the subsidy

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

does not cover depreciation expenses, resulting in the net loss shown. The Bus Fund, which receives capital funding from the federal government also does not budget revenues at levels sufficient to cover the annual cost of depreciation expense.

Revenues in the Water utility fund rose slightly due to the 2.1% CPI rate increase. Additionally, the Sewer utility fund had an increase in revenue due to the rate increases 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 65** of this report.

While the City Council amended the budget several times, the differences between the original budget and the final amended budget for the General Fund were increased overall mainly due to an increase in fines and forfeitures, service credit revenues and sales in real property which was not anticipated during the original budget. The estimated revenues increased about \$.5 million (.6%), while total appropriations were increased \$2 million, or about 2%. 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 \$2.4 million less than final estimates. Variances in Sales tax (\$780,897), Property taxes (\$163,697) and construction related revenues (\$1,141,006) were due to the effects of the sub-prime mortgage market that were being fully realized during the fiscal year.

Expenditures, overall, were \$5.4 million under budget, primarily due to efforts of departments to realize savings, and certain purchases being deferred to future periods.

### CAPITAL ASSETS AND DEBT ADMINISTRATION

#### Capital assets

The City's investment in capital assets for its governmental and business-type activities as of June 30, 2010, amounted to \$771,233,244 (net of accumulated depreciation). The total increase in the City's investment in capital assets for the current period was 4.4 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	\$ change
	2010	2009	2010	2009	2010	2009		
Land	\$32,690,491	\$32,082,218	\$30,068,229	\$29,806,353	\$62,758,720	\$61,888,571	1.4%	\$870,149
Buildings	16,630,984	17,664,826	38,456,244	40,976,318	55,087,228	58,641,144	-6.1%	(3,553,916)
Improvements	38,115,248	24,156,102	89,562,227	69,746,335	127,677,475	93,902,437	36.0%	33,775,038
Furnishings and equipment	5,184,473	9,186,540	6,144,174	2,716,957	11,328,647	11,903,497	-4.8%	(574,850)
Intangible Assets	1,982,328		131,546		2,113,874		100.0%	2,113,874
Equipment pool	11,873,219	13,198,479			11,873,219	13,198,479	-10.0%	(1,325,260)
Streets	250,374,786	248,228,636			250,374,786	248,228,636	0.9%	2,146,150
Signalization	3,865,206	5,270,489			3,865,206	5,270,489	-26.7%	(1,405,283)
Bridges	22,718,265	23,026,849			22,718,265	23,026,849	-1.3%	(308,584)
Buses & fareboxes			5,521,707	7,098,477	5,521,707	7,098,477	-22.2%	(1,576,770)
Pipelines			118,963,188	119,580,720	118,963,188	119,580,720	-0.5%	(617,532)
Construction in progress	15,041,708	29,283,421	83,909,221	66,783,260	98,950,929	96,066,681	3.0%	2,884,248
<b>Total</b>	<b>\$398,476,708</b>	<b>\$402,097,560</b>	<b>\$372,756,536</b>	<b>\$336,708,420</b>	<b>\$771,233,244</b>	<b>\$738,805,980</b>	<b>4.4%</b>	<b>\$32,427,264</b>

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

- Construction in progress –Business type increases were in Water and related to both system-wide improvements and those being made in conjunction with the expansion of the surface water treatment plant. The wastewater program also had significant growth related to the Phase 1 & 2 plant improvements at the primary treatment facility that continue from the prior year.

## Management's Discussion and Analysis (continued)

The City's infrastructure assets are recorded at historical cost in the government-wide financial statements. Depreciation expense is recorded using the straight-line method, based on estimated useful life of the asset. Additional information on the City's capital assets can be found in note II.B on pages 38-39 of this report.

### Long-term debt

At June 30, 2010, the City had total long-term liabilities outstanding of \$307,881,197, net of unamortized discounts and deferred amounts on refunding, as compared to \$283,932,956 in the prior year. This amount was comprised of \$64,275,000 of lease revenue bonds, \$85,081,213 of certificates of participation, \$46,750,801 of revenue bonds payable, \$11,739,301 of estimated compensated absences, \$45,527,073 of OPEB obligation, \$21,270,905 of claims liability, \$8,722,995 of loans payable, \$1,798,431 of developer advances, \$1,221,553 of capital leases, \$3,802,436 of notes payable and \$17,691,489 of Derivative instrument SWAP. The long-term debt increase was primarily due to the requirements of GASB 53 which is to account for the Derivative instrument SWAP. Additionally, a new capital lease was reported for the new Oracle lease for the City's new financial system which is scheduled to go live in April 2011. Additional information on the City's long-term debt can be found in note II.C on pages 40-47 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. The City implemented GASB Statement No. 45 related to Other Post Employment Benefits during fiscal year 2008. As of June 30, 2010, the net OPEB obligation amounts to approximately \$45.5 million. This contributes significantly to the EBF's \$40.0 million deficit net assets. Additional information on the City's EBF can be found in Notes II-H and III-G.

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

- *Consumer Price Index* – Growth in the CPI has been relatively stable during the past seven 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, 2010, the CPI-Western Urban Index increased by 1.2%.
- *Taxable Sales* – With the unemployment rate at 14.02%, sales tax revenues continue to decrease going into fiscal year 2010. The City has taken action to implement non-paid furloughs and have eliminated 50 staffing positions as part of the adoption of the Fiscal Year 2010-11 budget to maintain the affects 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% to take effect on July 1 of 2011 through 2014.

All of these factors were considered in preparing the City's budget for fiscal year 2010.

During the current fiscal year, unreserved fund balance in the General Fund decreased by \$1.1 million, to \$10,103,645 which represents 11% of total General Fund outflows which equals City Council's target value of 8%. The budget adopted for fiscal year 2010-2011 reflects a planned reduction in the reserve level on a temporary basis, from 8% to a flat reserve amount of \$7 million.

### Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the City's financial condition. Questions concerning any of the information provided in this report and requests for additional financial information should be addressed to the City of Modesto, Attention: Finance Department, P.O. Box 642, Modesto, CA 95353

# **BASIC FINANCIAL STATEMENTS**



**CITY OF MODESTO**  
**STATEMENT OF NET ASSETS**  
**June 30, 2010**

	<u>Governmental</u> Activities	<u>Business-type</u> Activities	<u>Total</u>
<u>ASSETS</u>			
Cash and cash equivalents	\$ 148,843,837	\$ 162,980,156	\$ 311,823,993
Accounts receivable, net	871,502	249,321	1,120,823
Interest receivable	227,536	269,102	496,638
Utility billings receivable, net	1,458,987	11,035,210	12,494,197
Taxes receivable	8,251,141	18	8,251,159
Due from governments, net	8,430,453	2,199,199	10,629,652
Notes receivable, net	22,415,295		22,415,295
Prepaid expenses	189,000		189,000
Property held for resale	784,000	630,000	1,414,000
Internal balances	3,068,357	(3,068,357)	-
Inventories	482,315		482,315
Unamortized costs of debt issuance		2,043,688	2,043,688
Deferred outflow of resource	10,172,612	7,518,877	17,691,489
Investments in joint ventures	14,815,327		14,815,327
Capital assets:			
Land and construction in progress	47,732,199	113,977,450	161,709,649
Other capital assets, net of accumulated depreciation	<u>350,744,509</u>	<u>258,779,086</u>	<u>609,523,595</u>
<b>Total assets</b>	<u>618,487,070</u>	<u>556,613,750</u>	<u>1,175,100,820</u>
<u>LIABILITIES</u>			
Accounts payable	6,475,623	9,337,951	15,813,574
Accrued salaries and benefits	2,276,073	536,365	2,812,438
Approved loans payable	875,041		875,041
Interest payable	341,112	655,008	996,120
Due to other governments	217,997		217,997
Unearned revenues	13,490,014	4,525,966	18,015,980
Refundable deposits	2,543,200	1,737,799	4,280,999
Long-term liabilities:			
Due within one year	11,384,599	5,454,148	16,838,747
Due in more than one year	<u>155,362,948</u>	<u>135,679,502</u>	<u>291,042,450</u>
<b>Total liabilities</b>	<u>192,966,607</u>	<u>157,926,739</u>	<u>350,893,346</u>
<u>NET ASSETS</u>			
Invested in capital assets, net of related debt	329,592,168	251,025,494	580,617,662
Restricted for:			
Capital projects	22,067,062		22,067,062
Housing and community development	21,155,647		21,155,647
Redevelopment	5,449,419		5,449,419
Other purposes	32,856,388		32,856,388
Unrestricted	<u>14,399,779</u>	<u>147,661,517</u>	<u>162,061,296</u>
<b>Total net assets</b>	<u>\$ 425,520,463</u>	<u>\$ 398,687,011</u>	<u>\$ 824,207,474</u>

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

**CITY OF MODESTO**  
**STATEMENT OF ACTIVITIES**  
**Year ended June 30, 2010**

FUNCTIONS/PROGRAMS:	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities:				
General government	\$ 12,093,091	\$ 6,323,865		
Community development	18,912,766	2,941,932	121,517	
Highways and streets	23,668,779	2,801,213	1,703,016	\$ 8,218,591
Public works	6,759,562	3,344,967	6,143	
Parks and recreation	13,268,871	6,038,468	8,817,912	2,657,427
Public safety	80,254,834	4,325,231	3,910,769	
Interest on long-term debt	5,766,421			
Total governmental activities	160,724,324	25,775,676	14,559,357	10,876,018
Business-type activities:				
Parking	1,826,401	1,239,995		
Water	43,619,704	54,670,041		652,693
Sewer	28,055,056	37,310,731	50,000	867,697
Storm Drain	5,201,741	5,428,291	(1,669)	113,862
Compost	1,480,068	1,706,189		
Airport	1,918,113	675,565		599,938
Bus	15,671,731	2,769,814	13,658,181	664,299
Golf	2,473,968	1,924,015		
Community Center	2,346,175	489,562		
Total business-type activities	102,592,957	106,214,203	13,706,512	2,898,489
<b>Total</b>	<b>\$ 263,317,281</b>	<b>\$ 131,989,879</b>	<b>\$ 28,265,869</b>	<b>\$ 13,774,507</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

Net assets, July 1, (as restated)

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
\$ (5,769,226)		\$ (5,769,226)
(15,849,317)		(15,849,317)
(10,945,959)		(10,945,959)
(3,408,452)		(3,408,452)
4,244,936		4,244,936
(72,018,834)		(72,018,834)
(5,766,421)		(5,766,421)
<u>(109,513,273)</u>		<u>(109,513,273)</u>
	\$ (586,406)	(586,406)
	11,703,030	11,703,030
	10,173,372	10,173,372
	338,743	338,743
	226,121	226,121
	(642,610)	(642,610)
	1,420,563	1,420,563
	(549,953)	(549,953)
	<u>(1,856,613)</u>	<u>(1,856,613)</u>
	<u>20,226,247</u>	<u>20,226,247</u>
<u>(109,513,273)</u>	<u>20,226,247</u>	<u>(89,287,026)</u>
12,306,702		12,306,702
19,117,518		19,117,518
	265,587	265,587
6,521,515		6,521,515
1,460,613		1,460,613
3,962,159		3,962,159
9,068,219		9,068,219
169,471		169,471
22,301,060		22,301,060
13,945,172		13,945,172
1,286,466		1,286,466
1,211,702	3,155,954	4,367,656
2,502,397		2,502,397
	447,102	447,102
402,303	(402,303)	0
	<u>(1,326,309)</u>	<u>(1,326,309)</u>
<u>94,255,297</u>	<u>2,140,031</u>	<u>96,395,328</u>
(15,257,976)	22,366,278	7,108,302
441,704,863	388,072,584	829,777,447
<u>(926,424)</u>	<u>(11,751,851)</u>	<u>(12,678,275)</u>
<u>\$ 425,520,463</u>	<u>\$ 398,687,011</u>	<u>\$ 824,207,474</u>

**CITY OF MODESTO**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**June 30, 2010**

	General	Capital Facility Fees	Special Gas Tax Street Improvement	Other Governmental	Total Governmental
<b>ASSETS</b>					
Cash and cash equivalents	\$ 2,739,716	\$ 35,030,473	\$ 13,803,819	\$ 24,056,437	\$ 75,630,445
Cash and cash equivalents with fiscal agent				19,125,018	19,125,018
Receivables:					
Accounts	235,187	84	24,574	382,646	642,491
Interest	18,721	61,730	19,758	47,672	147,881
Utilities, net	995,485			463,502	1,458,987
Taxes	7,790,716		229,259	231,166	8,251,141
Due from governments	387,621	641,105	577,992	6,681,273	8,287,991
Due from other funds	3,669,777				3,669,777
Notes receivable, net				22,415,295	22,415,295
Property held for resale				784,000	784,000
Restricted assets:					
Cash and cash equivalents	1,605,352			639,616	2,244,968
Advances to other funds	2,629,429			1,249,071	3,878,500
<b>Total assets</b>	<b>\$ 20,072,004</b>	<b>\$ 35,733,392</b>	<b>\$ 14,655,402</b>	<b>\$ 76,075,696</b>	<b>\$ 146,536,494</b>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>Liabilities:</b>					
Accounts payable	\$ 1,329,614	\$ 1,090,437	\$ 346,084	\$ 2,472,652	\$ 5,238,787
Accrued salaries and benefits	1,822,093		96,789	192,181	2,111,063
Accrued interest payable	62,713			32,113	94,826
Approved loans payable				875,041	875,041
Due to other governments	217,997				217,997
Due to other funds				3,407,995	3,407,995
Deferred revenues	1,761,643	484,436	10,696,268	2,679,846	15,622,193
Payable from restricted assets:					
Refundable deposits	1,902,584			640,616	2,543,200
Advances from other funds		1,058,998		1,494,798	2,553,796
<b>Total liabilities</b>	<b>7,096,644</b>	<b>2,633,871</b>	<b>11,139,141</b>	<b>11,795,242</b>	<b>32,664,898</b>
<b>Fund balances:</b>					
Reserved	2,871,715	3,863,854	19,671	35,803,367	42,558,607
Unreserved:					
Designated, reported in:					
General fund					
Special revenue funds				2,208,654	2,208,654
Capital projects funds		29,235,667		2,847,531	32,083,198
Undesignated, reported in:					
General fund	10,103,645				10,103,645
Special revenue funds			3,496,590	1,162,506	4,659,096
Capital projects funds				22,258,396	22,258,396
<b>Total fund balances</b>	<b>12,975,360</b>	<b>33,099,521</b>	<b>3,516,261</b>	<b>64,280,454</b>	<b>113,871,596</b>
<b>Total liabilities and fund balances</b>	<b>\$ 20,072,004</b>	<b>\$ 35,733,392</b>	<b>\$ 14,655,402</b>	<b>\$ 76,075,696</b>	<b>\$ 146,536,494</b>

**CITY OF MODESTO**  
**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS**  
**TO THE STATEMENT OF NET ASSETS - GOVERNMENTAL ACTIVITIES**  
**June 30, 2010**

Total fund balances - total governmental funds \$ 113,871,596

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	\$ 46,156,075	
Depreciable	106,752,094	
Accumulated depreciation on general capital assets	(49,259,506)	

Infrastructure:

Depreciable	530,425,544	
Accumulated depreciation on infrastructure	<u>(253,467,287)</u>	380,606,920

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

Deferred in the governmental funds, or	\$ 2,132,178	
Investments in joint ventures	<u>14,815,327</u>	16,947,505

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. 1,606,949

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	\$ (87,269,805)	
Accrued interest	<u>(242,702)</u>	<u>(87,512,507)</u>

Net assets of governmental activities \$ 425,520,463

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, 2010**

	General	Capital Facility Fees	Special Gas Tax Street Improvement	Other Governmental	Total Governmental
<b>REVENUES:</b>					
Taxes	\$ 45,855,929		\$ 59,282	\$ 6,690,986	\$ 52,606,197
Licenses and permits	83,039		1,558	54,214	138,811
Intergovernmental	39,050,217	\$ 423,473	3,060,205	19,017,722	61,551,617
Charges for services	13,047,695	1,250,033	1,685,752	7,525,690	23,509,170
Special assessments levied				38,520	38,520
Interest and rent	290,902	329,591	113,044	588,468	1,322,005
Net increase in fair value of investments	54,744	212,505	55,888	76,185	399,322
Fines and forfeits	1,042,067			1,210,947	2,253,014
Miscellaneous	1,528,307	45	92,112	881,933	2,502,397
<b>Total revenues</b>	<b>100,952,900</b>	<b>2,215,647</b>	<b>5,067,841</b>	<b>36,084,665</b>	<b>144,321,053</b>
<b>EXPENDITURES:</b>					
<b>Current:</b>					
General government	10,112,680	537,504		832,056	11,482,240
Community development	5,145,993			13,390,127	18,536,120
Highways and streets		10,942	8,017,950	73,435	8,102,327
Public works	2,613,393			3,511,292	6,124,685
Parks and recreation	9,239,132	5,926		2,893,019	12,138,077
Public safety	72,680,105			2,401,686	75,081,791
Capital outlay		7,300,201	101,462	9,253,579	16,655,242
<b>Debt service:</b>					
Principal retirement				2,045,000	2,045,000
Interest				4,032,612	4,032,612
Other				1,408,771	1,408,771
<b>Total expenditures</b>	<b>99,791,303</b>	<b>7,854,573</b>	<b>8,119,412</b>	<b>39,841,577</b>	<b>155,606,865</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>1,161,597</b>	<b>(5,638,926)</b>	<b>(3,051,571)</b>	<b>(3,756,912)</b>	<b>(11,285,812)</b>
<b>OTHER FINANCING SOURCES (USES):</b>					
Transfers in	3,234,442		1,812,175	7,299,629	12,346,246
Transfers out	<b>(6,174,437)</b>	<b>(911,720)</b>	<b>(1,447,361)</b>	<b>(3,869,419)</b>	<b>(12,402,937)</b>
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(2,939,995)</b>	<b>(911,720)</b>	<b>364,814</b>	<b>3,430,210</b>	<b>(56,691)</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>(1,778,398)</b>	<b>(6,550,646)</b>	<b>(2,686,757)</b>	<b>(326,702)</b>	<b>(11,342,503)</b>
FUND BALANCES, July 1	14,753,758	\$ 39,650,167	\$ 6,877,454	\$ 64,607,156	\$ 125,888,535
PRIOR PERIOD ADJUSTMENT			(674,436)		(674,436)
<b>FUND BALANCES, June 30</b>	<b>\$ 12,975,360</b>	<b>\$ 33,099,521</b>	<b>\$ 3,516,261</b>	<b>\$ 64,280,454</b>	<b>\$ 113,871,596</b>

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, 2010**

Net change in fund balances - total governmental funds \$ (11,342,503)

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	\$ 16,655,242	
Depreciation expense	<u>(19,597,101)</u>	(2,941,859)

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. 201,400

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

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	\$ 1,252,617	
Change in investment in joint venture	<u>(1,470,927)</u>	(218,310)

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	2,045,000	
Capitalized interest	<u>(328,442)</u>	1,716,558

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		11,999
----------------------------	--	--------

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. (2,685,261)

Change in net assets of governmental activities \$ (15,257,976)

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

**CITY OF MODESTO**  
**STATEMENT OF NET ASSETS - PROPRIETARY FUNDS**  
June 30, 2010

	Enterprise					Internal Service
	Water	Sewer	Bus	Other Enterprise	Total Enterprise	
<b>ASSETS</b>						
Current assets:						
Cash and cash equivalents	\$ 87,922,024	\$ 28,610,976	\$ 6,206,866	\$ 5,662,720	\$ 128,402,586	\$ 51,843,406
Cash and cash equivalents with fiscal agent	4,241,091	4,379,888		603,150	9,224,129	
Receivables:						
Accounts	1,954	37,949	8,951	200,467	249,321	229,011
Interest	197,957	53,866	8,721	8,558	269,102	79,655
Utilities, net	6,649,743	3,827,577		557,890	11,035,210	
Taxes				18	18	
Due from governments			1,977,491	221,708	2,199,199	142,462
Prepaid expenses						189,000
Inventories						482,315
Property held for resale				630,000	630,000	
Total current assets	<u>99,012,769</u>	<u>36,910,256</u>	<u>8,202,029</u>	<u>7,884,511</u>	<u>152,009,565</u>	<u>52,965,849</u>
Noncurrent assets:						
Notes receivable, net						
Restricted assets-cash and cash equivalents	24,661,375	692,066			25,353,441	
Unamortized costs of issuance	1,289,452	754,236			2,043,688	
Deffered outflow of resource	7,518,877				7,518,877	
Land and construction in progress	32,033,873	66,560,563	4,735,511	10,647,503	113,977,450	1,576,124
Other capital assets, net of accumulated depreciation	78,843,723	120,335,987	16,342,395	43,256,981	258,779,086	16,293,664
Total noncurrent assets	<u>144,347,300</u>	<u>188,342,852</u>	<u>21,077,906</u>	<u>53,904,484</u>	<u>407,672,542</u>	<u>17,869,788</u>
Total assets	<u>243,360,069</u>	<u>225,253,108</u>	<u>29,279,935</u>	<u>61,788,995</u>	<u>559,682,107</u>	<u>70,835,637</u>
<b>LIABILITIES</b>						
Current liabilities:						
Accounts payable	\$ 5,406,699	\$ 2,660,259	\$ 807,493	\$ 463,500	\$ 9,337,951	\$ 1,236,836
Accrued salaries and benefits	210,195	202,729	33,317	90,124	536,365	165,010
Interest payable	228,723	382,406	40	43,839	655,008	3,584
Due to other funds				261,782	261,782	
Current portion - compensated absences						4,808,016
Current portion - claims liability						4,880,570
Current portion - capital lease						187,135
Current portion - long-term debt	2,621,785	1,765,000		250,000	4,636,785	33,778
Current portion - developer advances						
Deferred revenues			4,319,518	206,448	4,525,966	
Total current liabilities	<u>8,467,402</u>	<u>5,010,394</u>	<u>5,160,368</u>	<u>1,315,693</u>	<u>19,953,857</u>	<u>11,314,929</u>
Noncurrent liabilities:						
Payable from restricted assets - refundable deposits	1,045,139	692,660			1,737,799	
Compensated absences						6,931,285
Net OPEB obligation						45,527,073
Claims liability						16,390,335
Long-term debt:						
Revenue bonds payable		43,606,475			43,606,475	
Derivative instrument SWAP	7,518,877				7,518,877	
Loan payable	6,522,243				6,522,243	
Notes payable						20,658
Obligations under capital leases						705,974
Certificates of participation	60,861,213	1,379,326		4,725,000	66,965,539	
Developer advances	1,704,036				1,704,036	
Advances from other funds				1,324,704	1,324,704	
Total noncurrent liabilities	<u>77,651,508</u>	<u>45,678,461</u>	<u>5,160,368</u>	<u>6,049,704</u>	<u>129,379,673</u>	<u>69,575,325</u>
Total liabilities	<u>86,118,910</u>	<u>50,688,855</u>	<u>5,160,368</u>	<u>7,365,397</u>	<u>149,333,530</u>	<u>80,890,254</u>
Invested in capital assets, net of related debt	64,488,591	140,145,155	21,077,906	48,929,484	251,025,494	17,130,036
Unrestricted	<u>92,752,568</u>	<u>34,419,098</u>	<u>3,041,661</u>	<u>5,494,114</u>	<u>159,323,083</u>	<u>(27,184,653)</u>
Total net assets	<u>\$ 157,241,159</u>	<u>\$ 174,564,253</u>	<u>\$ 24,119,567</u>	<u>\$ 54,423,598</u>	<u>410,348,577</u>	<u>\$ (10,054,617)</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.					<u>(11,661,566)</u>	
Net assets of business-type activities					<u>\$ 398,687,011</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, 2010**

	Enterprise					Internal Service
	Water	Sewer	Bus	Other Enterprise	Total Enterprise	
<b>OPERATING REVENUES:</b>						
Charges for services	\$ 54,208,363	\$ 37,305,248	2,527,562	\$ 11,378,327	\$ 105,419,500	\$ 42,069,111
Sales						4,289,240
Cost of sales						(3,733,953)
Miscellaneous	461,678	5,483	242,252	85,290	794,703	
Total operating revenues	<u>54,670,041</u>	<u>37,310,731</u>	<u>2,769,814</u>	<u>11,463,617</u>	<u>106,214,203</u>	<u>42,624,398</u>
<b>OPERATING EXPENSES:</b>						
Salaries and wages	5,898,699	5,366,829	907,694	2,725,151	14,898,373	4,081,136
Contractual services	2,183,483	2,558,668	9,273,118	3,286,462	17,301,731	1,826,064
Utilities	2,148,457	1,249,450	89,216	499,216	3,986,339	437,737
Maintenance and supplies	6,963,690	2,813,088	2,025,828	1,867,849	13,670,455	3,938,198
Water purchases	14,074,872				14,074,872	
Insurance	267,203	584,612	51,764	280,412	1,183,991	15,142,530
Claims expense						6,541,335
Employee benefits	2,824,135	2,699,697	448,655	1,116,785	7,089,272	9,532,783
Administration services	1,640,807	1,411,022	653,726	1,505,961	5,211,516	1,728,417
Allocated indirect administrative costs	1,426,375	1,319,021	105,391	220,244	3,071,031	308,280
Other	496,318	92,905	94,151	154,555	837,929	54,946
Depreciation	4,262,261	7,205,977	1,841,405	3,180,472	16,490,115	3,408,724
Total operating expenses	<u>42,186,300</u>	<u>25,301,269</u>	<u>15,490,948</u>	<u>14,837,107</u>	<u>97,815,624</u>	<u>47,000,150</u>
OPERATING INCOME (LOSS)	<u>12,483,741</u>	<u>12,009,462</u>	<u>(12,721,134)</u>	<u>(3,373,490)</u>	<u>8,398,579</u>	<u>(4,375,752)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>						
Operating grants		50,000	13,658,181	(1,669)	13,706,512	142,462
Gain (Loss) on disposition of capital assets	(19,875)	(711,469)	(161,557)		(892,901)	(396,902)
Tax revenue				265,587	265,587	
Tax expense	(92,291)	(101,056)		(290,386)	(483,733)	
Interest income	849,474	512,503	31,128	55,384	1,448,489	674,961
Net increase in fair value of investments	638,055	234,583	31,056	27,208	930,902	286,341
Rental income	39,300	60,706		676,557	776,563	
Settlements and recoveries		447,102			447,102	
Interest expense	(1,038,823)	(1,810,816)			(2,849,639)	(8,595)
Trustee fees	(1,500)			(2,800)	(4,300)	
Amortization of costs of issuance	(88,980)	68,883			(20,097)	
Total nonoperating revenues (expenses)	<u>285,360</u>	<u>(1,249,564)</u>	<u>13,558,808</u>	<u>729,881</u>	<u>13,324,485</u>	<u>698,267</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	<u>12,769,101</u>	<u>10,759,898</u>	<u>837,674</u>	<u>(2,643,609)</u>	<u>21,723,064</u>	<u>(3,677,485)</u>
Capital contributions	652,693	867,697	664,299	713,800	2,898,489	6,566
Transfers in	264,000		204,341	1,175,281	1,643,622	1,414,206
Transfers out	(1,197,325)	(403,984)	(8,400)	(436,216)	(2,045,925)	(955,212)
Special item	(671,141)	(655,168)			(1,326,309)	
CHANGE IN NET ASSETS	<u>11,817,328</u>	<u>10,568,443</u>	<u>1,697,914</u>	<u>(1,190,744)</u>	<u>22,892,941</u>	<u>(3,211,925)</u>
NET ASSETS, July 1 (as restated)	<u>155,507,731</u>	<u>165,658,760</u>	<u>22,421,653</u>	<u>55,619,342</u>		<u>(6,809,150)</u>
PRIOR YEAR ADJUSTMENTS	<u>(10,083,900)</u>	<u>(1,662,950)</u>		<u>(5,000)</u>		<u>(33,542)</u>
NET ASSETS, June 30	<u>\$ 157,241,159</u>	<u>\$ 174,564,253</u>	<u>\$ 24,119,567</u>	<u>\$ 54,423,598</u>		<u>\$ (10,054,617)</u>
Adjustment to reflect the consolidation of internal service fund					<u>(526,663)</u>	
Change in net assets of business-type activities					<u>\$ 22,366,278</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, 2010

	Enterprise					Internal Service
	Water	Sewer	Bus	Other Enterprise	Total Enterprise	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>						
Receipts from customers and users	\$ 54,352,528	\$ 37,409,151	\$ 2,804,211	\$ 12,163,243	\$ 106,729,133	\$ 1,937,046
Receipts from interfund services provided	339,138	41,608		1,839	382,585	40,435,055
Payments to suppliers	(24,025,394)	(5,888,426)	(11,490,536)	2,665,883	(38,738,473)	(21,568,965)
Payment of insurance claims						(6,695,983)
Payments to employees	(8,660,684)	(8,023,389)	(1,352,958)	(3,836,359)	(21,873,390)	(9,125,882)
Payments for interfund services used	(5,542,397)	(4,961,767)	(851,892)	(10,507,459)	(21,863,515)	(2,659,818)
Net cash provided (used) by operating activities	<u>16,463,191</u>	<u>18,577,177</u>	<u>(10,891,175)</u>	<u>487,147</u>	<u>24,636,340</u>	<u>2,321,453</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>						
Operating grants received		50,000	16,144,448	(1,669)	16,192,779	146,046
Taxes received				265,587	265,587	
Settlements and recoveries		447,102			447,102	
Transfers in	264,000		204,341	1,175,281	1,643,622	1,414,206
Transfers out	(1,197,325)	(403,984)	(8,400)	(436,216)	(2,045,925)	(955,212)
Due from other funds						101,576
Net cash provided (used) by noncapital financing activities	<u>(933,325)</u>	<u>93,118</u>	<u>16,340,389</u>	<u>1,002,983</u>	<u>16,503,165</u>	<u>706,616</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>						
Acquisition and construction of capital assets	(10,471,123)	(36,202,415)	(3,606,838)	(916,566)	(51,196,942)	(3,123,895)
Proceeds of sale of capital assets						(396,902)
Proceeds of debt issues						
Costs of issuance paid	56,308	46,220			102,528	
Principal repayments	5,122,883	(1,621,312)		(235,000)	3,266,571	790,577
Interest paid	(1,129,534)	(1,750,483)		992	(2,879,025)	(8,595)
Trustee fees	(1,500)			(2,800)	(4,300)	
Capital grants received			664,299	61,805	726,104	
Net cash used by capital and related financing activities	<u>(6,422,966)</u>	<u>(39,527,990)</u>	<u>(2,942,539)</u>	<u>(1,091,569)</u>	<u>(49,985,064)</u>	<u>(2,738,815)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>						
Interest received	1,050,237	637,858	37,068	58,997	1,784,160	734,337
Net increase in the fair value of investments	638,055	234,583	31,056	27,208	930,902	286,341
Net cash provided by investing activities	<u>1,688,292</u>	<u>872,441</u>	<u>68,124</u>	<u>86,205</u>	<u>2,715,062</u>	<u>1,020,678</u>
Net increase (decrease) in cash and cash equivalents	10,795,192	(19,985,254)	2,574,799	484,766	(6,130,497)	1,309,932
CASH AND CASH EQUIVALENTS, JULY 1	116,113,198	55,331,134	3,632,067	5,786,104	180,862,503	50,567,016
PRIOR PERIOD ADJUSTMENT	<u>(10,083,900)</u>	<u>(1,662,950)</u>		<u>(5,000)</u>	<u>(11,751,850)</u>	<u>(33,542)</u>
CASH AND CASH EQUIVALENTS, JUNE 30	<u>\$ 116,824,490</u>	<u>\$ 33,682,930</u>	<u>\$ 6,206,866</u>	<u>\$ 6,265,870</u>	<u>\$ 162,980,156</u>	<u>\$ 51,843,406</u>
<b>RECONCILIATION TO STATEMENT OF NET ASSETS:</b>						
Cash and cash equivalents	\$ 87,922,024	\$ 28,610,976	\$ 6,206,866	\$ 5,662,720	\$ 128,402,586	\$ 51,843,406
Cash and cash equivalents with fiscal agent	4,241,091	4,379,888		603,150	9,224,129	
Restricted assets-cash and cash equivalents	<u>24,661,375</u>	<u>692,066</u>			<u>25,353,441</u>	
TOTAL CASH AND CASH EQUIVALENTS	<u>\$ 116,824,490</u>	<u>\$ 33,682,930</u>	<u>\$ 6,206,866</u>	<u>\$ 6,265,870</u>	<u>\$ 162,980,156</u>	<u>\$ 51,843,406</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, 2010**

	Enterprise					Internal Service
	Water	Sewer	Bus	Other Enterprise	Total Enterprise	
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</b>						
Operating income (loss)	\$ 12,483,741	\$ 12,009,462	\$ (12,721,134)	\$ (3,373,490)	\$ 8,398,579	\$ (4,375,752)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:						
Depreciation	4,262,261	7,205,977	1,841,405	3,180,472	16,490,115	3,408,723
Rental income	39,300	60,706		676,557	776,563	
Taxes paid	(92,291)	(101,056)		(290,386)	(483,733)	
Special item	(671,141)	(655,168)			(1,326,309)	
Change in assets and liabilities:						
(Increase) in accounts receivable	(1,954)	(20,553)	57,796	36,731	72,020	(109,834)
(Increase) in utilities receivable	(118,590)	46,420		(12,840)	(85,010)	
(Increase) in taxes receivable	6,151				6,151	
Decrease in due from governments			(23,399)		(23,399)	(142,462)
(Increase) decrease in prepaid expenses						(189,000)
(Increase) in inventories						429,747
(Decrease) in accounts payable and accrued expenses	401,212	(52,629)	(49,234)	145,233	444,582	(1,033,357)
Increase in accrued salaries and benefits	62,150	43,137	3,391	5,577	114,255	33,543
Increase in compensated absences and OPEB						4,454,493
(Decrease) in claims liability						(154,648)
Increase in due to other governments		(12,574)		(22,398)	(34,972)	
Increase in due to other funds	(4,366)			140,674	136,308	
Increase in deferred revenues				1,017	1,017	
Increase (decrease) in refundable deposits	96,718	53,455			150,173	
Total adjustments	<u>3,979,450</u>	<u>6,567,715</u>	<u>1,829,959</u>	<u>3,860,637</u>	<u>16,237,761</u>	<u>6,697,205</u>
Net cash provided (used) by operating activities	<u>\$ 16,463,191</u>	<u>\$ 18,577,177</u>	<u>(10,891,175)</u>	<u>\$ 487,147</u>	<u>\$ 24,636,340</u>	<u>\$ 2,321,453</u>
<b>NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:</b>						
Capital assets transferred in	\$ 652,693	\$ 867,697				\$ 6,566
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, 2010**

	<u>Agency Funds</u>
<u>ASSETS</u>	
Cash and cash equivalents	\$ 8,855,649
Cash and cash equivalents held with fiscal agent	<u>3,924,436</u>
	<u>\$ 12,780,085</u>
<u>LIABILITIES</u>	
Due to special district bondholders	\$ 8,046,312
Deposits held as agent for others	<u>4,733,773</u>
	<u>\$ 12,780,085</u>

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

**CITY OF MODESTO**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2010**

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. THE FINANCIAL REPORTING ENTITY**

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

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

1. The Redevelopment Agency of the City of Modesto (the Agency) was established by the City as a separate legal entity in accordance with state law. The purpose of the Agency is to encourage new investment and reinvestment within legally designated redevelopment areas in partnership with property owners.
2. The Modesto Public Financing Authority was established as a separate legal entity whose sole purpose is to provide financing for various City capital projects.
1. 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 Capital Facility Fees Fund accounts for special fees collected on new building permits to be used for construction of growth related projects, including police department expansion, fire department expansion, expressway loop, street lights, parks, new traffic signals, city hall expansion, wastewater treatment, streets, public transportation, and air quality improvements.

The Special Gas Tax Street Improvement Fund accounts for funds received from the State under the provisions of the Streets and Highway Code for the acquisition of real property, construction, maintenance or improvements of streets or highways. The fund also tracks the expenditures for the purposes of the allowable expenses for these state revenues.

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-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 and the Community Facilities Districts Capital Projects 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, 2010 is \$24,994,619.

Utility service accounts receivable are reported net of \$1,458,987 allowance for doubtful collections and include unbilled receivables using actual amounts billed in July for June services for governmental funds. Accounts receivable are reported net of \$642,491 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, 2010, \$672,978 net interest expense on tax-exempt debt of the City's Sewer Fund, and \$1,271,398 of the 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, 2010, the total estimated liability for all compensated absences, including sick leave, is \$11,739,301.

## 7. Fund Equity

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

# E. OTHER SIGNIFICANT ACCOUNTING POLICIES

## 1. Employee Benefits

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

## 2. Interfund Transactions

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

## 2. Proposition 1A Borrowing by the State of California

Under the provisions of Proposition 1A and as part of the 2009-10 budget package passed by the California state legislature on July 28, 2009, the State of California borrowed 8% of the amount of property tax revenue, including those property taxes associated with the in-lieu motor vehicle license fee, the triple flip in lieu sales tax, and supplemental property tax, apportioned to cities, counties and special districts (excluding redevelopment agencies). The state is required to repay this borrowing plus interest by June 30, 2013. After repayment of this initial borrowing, the California legislature may consider only on additional borrowing within a ten-year period. The amount of this borrowing pertaining to the City of Modesto was \$2,749,159.

Authorized with the 2009-10 State budget package, the Proposition 1A Securitization Program was instituted by the California Statewide Communities Development Authority ("California Communities"), a joint powers authority sponsored by the California State Association of Counties and the League of California Cities, to enable local governments to sell their Proposition 1A receivables to California Communities. Under the Securitization Program, California Communities simultaneously purchased the Proposition 1A receivables and issued bonds ("Prop 1A bonds") to provide local agencies with cash proceeds with two equal installments, on January 15, 2010 and May 3, 2010. The purchase price paid to the local agencies equaled 100% of the amount of the property tax reduction. All transaction costs of issuance and interest were paid by the State of California. Participating local agencies have no obligation on the bonds and no credit exposure to the State. The City participated in the securitization program and accordingly property taxes have been recorded in the same manner as if the State had not exercised its rights under Proposition 1A. The receivable sale proceeds were equal to the book value and, as a result, no gain or loss was recorded.

## F. NEW ACCOUNTING STANDARDS

The Governmental Accounting Standards Board (GASB) issued Statement #51, "Accounting and Financial Reporting for Intangible Assets." This statement establishes accounting and financial reporting requirements for intangible assets including easements, water rights, and computer software. The City has implemented this requirement as part of the City's financial statement for June 30, 2010.

The GASB also issued Statement #53, "Accounting and Financial Reporting for Derivative Instruments." This statement establishes accounting and financial reporting requirements for derivative instruments entered into by state and local governments. The City has implemented this requirement as part of the City's financial statement for June 30, 2010.

## 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:

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Minimum Credit Quality</u>	<u>Maximum Percentage Of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
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 year	N/A	20% of surplus	None
Negotiable Certificates of Deposit	5 years	AA	30%	None
Repurchase Agreements	90 days	Top rating category	None	None
Reverse Repurchase Agreements	92 days	N/A	20%	None
Medium Term Corporate Notes	5 years	AA -	30%	None
Money Market Funds	N/A	Top rating category	None	None
California Local Agency Investment Fund	N/A	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, 2010 the fair value approximated the City's Cost. At June 30, 2010, these investments have an average maturity of 402 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	\$37,395,233	0	\$37,395,233	0	
Federal agency securities					
Bonds	22,958,108	6,061,017	7,778,608	9,118,483	
Notes	117,159,775	37,996,454	41,214,278	37,949,043	
Discount Notes	7,708,055	7,708,055			
U.S. Treasury Bills	2,624,409	2,624,409			
CAMP	106,264,506	106,264,506			
Cash in banks	193,162	193,162			
Held by trustee:					
Money market funds	5,648,815	5,648,815			
Federal agency discount notes					
Federal agency securities notes	5,379,466	5,379,466			
CAMP	18,510,304	18,510,304			
<b>Total</b>	<b>\$323,841,833</b>	<b>\$190,386,188</b>	<b>\$86,388,119</b>	<b>\$47,067,526</b>	

Maturity dates for callable notes are based on call dates.

#### 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, 2010 for each investment type:

Investment Type	Total	Exempt from Disclosure	AAA and A-1+	Not Rated
U.S. Treasury Notes	\$37,395,233	\$37,395,233		
Federal agency securities	147,825,938		147,825,938	
U.S. Treasury Bills	2,624,409		2,624,409	
CAMP	106,264,506		106,264,506	
Held by trustee:				
Money market funds	5,648,815		5,648,815	
Federal agency discount notes				
Federal agency securities notes	5,379,466		5,379,466	
CAMP	18,510,304		18,510,304	
Guaranteed investment contracts				
<b>Total</b>	<b>\$323,648,671</b>	<b>\$37,395,233</b>	<b>\$286,523,438</b>	

On May 27, 1993 the City entered into a 20 year Repurchase Agreement with Lehman Government Securities Inc. to fulfill its "reserve requirement" for the 1993 Community Center Refinancing Refunding Certificates of Participation. The minimum credit rating allowable according the Repurchase Agreement was a rating of "A-" by Standard and Poors. On September 16, 2008, Standard and Poors downgraded Lehman Brothers Holdings Inc. to a "D" credit rating. The downgrade triggered a required "transaction reduction," and on October 1, 2008 the City contacted Lehman Government Securities Inc. and Lehman Brothers Holdings Inc. to request payment of the purchase price of the Repurchase Agreement plus additional amounts required under the Agreement. The City received payment of the Repurchase Agreement in April 2009. The reserve fund is now invested in Federal Agencies.

### 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, 2010:

<u>Issuer</u>	<u>Investment Type</u>	<u>Reported Amount</u>	<u>Percent of Portfolio</u>
Freddie Mac (FHLMC)	Federal agency securities	\$62,095,533	19.2%
Federal Home Loan Bank	Federal agency securities	38,686,163	11.9%
Fannie Mae (FNMA)	Federal agency securities	50,439,544	15.6%

Investments in any one issuer, other than U. S. Treasury securities, mutual funds, and external investment pools, that represent 5% or more of enterprise funds were for the Sewer Enterprise Fund as follows at June 30, 2009:

<u>Issuer</u>	<u>Investment Type</u>	<u>Reported Amount</u>
Federal Home Loan Bank	Federal agency securities	\$3,395,302

### 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, 2010 was as follows:

			<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Governmental activities:						
Capital assets, not being depreciated:						
Land			32,082,218	809,126	200,853	32,690,491
Construction in Progress			29,283,421	2,470,212	16,711,925	15,041,708
Total capital assets, not being depreciated:			\$ 61,365,639	\$ 3,279,338	\$ 16,912,778	\$ 47,732,199
Capital assets being depreciated:						
Building			31,714,964	254,673	-	31,969,637
Improvements other than buildings			49,450,895	16,942,092	85,841	66,307,146
Furnishings & equipment			21,227,231	1,325,487	7,169,939	15,382,779
Intangible Assets			-	2,416,213	-	2,416,213
Equipment pool			28,371,714	1,993,014	2,045,431	28,319,297
Infrastructure						
	Streets		473,038,088	14,295,449	-	487,333,537
	Signals		16,587,096	297,704	-	16,884,800
	Bridges		25,972,368	234,839	-	26,207,207
Total capital assets, being depreciated:			\$ 646,362,356	\$ 37,759,471	\$ 9,301,211	\$ 674,820,616
Less accumulated depreciation for:						
			<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Buildings			(14,050,138)	(1,288,515)	-	(15,338,653)
Improvements			(25,294,793)	(2,913,037)	15,932	(28,191,898)
Furnishings & equipment			(12,040,691)	(1,282,675)	3,125,060	(10,198,306)
Intangible Assets			-	(433,885)		(433,885)
Equipment pool			(15,173,235)	(2,798,402)	1,525,559	(16,446,078)
Infrastructure						
	Streets		(224,809,452)	(12,149,299)	-	(236,958,751)
	Signals		(11,316,607)	(1,702,987)	-	(13,019,594)
	Bridges		(2,945,519)	(543,423)	-	(3,488,942)
Total accumulated depreciation			\$ (305,630,435)	\$ (23,112,223)	\$ 4,666,551	\$ (324,076,107)
Total capital assets being depreciated, net			\$ 340,731,921	\$ 14,647,248	\$ 4,634,660	\$ 350,744,509
Governmental activities capital assets, net			\$ 402,097,560	\$ 17,926,586	\$ 21,547,438	\$ 398,476,708

	Beginning Balance	Additions	Deletions	Ending Balance
Business-type activities:				
Capital Assets not being depreciated:				
Land	29,806,353	261,876		30,068,229
Construction in Progress	66,783,259	44,690,090	27,564,128	83,909,221
Total capital assets, not being depreciated:	\$ 96,589,612	\$ 44,951,966	\$ 27,564,128	\$ 113,977,450
Capital Assets being depreciated:				
Building	83,160,909	-	-	83,160,909
Improvements other than buildings	163,514,656	28,914,307	-	192,428,963
Furnishings & equipment	6,342,945	4,255,754	672,687	9,926,012
Intangible Asset	-	149,098	-	149,098
Buses and Fareboxes	18,496,423	-	3,161,910	15,334,513
Pipelines	146,472,520	1,251,469	-	147,723,989
Total capital assets, being depreciated:	\$ 417,987,453	\$ 34,570,628	\$ 3,834,597	\$ 448,723,484
Less accumulated depreciation for:				
Buildings	(42,184,591)	(2,520,074)		(44,704,665)
Improvements	(93,768,321)	(9,098,415)		(102,866,736)
Furnishings & equipment	(3,646,267)	(677,595)	542,024	(3,781,838)
Intangible Asset		(17,552)		(17,552)
Buses and Fareboxes	(11,377,666)	(1,320,917)	2,885,777	(9,812,806)
Pipelines	(26,891,800)	(1,869,001)		(28,760,801)
Total accumulated depreciation	\$ (177,868,645)	\$ (15,503,554)	\$ 3,427,801	\$ (189,944,398)
Total capital assets being depreciated, net	\$ 240,118,808	\$ 19,067,074	\$ 7,262,398	\$ 258,779,086
Business-type activities capital assets, net	\$ 336,708,420	\$ 64,019,040	\$ 34,826,526	\$ 372,756,536

Depreciation expense was charged to functions/programs as follows:

Governmental activities:

General government	446,208
Community development	142,054
Highways and streets, including depreciation of general infrastructure assets	14,717,700
Public works	892,300
Parks and recreation	933,484
Public safety	2,683,801
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	3,296,676
Total depreciation expense – governmental activities	<u>\$23,112,223</u>

Business-type activities:

Parking	396,668
Water	4,262,262
Sewer	7,205,977
Storm Drain	619,269
Compost	281,908
Airport	810,924
Bus	1,841,402
Golf	310,227
Community center	761,478
Total depreciation expense – business-type activities	<u>\$16,490,115</u>

**C. LONG-TERM DEBT**

Loans Payable

Governmental activities:

No-interest loan payable to the Stanislaus County Economic Development Bank loan program, to pay master plan costs incurred by the City's Redevelopment Agency for the Kansas Avenue Business Park Project; no obligation to begin repayments until project is complete and revenue stream begins; final payment due in 2016 if not repaid sooner. \$405,000

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 \$903,362

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. \$1,326,174

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. \$6,493,459

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

<u>Year Ending June 30,</u>	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2011			1,297,390	40,377
2012			1,586,566	33,256
2013			1,594,099	25,723
2014			1,601,698	18,124
2015			1,609,596	10,226
2016	<u>\$903,362</u>		<u>130,284</u>	<u>2,076</u>
Total	<u>\$903,362</u>	<u>\$0</u>	<u>\$7,819,633</u>	<u>\$129,782</u>

Certificates of Participation

Governmental activities:

1993 Refunding Certificates of Participation issued to refund earlier certificates for the Modesto Centre Plaza Community Center capital project; serial certificates with annual maturities on November 1, in amounts from \$935,000 to \$1,040,000; interest rates from 5.5% - 5.6%; term certificates at 5.6% in the amount of \$4,740,000 maturing November 1, 2014, and in the amount of \$12,235,000 at 5.0% maturing November 1, 2023, with annual payments of \$1,090,000 to \$1,610,000 beginning in 2011. The certificates are repayable from any source of available funds of the City. \$ 18,015,000

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. \$ 4,975,000

Water Enterprise Fund:

1997 Refunding Certificates of Participation issued to refund earlier certificates for various Water Enterprise Fund capital projects; serial certificates with annual maturities on October 1, in amounts from \$855,000 to \$1,050,000; interest rates from 4.80% to 5.0%; term certificates at 5.4% in the amount of \$6,145,000 maturing on October 1, 2017, and in the amount of \$7,965,000 at 5.43% maturing on October 1, 2022, with annual payments from \$1,015,000 to \$1,765,000 beginning in 2013. 17,100,000

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, 2009. 47,050,000

Total principal balances – business-type activities 69,125,000

Less:

Unamortized bond discount – 1997 Water Certificates of Participation	(296,851)
Unamortized bond discount – 2008 Water Refunding Certificates of Participation	(142,927)
Deferred amount on refunding – 1997 Water Certificates of Participation	(1,000,427)
Deferred amount on refunding – 2008 Water Refunding Certificates of Participation	<u>(618,582)</u>

Total business-type activities certificates of participation \$67,066,213

The City has pledged future Water Enterprise Fund revenues, net of specified operating expenses, to repay the 1997 and 2008 Certificates of Participation, and the loan from the State of California Department of Water Resources, 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 loan is \$109,967,340. The Water Fund's principal and interest paid on certificates and loan for the current year, along with payments to Modesto Irrigation District under the Treatment and Delivery Agreement, totaled \$11,665,079, and net revenues of the Fund were \$23,122,152, which represented coverage of 211%.

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

Year Ending June 30,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2011	1,040,000	906,310	1,480,000	3,085,136
2012	1,090,000	846,670	1,545,000	3,010,706
2013	1,150,000	783,950	1,635,000	2,930,983
2014	1,215,000	717,730	1,705,000	2,847,511
2015	1,285,000	647,730	1,815,000	2,758,480
2016-2020	6,250,000	2,281,750	10,470,000	12,319,863
2021-2025	5,985,000	617,375	12,795,000	9,395,733
2026-2030			13,570,000	6,467,153
2031-2035			16,535,000	3,256,657
2036-2037			7,575,000	253,256
<b>Total</b>	<b>\$18,015,000</b>	<b>\$6,801,515</b>	<b>\$69,125,000</b>	<b>\$46,325,478</b>

Lease Revenue Bonds – Governmental activities:

2008 Lease Revenue Refunding Bonds in the amount of \$65,170,000 issued to refund the balance of the 1998 Lease Revenue Bonds and the 2007 Lease Revenue Refunding and Capital Improvement Bonds; variable rate securities maturing September 1, 2033, with interest initially calculated weekly, fluctuating according to market conditions. The bonds may be converted to a daily, term, flexible, or fixed rate. The combination of the variable rate bonds and a floating swap rate creates a synthetic fixed-rate debt for the City. The synthetic fixed rate was 3.61% at June 30, 2010.

\$64,275,000

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

Year Ending June 30,	Principal	Interest
2011	1,020,000	2,947,130
2012	1,125,000	2,897,330
2013	1,260,000	2,839,194
2014	1,395,000	2,776,079
2015	1,505,000	2,707,519
2016-2020	9,055,000	12,329,015
2021-2025	12,920,000	9,795,811
2026-2030	18,225,000	6,110,341
2031-2034	17,770,000	1,488,959
<b>Total</b>	<b>\$64,275,000</b>	<b>\$43,891,378</b>

Revenue Bonds – Business-type activities:

Sewer Enterprise Fund:

Wastewater Treatment Facility Revenue Bonds, Series 2005 Series A and B; Series A (non-taxable) interest payable on November 1 and May 1; serial certificates with annual maturities on November 1, in amounts from \$1,660,000 to \$3,230,000, with interest rates from 3.0% to 5.25%; Series B (taxable) paid in full during 2008 fiscal year.	\$ 31,515,000
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.	<u>16,535,000</u>
Total principal balances – business-type activities	48,050,000
Plus: Unamortized bond premium - 2005 Bonds	1,661,405
Less:	
Unamortized bond discount – 2006 Bonds	(282,079)
Deferred amount on refunding – 2005 Bonds	<u>(2,678,525)</u>
Total business-type activities revenue bonds	<u>\$ 46,750,801</u>

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 \$74,195,651. The Sewer Fund's principal and interest paid for the current year and total customer net revenues were \$4,110,221 and \$20,925,212 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>
2011	1,765,000	2,250,308
2012	1,855,000	2,159,808
2013	1,955,000	2,064,558
2014	2,050,000	1,964,432
2015	2,160,000	1,859,183
2016-2020	12,530,000	7,579,260
2021-2025	11,000,000	4,195,247
2026-2030	5,245,000	2,592,793
2031-2035	6,485,000	1,350,968
2036-2037	<u>3,005,000</u>	<u>129,094</u>
Total	<u>\$48,050,000</u>	<u>\$26,145,651</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.

\$3,748,000

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.

54,436

Total notes payable

\$3,802,436

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>
2011	207,778	206,685
2012	202,658	196,417
2013	191,000	186,906
2014	201,000	177,064
2015	211,000	166,483
2016-2020	1,224,000	643,247
2021-2025	1,565,000	242,387
Total	<u>\$3,802,436</u>	<u>\$1,819,189</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.

Terms - The terms, including the counterparty credit rating of the outstanding swaps, as of June 30, 2010 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	\$47,335,000	5/30/2008	Bank of America	AA+	3.48%	63.7% of 30-day LIBOR, plus .154%	10/1/2036
2008 Lease Revenue Refunding and Capital Improvement	65,170,000	8/28/2008	Bank of America	AA+	3.61%	63.7% of 30-day LIBOR, plus .154%	9/1/2033

Based on the swap agreement the City owes interest calculated at a fixed rate to the counterparty (Bank of America). 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, 2010, the fair value of the swaps were in favor of the counter party as shown in the following table:

<u>Bond Issue</u>	<u>Fair Value</u>
2008 Water Refunding Revenue Certificates of Participation	(\$10,152,755)
2008 Lease Revenue Bonds	(\$7,507,442)

Credit risk - As of June 30, 2010, 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, 2010, 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		
2011	1,305,000	1,655,194	3,277,970	6,238,164
2012	1,410,000	1,634,438	3,237,416	6,281,854
2013	1,570,000	1,611,488	3,188,751	6,370,239
2014	1,705,000	1,586,419	3,137,619	6,429,038
2015	1,845,000	1,559,269	3,082,147	6,486,416
2016-2020	10,915,000	7,324,031	14,446,753	32,685,784
2021-2025	18,900,000	6,282,600	12,328,919	37,511,519
2026-2030	31,795,000	4,257,282	8,320,214	44,372,496
2031-2035	34,305,000	1,626,469	3,119,147	39,050,616
2036-2037	7,575,000	86,456	166,800	7,828,256
<b>Total</b>	<b>\$111,325,000</b>	<b>\$27,623,646</b>	<b>\$54,305,736</b>	<b>\$193,254,382</b>

### Changes in Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2010, was as follows:

	Beginning Balance (restated)	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental activities:</b>					
Loans payable	\$ 903,362			\$ 903,362	
Certificates of participation	19,000,000		\$ 985,000	18,015,000	\$ 1,040,000
Derivative instrument SWAP	0	\$10,172,612		10,172,612	
Lease revenue bonds	65,170,000		895,000	64,275,000	1,020,000
Notes payable	3,999,252		196,816	3,802,436	207,778
Obligations under capital leases	454,401	893,110	125,958	1,221,553	245,598
Compensated absences	9,630,691	9,077,806	9,409,289	9,299,208	3,990,653
Net OPEB obligation	34,203,668	3,583,803		37,787,471	
Claims liability	21,425,553	6,386,687	6,541,335	21,270,905	4,880,570
Governmental activities long-term liabilities	<u>\$154,786,927</u>	<u>\$30,114,018</u>	<u>\$18,153,398</u>	<u>\$166,747,547</u>	<u>\$11,384,599</u>
<b>Business-type activities:</b>					
Loan payable	\$ 1,543,554	6,493,459	\$217,380	\$ 7,819,633	\$1,297,390
Compensated absences	1,971,952	1,859,310	1,391,169	2,440,093	817,363
Net OPEB obligation	7,005,570	734,032		7,739,602	
Derivative instrument SWAP	0	7,518,877		7,518,877	
Certificates of participation	70,545,000		1,420,000	69,125,000	1,480,000
Unamortized discounts	(467,450)		(27,672)	(495,122)	
Deferred amount on refunding	(1,717,536)		(98,527)	(1,816,063)	
Revenue bonds	49,760,000		1,710,000	48,050,000	1,765,000
Unamortized premium	1,789,205		127,800	1,661,405	
Unamortized discount	(292,526)		(10,447)	(302,973)	
Deferred amount on refunding	(2,884,566)		(206,041)	(3,090,607)	
Developer advances	1,892,826		94,395	1,798,431	94,395
Business-type activities long-term liabilities	<u>\$129,146,029</u>	<u>\$16,605,678</u>	<u>\$4,618,057</u>	<u>\$141,133,650</u>	<u>\$5,454,148</u>

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 \$54,436 of internal service funds obligations under notes payable, and \$893,110 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.

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, 2010 \$3,770,000 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, 2010:

Year Ending June 30,	
2011	189,000
2012	189,000
2013	189,000
2014	190,674
2015	190,674
Total minimum lease payments	<u>948,348</u>
Less: amount representing interest	<u>(55,238)</u>
Present value of minimum lease payments	<u>\$893,110</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, 2010:

Year Ending June 30,	
2011	77,611
2012	77,611
2013	77,611
2014	77,611
2015	77,611
Total minimum lease payments	388,055
Less: amount representing interest	<u>(59,612)</u>
Present value of minimum lease payments	<u>\$328,443</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, 2010, the total outstanding balance due under the agreements is \$1,798,431. The total annual payments fluctuate depending on the ending date of each agreement. At June 30, 2010, the amount of \$94,395 due during fiscal year 2011 has been reported as "current portion-developer advances" on the Proprietary Funds statement of net assets. The remaining \$1,704,036 of outstanding principal has been reported under noncurrent liabilities, as "developer advances."

F. INTERFUND BALANCES

Interfund balances as of June 30, 2010 consist of the following:

<u>Due to General Fund from:</u>	
Other governmental funds – total due to/due from	\$3,407,995
Other enterprise funds – total due to/ due from	\$261,782
Total Due to from General Fund	<u>\$3,669,777</u>
Total Due to/Due from	<u>\$3,669,777</u>
 <u>Advances from General Fund to:</u>	
Capital Facility Fees Fund	\$1,058,998
Other governmental funds	\$245,727
Other enterprise funds	\$1,324,704
Total advances from General Fund	<u>\$2,629,429</u>
 <u>Advances from Governmental Funds to:</u>	
Other governmental funds	\$1,249,071
Total advances from Governmental Funds	<u>\$1,249,071</u>
Total Advances from/Advances to	<u>\$3,878,500</u>

All balances reported as "due to/due from" are short-term loans to cover temporary fund cash shortages as of June 30, 2010, and were repaid early in fiscal year 2015. Balances reported as "advance to/advance from" were for capital projects expenditures and are either in the process of being repaid or have scheduled repayments in future years.

G. RESERVES AND DESIGNATIONS OF FUND BALANCES

The City's reserves and designations at June 30, 2010 are comprised of the following:

	<u>General</u>	<u>Capital Facility Fees</u>	<u>Special Gas Tax Street Improvement</u>	<u>Other Governmental</u>
<u>Reserved for:</u>				
Encumbrances	\$2,629,429	\$3,863,854	\$19,671	\$6,027,521
Loan programs				21,886,152
Interfund advances	242,286			
Set-aside requirement				1,055,392
Property held for resale				784,000
Debt service				<u>6,050,302</u>
 Total reserved	 <u><u>\$2,871,715</u></u>	 <u><u>\$3,863,854</u></u>	 <u><u>\$19,671</u></u>	 <u><u>\$35,803,367</u></u>
<u>Designated for:</u>				
Pending projects		<u>29,235,667</u>		<u>\$5,056,185</u>
 Total designated	 <u><u>\$0</u></u>	 <u><u>\$29,235,667</u></u>	 <u><u>\$0</u></u>	 <u><u>\$5,056,185</u></u>

1. Reserve for encumbrances - Amounts reserved for encumbrances represent the total of outstanding purchase orders and contracts which are scheduled for reappropriation in the next fiscal year.
2. Reserve for loan programs - Amounts equal to the outstanding housing program and small business notes receivable are reserved in the Housing and Community Development Fund Special Revenue Fund and the Redevelopment Agency Capital Projects Fund.
3. Reserve for interfund advances - The City reserves an amount in each fund equal to the advances to other funds.
3. Reserve for Redevelopment Agency set-aside requirement - The portion of fund balance relating to State required low-to-moderate income housing set-aside, has been reserved in the Redevelopment Agency Capital Projects Fund.
5. Reserve for property held for resale - The City reserves an amount equal to the property held for resale by the Redevelopment Agency, since it is not an available spendable resource.
6. Reserve for debt service - The total fund balances of the debt service funds are reserved for future debt service requirements.
7. Designation for pending projects - Designations for pending projects are established to fund projects approved but not yet appropriated.

H. DEFICIT FUND EQUITY

The Special Fund for Capital Outlays and Capital Grants Capital Projects Fund has a deficit fund balance of \$37,111 and \$472,370. 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 \$2,274,548, 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 \$40,035,802. It exists partially because the total compensated absences balance previously classified as debt of the governmental funds was included in this fund at its inception 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 \$2,321,503, 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 from:

	General Fund	Capital Facilities Fees	Special Gas Tax Street Improvements	Other Govern-mental	Water	Sewer	Bus	Other Enterprise Funds	Internal Service	Total
General Fund		678,000	852,200	\$1,100,148	\$65,000	\$66,000	\$8,400	\$70,000	\$394,694	\$3,234,442
Special Gas Tax St	1,812,175									1,812,175
Other Governmental	3,562,435	233,720	287,450	2,828,317	15,015	15,015			357,677	7,299,629
Water	264,000									264,000
Bus	1,500								202,841	204,341
Other Enterprise	534,327			(59,046)	700,000					1,175,281
Internal Service			307,711		417,310	322,969		366,216		1,414,206
<b>Grand Total</b>	<b>\$6,174,437</b>	<b>\$911,720</b>	<b>\$1,447,361</b>	<b>\$3,869,419</b>	<b>\$1,197,325</b>	<b>\$403,984</b>	<b>\$8,400</b>	<b>\$436,216</b>	<b>\$955,212</b>	<b>\$15,404,074</b>

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

J. NOTES RECEIVABLE

The notes receivable in the Other Governmental Funds of \$22,415,295 net of \$806,617 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.

## K. APPROVED LOANS PAYABLE

The approved loans payable in the Housing and Community Development Special Revenue Fund of \$300,041 consist of amounts being held for rehabilitation of properties using funds provided by federal grants. The liability is expected to be liquidated within one year.

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.

## L. SPECIAL ITEMS

These expenses in the Water and Sewer Enterprise funds represent legal costs incurred in pursuit of mitigating damages from the manufacturers of perchlorethylene, or PCE, a common chemical used in the dry cleaning industry. This chemical has seeped into the groundwater through sewer lines when improperly disposed, and threatens the City's groundwater supplies. Modesto has been proactive in attempting to recover damages and future cleanup costs from the dry cleaners and their insurers, and has also initiated litigation with the manufacturers. In the current year the City received payments related to insurance settlements that were deposited to the Sewer fund in the amount of \$412,069.

## 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, 2010 is \$21,270,905 consisting of \$18,239,000 workers' compensation, \$2,647,000 general liability, \$298,619 dental, and \$86,286 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 \$22,985,000 and \$2,622,000 respectively.

The current portion of the total claims liability is estimated to be \$4,880,570 and the balance of \$16,390,335 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, 2010. Changes in the Insurance Fund claims liability during the fiscal years ended June 30, 2009 and June 30, 2010 were:

	Claims Liability July 1	Current-Year Claims and Changes in Estimates	Current-Year Claim Payments	Claims Liability June 30
2008-09	22,949,872	2,057,837	(3,582,156)	21,425,553
2009-10	21,425,553	6,386,687	(6,541,335)	21,270,905

**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, 2010, the balance of these districts' outstanding debt was as follows:

Issue	Outstanding Amount
Village One #2 Community Facilities District	\$30,825,000
Fairview Village Community Facilities District	4,900,000

**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, 2010 there were six series of conduit revenue bonds outstanding. The aggregate principal amount payable for these multiple-family housing and health care facility bond issues, issued between 1993 and 2002, was \$34,960,000.

**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. On one such matter, there is the possibility the City may incur losses over \$100 million. Of the remaining matters, management and the City legal counsel do not anticipate any material effect on the June 30, 2010 financial statements. However, the outcome of the litigation is not known and no liability has been accrued on the financial statements.

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, 2010, 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 \$29,860,252 as of June 30, 2010 for contracts awarded but not completed and other outstanding purchase orders. This amount consists of \$242,286 in the General Fund, \$3,863,854 in the Capital Facility Fees Fund, \$19,671 in the Special Gas Tax Street Improvements, \$6,018,268 in other governmental funds, \$17,990,658 in the enterprise funds, and \$1,700,281 in the internal service funds. Commitments of the governmental funds are recorded as fund balance reserves for encumbrances on the balance sheet. As of June 30, 2010, there are major contracts and other purchase orders outstanding for water and sewer system improvements, vehicle purchases, new financial system, construction of a 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 \$132,721 for the fiscal year ended June 30, 2010. As of June 30, 2010 the City's investment in this joint venture was \$1,795,115, and is included in governmental activities on the statement of net assets. Financial statements for TRRP are prepared by the City of Modesto Finance Department.

##### Stanislaus Drug Enforcement Agency

Stanislaus County (County) and the cities of Modesto, Oakdale, Ceres, Patterson, Turlock, Riverbank and Newman are the participants in the Stanislaus Drug Enforcement Agency (SDEA). The purpose of the SDEA is to maintain a specially trained police unit to assist each of the participating agencies in the enforcement of drug control laws, and to study, plan, and set priorities for effective enforcement of such laws throughout Stanislaus County. The governing board consists of the sheriff of Stanislaus County and the chief of police of each participating city. All participants contribute to the funding of the SDEA budgeted expenditures, based on population and assessed property value. The City's cash contribution to the SDEA for the fiscal year ended June 30, 2010 was \$673,358. The City's investment in this joint venture was estimated to be \$381,905 as of June 30, 2010, 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. Since then, the City of Modesto has been the fiscal administrator through fiscal year 2010. For the fiscal year ended June 30, 2010, the City's payments to the Agency were \$668,972 for operations and capital reserve. The City's equity interest in the Agency is \$11,719,961, 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, 2010, 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.

### 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 \$7,369,086. The treatment plant completed all tests and began commercial operations on May 15, 1995, at which time the City began paying for raw water and operations. The total cash paid to MID during the fiscal year ended June 30, 2010 was \$13,058,482 which is reported as "water purchases" expense on the proprietary funds statement of revenues, expenses and changes in net assets.

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, 2010, the total outstanding on the MID bonds is: \$63,995,000 for the 1998 bonds, and \$93,190,000 for the 2007 bonds for a total of \$157,185,000.

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, 2010 there were 435 participants receiving these health care benefits.

The OPEB Plan provisions and benefits in effect at June 30, 2010, are summarized as follows:

	Police (including Management)	General Employees	Management	Fire	Fire Management
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	\$535.00 for single  \$1,050.00 with dependents	\$535.00 for single  \$1,050.00 with dependents	\$540.88 for single  \$1,050.00 with dependents	\$97.00	\$540.88 for single  \$1,050.00 with dependents

Except for the Fire group, the City health allowance amounts may increase each year based on the health allowance for active employees. 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 December 1, 2008 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) 5% investment rate of return, (b) 3% projected annual salary increase, and (c) 4% 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, 2010 was 30 years.

The City has set aside \$17,200,599 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.

This liability is now reflected as part of the Net OPEB Obligation below:

Annual required contribution	\$ 5,627,617
Adjustment to annual required contribution	<u>1,263,290</u>
Annual pension cost	6,890,907
Contributions made	<u>(2,573,072)</u>
(Decrease) increase in net pensions obligations	4,317,835
Net pension obligation (asset) June 30, 2009	<u>41,209,238</u>
Net OPEB obligation (asset) June 30, 2010	<u><u>\$45,527,073</u></u>

The Plan annual required contributions and actual contributions for the year ended June 30, 2010 is set forth below:

Fiscal Year	Annual Required Contribution (ARC)	Actual Contribution	Percentage of ARC Contributed	Net OPEB Obligation
6/30/2008	\$5,752,966	\$2,125,269	36.9%	\$37,180,914
6/30/2009	\$5,627,617	\$2,862,583	50.8%	\$41,209,238
6/30/2010	\$5,627,617	\$2,573,072	45.7%	\$45,527,073

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 Liability (B)	Overfunded (Underfunded) Actuarial 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%

#### 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 9.192% of annual covered payroll for non-safety employees and 23.494% for safety employees. The contribution requirements of plan members and the City are established and may be amended by CalPERS.

## Annual Pension Cost

For 2010, the City's annual pension cost of \$11,938,820 for CalPERS was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 2009 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, 2010 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>
6/30/08	4,338,969	100%	-
6/30/09	4,534,013	100%	-
6/30/10	3,975,302	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>
6/30/08	8,333,064	100%	-
6/30/09	8,227,551	100%	-
6/30/10	7,963,518	100%	-

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

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (A)</u>	<u>Entry Age Actuarial Liability (B)</u>	<u>Overfunded (Underfunded) Actuarial Accrued Liability (A – B)</u>	<u>Funded Ratio (A/B)</u>	<u>Covered Payroll (C)</u>	<u>Unfunded Actuarial Liability as Percentage of Covered Payroll [(A – B)/C]</u>
<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)	95.8%	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%

## I. PRIOR YEAR ADJUSTMENTS

### Governmental Activities

Various state revenues had been collected in advance in FY 08-09 which have not yet been expended. A prior year adjustment has been reported in the Special Gas Tax Street Improvement to account for this correction in the amount of (\$674,436). A prior year adjustment has been reported in the Fleet Management Fund in the amount of (\$33,542) to correct a capital asset that was reported twice in error. For the governmental funds capital assets, an error in the amount of (\$218,446) was identified when assets were being retired for joint power agencies. The total amount of the prior period adjustment for governmental activities was a reduction of net assets in the amount of (\$926,424).

### Business-type Activities

The Water Fund and Sewer Fund reported a prior year adjustment in the amount of (\$3,590,442) and (\$1,662,950) to correct several capital improvement projects that were capitalized in error and should have been reported as operating expenses. Additionally, a few Sewer Fund construction projects when completed and transferred to improvements were not assigned the correct completion date but the original date of when construction began. The correction for this error was \$986,561.

In the Water Fund the City entered into a Memorandum of Understanding in July 2008 with the Modesto Irrigation District related to the EIFS repair and roof replacement project for the Modesto Regional Water Treatment Plant facilities. The City reimbursement for these repairs is (\$6,493,458) and the payments will begin in FY 2010-11 and spread over five annual installments. This reimbursement has been reported as a loans payable on the Water Fund statements.

A prior year adjustment was reported in the Golf Fund in the amount of \$5,000 to adjust a prior year accrual accounted for twice. The total amount of the prior period adjustment for business-type activities was a reduction of net assets in the amount of (\$6,244,954).

## J. SUBSEQUENT EVENTS

### 1) ARRA (American Recovery and Reinvestment Act) Funding

On June 2009, the Council authorized the City submit an application for the Energy Efficiency and Conservation Block Grant. In FY 2010-11, the City was awarded \$1,952,900 in grant funds for this grant to fund new capital improvement projects will include upgrading HVAC units at City buildings, installing foam roofs and solar panels on City buildings, replacing high pressure sodium lights with LED lights and replacing inefficient light fixtures at the Transportation Center with more energy efficiency fixtures.

### 2) Bond Disclosure Information

The City of Modesto, Wastewater Revenue Refunding Bonds, Series 2005A, Wastewater Revenue Bonds, Series 2006A, and Water Refunding Revenue Certificates of Participation, 2008 Series A had to report a specified event to SEC due to on October 25, 2010, Standards & Poor's changed the insured rating on these bonds identified above to AA+ from AAA as a result of the downgrading of Assured Guaranty the insurer of these bonds.

In October 2010, the City of Modesto received a confirmed AA- rating from Fitch on the City's Wastewater Revenue Bonds, Series 2005 and 2006.

In August 2010, the City placed a \$9 million collateral posting deposit with JP Morgan in order to secure a \$29 million negative position under the 2007 Swap Agreement for the 2007 Modesto Irrigation District (MID) Revenue Bonds based on the termination value and the Pledgor's Threshold. In May 2007, the Council adopted Resolution 2007-275 approved the issuance of revenue bonds by the Modesto Irrigation District Financing Authority related to the financing of Phase 2 of the Treatment and Delivery Agreement with MID. This debt issued included an interest rate swap agreement with Bear Sterns Capital Markets, and is being assigned to JP Morgan Chase Bank. Under the existing

Swap Agreement if three conditions exist, then the City can be required to post collateral with an independent trustee to assure JP Morgan Chase Bank's financial interests in the event the agreement is terminated. These conditions include: 1) the credit rating of the bond and swap payment insurer (MBIA) must fall below A-. Currently, the credit rating for MBIA is in the BBB category. 2) The lowest credit rating for the Modesto Irrigation District revenue bonds is below AA-. These bonds have a credit rating of AA-/A+. 3) The Swap Agreement Pledgor's Threshold against the City is greater than \$20 million. Currently, it is approximately \$18 million. The termination value is calculated daily and could increase or decrease from its current level in response to changing interest rates. If these three conditions exist, then the City is responsible under the terms of the agreement to post collateral with a third-party trustee. The ownership of this collateral resides with the City, including any interest earnings, and is used in case the Swap Agreement is terminated and the City failed to pay the termination payment. In July 2010, the City's assignment agreement raised the Pledgor's Threshold from \$5 million to \$20 million which reduced the amount of collateral posted to the trustee.

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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>6/30/04:</b>						
Misc.	\$204,261,809	\$212,669,957	\$(8,408,148)	96.0%	\$41,083,600	20.5%
Safety	221,621,121	257,554,567	(35,933,446)	86.0%	29,085,514	123.5%
<b>6/30/05:</b>						
Misc.	\$218,307,677	\$231,079,054	\$(12,771,377)	94.5%	\$42,221,273	30.2%
Safety	239,178,942	273,741,974	(34,563,032)	87.4%	30,117,501	114.8%
<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)	95.8%	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%

\*\* Most recent actuarial dated information is for June 30, 2009.

**SUMMARY ACTUARIAL INFORMATION FOR PENSION PLAN**

Valuation Date	June 30, 2009
Actuarial Cost Method	Entry Age Normal Cost Method
Amortization Method	Level percent of Payroll
Average Remaining Period	32 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%

\*\* The valuation date available is through 2008.

**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%

**SUMMARY ACTUARIAL INFORMATION FOR OPEB**

Valuation Date	June 30, 2008
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	5.00%
Health Trend Rate	4.00%
Inflation Rate	3.00%
Payroll Growth	3.00%

**CITY OF MODESTO**  
**SCHEDULE OF REVENUES - BUDGET (GAAP BASIS)**  
**AND ACTUAL - GENERAL FUND**  
**Year ended June 30, 2010**

	Budget		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b><u>TAXES:</u></b>				
Utility users tax	\$ 19,000,000	\$ 19,000,000	\$ 19,117,518	\$ 117,518
Property tax	12,470,099	12,470,099	12,306,702	(163,397)
Transient occupancy tax	2,050,000	2,050,000	1,460,613	(589,387)
Franchise tax	4,021,306	4,021,306	3,902,877	(118,429)
Business license tax	8,947,462	8,947,462	9,068,219	120,757
<b>Total taxes</b>	<b>46,488,867</b>	<b>46,488,867</b>	<b>45,855,929</b>	<b>(632,938)</b>
<b><u>LICENSES AND PERMITS</u></b>	<b>77,862</b>	<b>95,312</b>	<b>83,039</b>	<b>(12,273)</b>
<b><u>INTERGOVERNMENTAL:</u></b>				
Sales tax	17,469,619	17,469,619	16,688,722	(780,897)
In-lieu sales tax	6,047,636	6,047,636	5,612,338	(435,298)
Motor vehicle license fees	13,874,508	13,874,508	13,945,172	70,664
State	960,000	980,700	917,672	(63,028)
County	851,000	991,000	1,081,512	90,512
Federal	576,593	174,943	191,459	16,516
Other intergovernmental	665,570	705,570	613,342	(92,228)
<b>Total intergovernmental</b>	<b>40,444,926</b>	<b>40,243,976</b>	<b>39,050,217</b>	<b>(1,193,759)</b>
<b><u>CHARGES FOR SERVICES:</u></b>				
General government	2,088,232	2,157,042	2,324,955	167,913
Community development	3,183,149	3,589,799	2,448,693	(1,141,106)
Public works	7,075	7,075	3,213	(3,862)
Parks and recreation	2,355,313	2,394,165	2,677,297	283,132
Public safety	2,174,260	2,089,824	1,815,077	(274,747)
Other current charges for services	132,176	132,176	56,955	(75,221)
Indirect cost recovery	3,689,416	3,689,416	3,721,505	32,089
<b>Total charges for services</b>	<b>13,629,621</b>	<b>14,059,497</b>	<b>13,047,695</b>	<b>(1,011,802)</b>
<b><u>INTEREST AND RENT</u></b>	<b>251,788</b>	<b>241,300</b>	<b>290,902</b>	<b>49,602</b>
<b><u>NET INCREASE (DECREASE) IN FAIR VALUE OF INVESTMENTS</u></b>			<b>54,744</b>	<b>54,744</b>
<b><u>FINES AND FORFEITURES</u></b>	<b>970,000</b>	<b>1,002,981</b>	<b>1,042,067</b>	<b>39,086</b>
<b><u>MISCELLANEOUS:</u></b>				
Mandated cost recovery			129,046	129,046
Other	910,053	1,201,731	1,399,261	197,530
<b>Total miscellaneous</b>	<b>910,053</b>	<b>1,201,731</b>	<b>1,528,307</b>	<b>326,576</b>
<b>Total revenues</b>	<b>\$ 102,773,117</b>	<b>\$ 103,333,664</b>	<b>\$ 100,952,900</b>	<b>\$ (2,380,764)</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, 2010**

	Budget		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
General government:				
City council	\$ 442,776	\$ 427,776	\$ 338,875	\$ 88,901
Personnel/training	1,105,418	1,336,433	1,316,033	20,400
City manager	1,188,775	1,247,883	1,127,256	120,627
City attorney	1,868,062	1,915,081	1,707,579	207,502
City clerk/auditor	670,452	670,452	650,784	19,668
Finance	4,418,581	4,675,375	4,101,400	573,975
Other	673,991	920,939	870,753	50,186
Total general government	<u>10,368,055</u>	<u>11,193,939</u>	<u>10,112,680</u>	<u>1,081,259</u>
Community development	<u>5,050,444</u>	<u>5,287,783</u>	<u>5,145,993</u>	<u>141,790</u>
Public works:				
Engineering and Transportation Dept:				
Engineering administration	32,833	32,833	31,491	1,342
Operations and Maintenance Dept:				
Service and maintenance	2,296,958	2,384,498	2,325,747	58,751
Graffiti abatement	277,948	277,948	256,155	21,793
Total public works	<u>2,607,739</u>	<u>2,695,279</u>	<u>2,613,393</u>	<u>81,886</u>
Parks and recreation:				
Operations and Maintenance Dept:				
Service and maintenance	5,083,076	5,196,928	4,727,604	469,324
Community Services & Neighborhood Connection:				
Administration	672,601	908,385	898,476	9,909
Planning and development	236,251	239,851	238,412	1,439
Culture	1,247,476	1,277,889	1,210,697	67,192
Recreation division	1,816,673	1,816,838	1,753,560	63,278
Facilities	488,101	508,011	410,383	97,628
Total parks and recreation	<u>9,544,178</u>	<u>9,947,902</u>	<u>9,239,132</u>	<u>708,770</u>
Public safety:				
Fire protection	24,284,040	25,711,717	24,934,719	776,998
Police protection	51,347,585	50,359,389	47,745,386	2,614,003
Total public safety	<u>75,631,625</u>	<u>76,071,106</u>	<u>72,680,105</u>	<u>3,391,001</u>
Total expenditures by department	<u>103,202,041</u>	<u>105,196,009</u>	<u>99,791,303</u>	<u>5,404,706</u>
Total expenditures	<u>\$ 103,202,041</u>	<u>\$ 105,196,009</u>	<u>\$ 99,791,303</u>	<u>\$ 5,404,706</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, 2010**

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

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

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

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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.

**HOUSING AND COMMUNITY DEVELOPMENT FUND** – To account for grants and other monies received and disbursed for projects developed and administered under the Housing and Community Development Act of 1974.

**STRATEGIC PLANNING AND DEVELOPMENT FUND** – Established to provide a funding source for future village planning, general plan update and other large expenses related to planning and development. This fund was originally financed with an apportionment of the PERS rebate related to AB702. Subsequent funding has been provided by transfers from the General Fund. Future funding will be provided by fees imposed on private development.

### Nonmajor Capital Projects Funds

Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities other than those financed by proprietary funds. Nonmajor Capital Projects Funds include:

**SPECIAL FUND FOR CAPITAL OUTLAYS** – To account for capital outlay authorized by the City Council. No monies placed in this fund are to be disbursed except for this purpose unless authorized by a vote of the people.

**PARKS FUND** – To account for a discretionary transfer of General Fund property tax revenue to provide for the development of parks within the City, as directed by the City Council.

**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.

**PUBLIC FINANCING AUTHORITY FUND** – To account for the financing of various projects authorized by the Modesto Public Financing Authority.

### **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, 2010**

	Special Revenue				
	Operating Grants	Local Transportation	Traffic Safety	Downtown Improvement District	Housing and Community Development
<b>ASSETS</b>					
Cash and cash equivalents	\$ 3,182,642	\$ 462,020	\$ 521,911	\$ 16,651	\$ 86,262
Cash and cash equivalents with fiscal agent					
Receivables:					
Accounts	371,070				9,729
Interest	5,027	813		23	2,861
Utilities, net	463,502				
Taxes					
Due from governments	1,770,362	317,451			3,105,224
Notes receivable, net	229,102				19,975,193
Property held for resale					
Restricted assets:					
Cash and cash equivalents					
Advances to other funds					
Total assets	\$ 6,021,705	\$ 780,284	\$ 521,911	\$ 16,674	23,179,269
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Accounts payable	\$ 1,126,145		\$ 22,807		\$ 85,655
Accrued salaries and benefits	148,666		8,959		27,510
Interest Payable					26,380
Due to other funds	232,374				1,584,036
Approved loans payable					300,041
Deferred revenues	199,443	\$ 777,395			
Refundable deposits					
Advances from other funds					
Total liabilities	1,706,628	777,395	31,766		2,023,622
Fund balances:					
Reserved for:					
Encumbrances	1,645,084	1,510,376			45,278
Loan programs and prepaids					19,675,152
Property held for resale					
Set-aside requirement					
Debt service					
Unreserved/designated for:					
Pending projects			490,145	\$ 16,674	1,435,217
Unreserved/undesignated	2,669,993	(1,507,487)			
Total fund balances	4,315,077	2,889	490,145	16,674	21,155,647
Total liabilities and fund balances	\$ 6,021,705	\$ 780,284	\$ 521,911	\$ 16,674	\$ 23,179,269

Capital Projects						
Strategic Planning and Development	Special Fund for Capital Outlays	Parks	McHenry Mansion Restoration	Capital Grants	Community Facilities Districts	Redevelopment Agency
\$ 411,745	\$ (36,264)	\$ 14,591	\$ 7,387	\$ 811,077	\$ 15,501,307	\$ 2,052,068
		2,218,011			9,991,058	
695	1,847		13		31,296	1,991
		27,832		1,460,404		2,211,000
						784,000
					639,616	
						1,249,071
<u>\$ 412,440</u>	<u>\$ (34,417)</u>	<u>\$ 2,260,434</u>	<u>\$ 7,400</u>	<u>\$ 2,271,481</u>	<u>\$ 26,163,277</u>	<u>\$ 6,298,130</u>
	\$ 294	\$ 55,468		\$ 381,009	\$ 92,301	\$ 2,732
		1,238			7,046	
	2,400	705,948		687,665	4,321	174
		27,831		1,675,177		575,000
					639,616	1,000
						269,805
	2,694	790,485		2,743,851	743,284	848,711
\$ 145,822		19,592		2,038,298	613,818	9,253
						2,211,000
						784,000
						1,055,392
266,618	(37,111)	1,450,357	\$ 7,400	(2,510,668)	24,806,175	1,389,774
<u>412,440</u>	<u>(37,111)</u>	<u>1,469,949</u>	<u>7,400</u>	<u>(472,370)</u>	<u>25,419,993</u>	<u>5,449,419</u>
<u>\$ 412,440</u>	<u>\$ (34,417)</u>	<u>\$ 2,260,434</u>	<u>\$ 7,400</u>	<u>\$ 2,271,481</u>	<u>\$ 26,163,277</u>	<u>\$ 6,298,130</u>

**CITY OF MODESTO**  
**COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS (Continued)**  
**June 30, 2010**

	Debt Service		
	Redevelopment Agency	Public Financing Authority	Total
<u>ASSETS</u>			
Cash and cash equivalents	\$ 1,023,416	1,624	\$ 24,056,437
Cash and cash equivalents with fiscal agent	2,082,453	\$ 4,833,496	19,125,018
Receivables:			
Accounts			382,646
Interest	4,953		47,672
Utilities, net			463,502
Taxes	231,166		231,166
Due from governments			6,681,273
Notes receivable, net			22,415,295
Property held for resale			784,000
Restricted assets:			
Cash and cash equivalents			639,616
Advances to other funds			1,249,071
Total assets	<u>\$ 3,341,988</u>	<u>\$ 4,835,120</u>	<u>\$ 76,075,696</u>
<u>LIABILITIES AND FUND BALANCES</u>			
Liabilities:			
Accounts payable	\$ 706,241		\$ 2,472,652
Accrued salaries and benefits			192,181
Interest payable			32,113
Due to other funds		\$ 195,572	3,407,995
Approved loans payable			875,041
Deferred revenues			2,679,846
Refundable deposits			640,616
Advances from other funds	1,224,993		1,494,798
Total liabilities	<u>1,931,234</u>	<u>195,572</u>	<u>11,795,242</u>
Fund balances:			
Reserved for:			
Encumbrances			6,027,521
Loan programs			21,886,152
Property held for resale			784,000
Set-aside requirement			1,055,392
Debt service	1,410,754	4,639,548	6,050,302
Unreserved/designated for:			
Pending projects			5,056,185
Unreserved/undesignated			23,420,902
Total fund balances	<u>1,410,754</u>	<u>4,639,548</u>	<u>64,280,454</u>
Total liabilities and fund balances	<u>\$ 3,341,988</u>	<u>\$ 4,835,120</u>	<u>\$ 76,075,696</u>

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**CITY OF MODESTO**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS**  
**Year ended June 30, 2010**

	Special Revenue				
	Operating Grants	Local Transportation	Traffic Safety	Downtown Improvement District	Housing and Community Development
REVENUES:					
Taxes				\$ 169,471	
Licenses and permits	\$ 54,214				
Intergovernmental	3,558,214	\$ 52,552			\$ 10,604,583
Charges for services	6,209,239		\$ 309,770		350,619
Special assessments levied	38,520				
Interest and rent	29,796	1,897		96	149,408
Net increase (decrease) in fair value of investments	15,369	2,889		127	166
Fines and forfeits	3,047		1,207,900		
Miscellaneous	441,259				13,067
Total revenues	<u>10,349,658</u>	<u>57,338</u>	<u>1,517,670</u>	<u>169,694</u>	<u>11,117,843</u>
EXPENDITURES:					
Current:					
General government	832,056				
Community development				198,924	8,416,074
Highways and streets		2,103			
Public works	3,511,292				
Parks and recreation	2,735,391				
Public safety	1,879,274		522,412		
Capital outlay:					
Community development					31,245
Highways and streets		24,309			
Public works	1,518,259				
Parks and recreation					
Public safety	15,372				
Debt service:					
Principal retirement					165,000
Interest					343,189
Other					
Total expenditures	<u>10,491,644</u>	<u>26,412</u>	<u>522,412</u>	<u>198,924</u>	<u>8,955,508</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(141,986)</u>	<u>30,926</u>	<u>995,258</u>	<u>(29,230)</u>	<u>2,162,335</u>
OTHER FINANCING SOURCES (USES):					
Transfers in	1,035,890				
Transfers out	(266,069)	(28,037)	(742,000)		(501,785)
TOTAL OTHER FINANCING SOURCES (USES)	<u>769,821</u>	<u>(28,037)</u>	<u>(742,000)</u>		<u>(501,785)</u>
NET CHANGE IN FUND BALANCES	627,835	2,889	253,258	(29,230)	1,660,550
FUND BALANCES, July 1	3,687,242		236,887	45,904	19,525,097
PRIOR PERIOD ADJUSTMENT					(30,000)
FUND BALANCES, June 30	<u>\$ 4,315,077</u>	<u>\$ 2,889</u>	<u>\$ 490,145</u>	<u>\$ 16,674</u>	<u>\$ 21,155,647</u>

Strategic Planning and Development	Capital Projects					
	Special Fund for Capital Outlays	Parks	McHenry Mansion Restoration	Capital Grants	Community Facilities Districts	Redevelop- ment Agency
						\$ 1,569,236
	\$	16,000 15,802		\$ 4,494,148	\$ 292,225 469,142	
2,998	\$ (2,448)	(7,022)	\$ 41		225,253	35,834
2,344	(974)	(2,646)	72		51,440	17,308
<u>1,638</u>		<u>120,717</u>			<u>278,852</u>	<u>26,400</u>
<u>6,980</u>	<u>(3,422)</u>	<u>142,851</u>	<u>113</u>	<u>4,494,148</u>	<u>1,316,912</u>	<u>1,648,778</u>
61,146					2,108,935	512,351
				71,332		
		157,628				
						743,781
				5,741,542	385,760	
	193,200 76,426	523,685				
<u>61,146</u>	<u>269,626</u>	<u>681,313</u>		<u>5,812,874</u>	<u>2,494,695</u>	<u>1,256,132</u>
<u>(54,166)</u>	<u>(273,048)</u>	<u>(538,462)</u>	<u>113</u>	<u>(1,318,726)</u>	<u>(1,177,783)</u>	<u>392,646</u>
	129,863 59,046	(6,258)		970,992 (5,821)		170,000 (1,178,652)
	<u>188,909</u>	<u>(6,258)</u>		<u>965,171</u>		<u>(1,008,652)</u>
(54,166)	(84,139)	(544,720)	113	(353,555)	(1,177,783)	(616,006)
466,606	47,028	2,014,669	7,287	(148,815)	26,597,776	5,159,503
				30,000		905,922
<u>412,440</u>	<u>\$ (37,111)</u>	<u>\$ 1,469,949</u>	<u>\$ 7,400</u>	<u>\$ (472,370)</u>	<u>\$ 25,419,993</u>	<u>\$ 5,449,419</u>

**CITY OF MODESTO**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS**  
**Year ended June 30, 2010**

	Debt Service		
	Redevelopment Agency	Public Financing Authority	Total
<b>REVENUES:</b>			
Taxes	\$ 4,952,279		\$ 6,690,986
Licenses and permits			54,214
Intergovernmental			19,017,722
Charges for services	171,118		7,525,690
Special assessments levied			38,520
Interest and rent	138,343	\$ 14,272	588,468
Net increase (decrease) in fair value of investments	(9,910)		76,185
Fines and forfeits			1,210,947
Miscellaneous			881,933
<b>Total revenues</b>	<b>5,251,830</b>	<b>14,272</b>	<b>36,084,665</b>
<b>EXPENDITURES:</b>			
<b>Current:</b>			
General government			832,056
Community development	2,092,697		13,390,127
Highways and streets			73,435
Public works			3,511,292
Parks and recreation			2,893,019
Public safety			2,401,686
<b>Capital outlay:</b>			
Community development			775,026
Highways and streets			6,151,611
Public works			1,518,259
Parks and recreation			716,885
Public safety			91,798
<b>Debt service:</b>			
Principal retirement	985,000	895,000	2,045,000
Interest	962,518	2,726,905	4,032,612
Other	1,402,171	6,600	1,408,771
<b>Total expenditures</b>	<b>5,442,386</b>	<b>3,628,505</b>	<b>39,841,577</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(190,556)</b>	<b>(3,614,233)</b>	<b>(3,756,912)</b>
<b>OTHER FINANCING SOURCES (USES):</b>			
Transfers in	1,178,652	3,814,232	7,299,629
Transfers out	(1,199,843)		(3,869,419)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(21,191)</b>	<b>3,814,232</b>	<b>3,430,210</b>
<b>NET CHANGE IN FUND BALANCES</b>	(211,747)	199,999	(326,702)
FUND BALANCES, July 1	2,528,423	4,439,549	64,607,156
PRIOR PERIOD ADJUSTMENT	(905,922)		
<b>FUND BALANCES, June 30</b>	<b>\$ 1,410,754</b>	<b>\$ 4,639,548</b>	<b>\$ 64,280,454</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, 2010**

	Budget		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Licenses and permits	\$ 60,000	\$ 60,000	\$ 54,214	\$ (5,786)
Intergovernmental	10,477,485	10,577,485	3,558,214	(7,019,271)
Charges for services	7,227,094	7,352,445	6,209,239	(1,143,206)
Special assessments	36,158	36,158	38,520	2,362
Interest and rent - interest			29,796	29,796
Net increase in fair value of investments			15,369	15,369
Fines and forfeits	1,500	1,500	3,047	1,547
Miscellaneous	417,761	417,761	441,259	23,498
Total revenues	<u>18,219,998</u>	<u>18,445,349</u>	<u>10,349,658</u>	<u>(8,095,691)</u>
<b>EXPENDITURES:</b>				
General government	929,075	936,590	832,056	104,534
Public works	5,305,084	5,339,111	5,029,551	309,560
Parks and recreation	3,633,030	3,919,723	2,735,391	1,184,332
Public safety	5,225,420	5,325,420	1,894,646	3,430,774
Total expenditures	<u>15,092,609</u>	<u>15,520,844</u>	<u>10,491,644</u>	<u>5,029,200</u>
DEFICIENCY OF REVENUES (UNDER) EXPENDITURES	<u>3,127,389</u>	<u>2,924,505</u>	<u>(141,986)</u>	<u>(3,066,491)</u>
<b>OTHER FINANCING SOURCES:</b>				
Transfers in	1,082,743	758,920	1,035,890	276,970
Transfers out	(249,936)	(249,936)	(266,069)	(16,133)
TOTAL OTHER FINANCING SOURCES (USES)	<u>832,807</u>	<u>508,984</u>	<u>769,821</u>	<u>260,837</u>
NET CHANGE IN FUND BALANCE	3,960,196	3,433,489	627,835	(2,805,654)
FUND BALANCES, JULY 1	<u>4,673,420</u>	<u>4,883,055</u>	<u>3,687,242</u>	<u>(1,195,813)</u>
FUND BALANCES, JUNE 30	<u>\$ 8,633,616</u>	<u>\$ 8,316,544</u>	<u>\$ 4,315,077</u>	<u>\$ (4,001,467)</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, 2010**

	Budget		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Intergovernmental	\$ 669,483	\$ 986,934	\$ 52,552	\$ (934,382)
Interest and rent - interest			1,897	1,897
Net increase in fair value of investments			2,889	2,889
Total revenues	<u>669,483</u>	<u>986,934</u>	<u>57,338</u>	<u>(929,596)</u>
<b>EXPENDITURES:</b>				
Highways and streets	<u>556,586</u>	<u>556,586</u>	<u>26,412</u>	<u>530,174</u>
Total expenditures	<u>556,586</u>	<u>556,586</u>	<u>26,412</u>	<u>530,174</u>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	<u>112,897</u>	<u>430,348</u>	<u>30,926</u>	<u>(399,422)</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers out			<u>(28,037)</u>	<u>(28,037)</u>
TOTAL OTHER FINANCING SOURCES (USES)			<u>(28,037)</u>	<u>(28,037)</u>
<b>NET CHANGE IN FUND BALANCE</b>	112,897	430,348	2,889	(427,459)
<b>FUND BALANCES, JULY 1</b>	<u>(2,323,373)</u>	<u>(678,941)</u>		<u>678,941</u>
<b>FUND BALANCE (DEFICITS), JUNE 30</b>	<u>\$ (2,210,476)</u>	<u>\$ (248,593)</u>	<u>\$ 2,889</u>	<u>\$ 251,482</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, 2010**

	Budget		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Charges for services	\$ 475,959	\$ 475,959	\$ 309,770	\$ (166,189)
Motor vehicle fines	1,520,899	1,520,899	1,207,900	(312,999)
Total revenues	<u>1,996,858</u>	<u>1,996,858</u>	<u>1,517,670</u>	<u>(479,188)</u>
<b>EXPENDITURES:</b>				
Public safety	<u>725,000</u>	<u>1,072,730</u>	<u>522,412</u>	<u>550,318</u>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	<u>1,271,858</u>	<u>924,128</u>	<u>995,258</u>	<u>(1,029,506)</u>
<b>OTHER FINANCING USES:</b>				
Transfers out	<u>(1,405,266)</u>	<u>(742,000)</u>	<u>(742,000)</u>	
<b>NET CHANGE IN FUND BALANCE</b>	(133,408)	182,128	253,258	71,130
<b>FUND BALANCES, JULY 1</b>	<u>14,931</u>	<u>183,620</u>	<u>236,887</u>	<u>53,267</u>
<b>FUND BALANCES, JUNE 30</b>	<u><u>\$ (118,477)</u></u>	<u><u>\$ 365,748</u></u>	<u><u>\$ 490,145</u></u>	<u><u>\$ 124,397</u></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, 2010**

	Budget		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Taxes - business license tax	\$ 210,000	\$ 210,000	\$ 169,471	\$ (40,529)
Interest and rent - interest	1,071	1,071	96	(975)
Net increase in fair value of investments			127	127
Total revenues	<u>211,071</u>	<u>211,071</u>	<u>169,694</u>	<u>(41,377)</u>
<b>EXPENDITURES - community development</b>				
Downtown improvement district administration:				
Professional and contractual services	176,142	176,142	181,042	(4,900)
Materials and supplies	6,530	6,530	3,413	3,117
Other	22,150	22,150	14,469	7,681
Total expenditures	<u>204,822</u>	<u>204,822</u>	<u>198,924</u>	<u>5,898</u>
<b>NET CHANGE IN FUND BALANCE</b>	6,249	6,249	(29,230)	(35,479)
<b>FUND BALANCES, JULY 1</b>	<u>39,392</u>	<u>39,392</u>	<u>45,904</u>	<u>6,512</u>
<b>FUND BALANCES, JUNE 30</b>	<u>\$ 45,641</u>	<u>\$ 45,641</u>	<u>\$ 16,674</u>	<u>\$ (28,967)</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, 2010**

	Budget		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Intergovernmental - federal grants	\$ 14,223,561	\$ 15,036,494	\$ 10,604,583	\$ (4,431,911)
Charges for services	230,757	230,757	350,619	119,862
Interest and rent - interest	245,000	245,000	149,408	(95,592)
Net increase in fair value of investments			166	166
Miscellaneous			13,067	13,067
Total revenues	<u>14,699,318</u>	<u>15,512,251</u>	<u>11,117,843</u>	<u>(4,394,408)</u>
<b>EXPENDITURES</b>				
Community development	13,342,264	13,955,242	8,447,319	5,507,923
Debt service:				
Principal retirement	165,000	165,000	165,000	
Interest	211,876	211,876	343,189	(131,313)
Total expenditures	<u>13,719,140</u>	<u>14,332,118</u>	<u>8,955,508</u>	<u>5,376,610</u>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	<u>980,178</u>	<u>1,180,133</u>	<u>2,162,335</u>	<u>982,202</u>
<b>OTHER FINANCING USES:</b>				
Transfers in		99,833		(99,833)
Transfers out	(160,000)	(560,000)	(501,785)	58,215
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>(160,000)</u>	<u>(460,167)</u>	<u>(501,785)</u>	<u>(41,618)</u>
<b>NET CHANGE IN FUND BALANCE</b>	820,178	719,966	1,660,550	940,584
<b>FUND BALANCES, JULY 1</b>	16,191,898	16,540,985	19,525,097	2,984,112
<b>PRIOR PERIOD ADJUSTMENT</b>			(30,000)	(30,000)
<b>FUND BALANCES, JUNE 30</b>	<u>\$ 17,012,076</u>	<u>\$ 17,260,951</u>	<u>\$ 21,155,647</u>	<u>\$ 3,894,696</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, 2010**

	Budget		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Charges for services	\$ 1,478,868	\$ 1,478,868	\$	\$ (1,478,868)
Interest and rent - interest			2,998	2,998
Net increase in fair value of investments			2,344	2,344
Miscellaneous			1,638	1,638
Total revenues	<u>1,478,868</u>	<u>1,478,868</u>	<u>6,980</u>	<u>(1,471,888)</u>
<b>EXPENDITURES:</b>				
Community development	1,402,140	1,402,140	61,146	1,340,994
Public works	9,168	27,398		27,398
Total expenditures	<u>1,411,308</u>	<u>1,429,538</u>	<u>61,146</u>	<u>1,368,392</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>67,560</u>	<u>49,330</u>	<u>(54,166)</u>	<u>(103,496)</u>
<b>NET CHANGE IN FUND BALANCE</b>	67,560	49,330	(54,166)	(103,496)
<b>FUND BALANCES, JULY 1</b>	<u>880,702</u>	<u>491,801</u>	<u>466,606</u>	<u>(25,195)</u>
<b>FUND BALANCES, JUNE 30</b>	<u>\$ 948,262</u>	<u>\$ 541,131</u>	<u>\$ 412,440</u>	<u>\$ (128,691)</u>

## Nonmajor Enterprise Funds

Enterprise Funds are established to account for activities that render services on a user-charge basis to the general public. Nonmajor Enterprise Funds include:

**PARKING FUND** – Revenues in this fund consist of charges for off-street parking and the downtown parking garage, as well as in-lieu parking fees. The revenue is used to develop and maintain parking facilities.

**STORM DRAIN FUND** – To account for storm drain improvements, operations and maintenance. The activities of the fund include street cleaning, rock well maintenance, and compliance with Federal and State water quality standards on storm water discharge.

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

**AIRPORT FUND** – To account for all airport operations as stipulated in the City-Stanislaus County agreement of January 1968. Amounts received from the Federal government, State of California, and Stanislaus County, requiring matching amounts by the City, are recorded in this fund and are appropriated to finance approved capital projects.

**GOLF FUND** – Revenues in this fund consist of fees charged for using the City's golf courses. The revenue is used to improve, operate, and maintain golf courses.

**COMMUNITY CENTER FUND** – Accounted for in this fund are all amounts collected for the purpose of operating and maintaining the Modesto Centre Plaza Community Center. Revenues include room rental, catering fees, ticket sales, and other charges for using the center.

**CITY OF MODESTO**  
**COMBINING STATEMENT OF NET ASSETS - NON MAJOR ENTERPRISE FUNDS**  
**June 30, 2010**

	Parking	Storm Drain	Compost
<u>ASSETS</u>			
Current assets:			
Cash and cash equivalents	\$ 99,770	\$ 3,306,866	\$ 763,350
Cash and cash equivalents with fiscal agent			
Receivables:			
Accounts	7,842	636	83,177
Interest	287	6,204	1,256
Utilities, net		557,890	
Taxes			
Due from governments		6,723	
Property held for resale	630,000		
Total current assets	737,899	3,878,319	847,783
Capital assets:			
Land and construction in progress	3,142,479	2,042,940	
Other capital assets, net of accumulated depreciation	7,123,670	15,679,122	932,185
Total assets	11,004,048	21,600,381	1,779,968
<u>LIABILITIES</u>			
Current liabilities:			
Accounts payable	174,749	141,595	8,904
Accrued salaries and benefits	11,321	34,243	14,418
Interest payable			52
Due to other funds	73,373		
Due to other governments			
Current portion - long-term debt			
Deferred revenues			
Total current liabilities	259,443	175,838	23,374
Noncurrent liabilities:			
Obligations under capital leases			
Certificates of participation			
Advances from other funds		1,324,704	
Total liabilities	259,443	1,500,542	23,374
<u>NET ASSETS</u>			
Invested in capital assets, net of related debt	10,266,149	17,722,062	932,185
Unrestricted	478,456	2,377,777	824,409
Total net assets	\$ 10,744,605	\$ 20,099,839	\$ 1,756,594

<u>Airport</u>	<u>Golf</u>	<u>Community Center</u>	<u>Total</u>
\$ 1,343,839	\$ (8,872) 603,150	\$ 157,767	\$ 5,662,720 603,150
13,198	34,613	61,001	200,467
753		58	8,558
			557,890
18			18
214,985			221,708
			630,000
<u>1,572,793</u>	<u>628,891</u>	<u>218,826</u>	<u>7,884,511</u>
1,202,302	494,938	3,764,844	10,647,503
<u>8,791,781</u>	<u>2,065,608</u>	<u>8,664,615</u>	<u>43,256,981</u>
<u>11,566,876</u>	<u>3,189,437</u>	<u>12,648,285</u>	<u>61,788,995</u>
48,846	52,284	37,122	463,500
10,672		19,470	90,124
	43,787		43,839
	188,409		261,782
	250,000		250,000
1,943	204,505		206,448
<u>61,461</u>	<u>738,985</u>	<u>56,592</u>	<u>1,315,693</u>
	4,725,000		4,725,000
			1,324,704
<u>61,461</u>	<u>5,463,985</u>	<u>56,592</u>	<u>7,365,397</u>
9,994,083	(2,414,454)	12,429,459	48,929,484
<u>1,511,332</u>	<u>139,906</u>	<u>162,234</u>	<u>5,494,114</u>
<u>\$ 11,505,415</u>	<u>\$ (2,274,548)</u>	<u>\$ 12,591,693</u>	<u>\$ 54,423,598</u>

**CITY OF MODESTO**  
**COMBINING STATEMENT OF REVENUES, EXPENSES, AND**  
**CHANGES IN FUND NET ASSETS - NON MAJOR ENTERPRISE FUNDS**  
**Year ended June 30, 2010**

	<u>Parking</u>	<u>Storm Drain</u>	<u>Compost</u>
OPERATING REVENUES:			
Charges for services	\$ 1,229,871	\$ 5,365,759	\$ 1,706,189
Miscellaneous	10,124	62,532	
Total operating revenues	<u>1,239,995</u>	<u>5,428,291</u>	<u>1,706,189</u>
OPERATING EXPENSES:			
Salaries and wages	502,195	922,657	357,230
Contractual services	422,231	952,873	63,730
Utilities	131,096	23,357	10,423
Maintenance and supplies	90,859	668,848	472,300
Insurance	37,708	120,888	13,623
Employee benefits	88,320	484,339	163,894
Administration services	53,940	1,215,945	44,192
Allocated indirect administrative costs	64,603	11,329	59,119
Other	3,663	106,811	3,132
Depreciation	396,667	619,268	281,908
Total operating expenses	<u>1,791,282</u>	<u>5,126,315</u>	<u>1,469,551</u>
OPERATING INCOME (LOSS)	<u>(551,287)</u>	<u>301,976</u>	<u>236,638</u>
NONOPERATING REVENUES (EXPENSES)			
Operating grants			
Gain (Loss) on disposition of capital assets			
Operating grants		(1,669)	
Tax revenue			
Tax expense	(26,415)		
Interest income	3,918	38,933	6,110
Net increase in fair value of investments	3,164	17,203	2,856
Rental income			
Trustee fees			
Total nonoperating revenues (expenses)	<u>(19,333)</u>	<u>54,467</u>	<u>8,966</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	(570,620)	356,443	245,604
Capital contributions		113,862	
Transfers in	(59,046)	700,293	
Transfers out		<u>(322,314)</u>	<u>(113,902)</u>
CHANGE IN NET ASSETS	(629,666)	848,284	131,702
NET ASSETS (DEFICIT), July 1	11,374,271	19,251,555	1,624,892
PRIOR PERIOD ADJUSTMENT			
NET ASSETS (DEFICIT), June 30	<u>\$ 10,744,605</u>	<u>\$ 20,099,839</u>	<u>\$ 1,756,594</u>

<u>Airport</u>	<u>Golf</u>	<u>Community Center</u>	<u>Total</u>
\$ 669,964	\$ 1,923,231	\$ 483,313	\$ 11,378,327
5,601	784	6,249	85,290
<u>675,565</u>	<u>1,924,015</u>	<u>489,562</u>	<u>11,463,617</u>
275,716		667,353	2,725,151
31,119	1,747,442	69,067	3,286,462
114,322	17,176	202,842	499,216
262,911	59,909	313,022	1,867,849
31,803	13,734	62,656	280,412
135,232		245,000	1,116,785
140,627	43,339	7,918	1,505,961
71,346	13,847		220,244
32,686	1,119	7,144	154,555
810,924	310,227	761,478	3,180,472
<u>1,906,686</u>	<u>2,206,793</u>	<u>2,336,480</u>	<u>14,837,107</u>
<u>(1,231,121)</u>	<u>(282,778)</u>	<u>(1,846,918)</u>	<u>(3,373,490)</u>
			(1,669)
265,587			265,587
(418)	(263,553)		(290,386)
12,250	(4,959)	(868)	55,384
6,893	(2,533)	(375)	27,208
166,672	90,431	419,454	676,557
	(2,800)		(2,800)
<u>450,984</u>	<u>(183,414)</u>	<u>418,211</u>	<u>729,881</u>
(780,137)	(466,192)	(1,428,707)	(2,643,609)
599,938			713,800
	270,000	264,034	1,175,281
			(436,216)
(180,199)	(196,192)	(1,164,673)	(1,190,744)
11,685,614	(2,073,356)	13,756,366	55,619,342
	(5,000)		(5,000)
<u>\$ 11,505,415</u>	<u>\$ (2,274,548)</u>	<u>\$ 12,591,693</u>	<u>\$ 54,423,598</u>

**CITY OF MODESTO**  
**COMBINING STATEMENT OF CASH FLOWS - NONMAJOR ENTERPRISE FUNDS**  
Year ended June 30, 2010

	<u>Parking</u>	<u>Storm Drain</u>	<u>Compost</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Receipts from customers and users	\$ 1,239,711	\$ 5,416,437	\$ 1,758,525
Receipts from interfund services provided		1,839	
Payments to suppliers	(426,292)	2,546,856	4,275,619
Payments to employees	(590,323)	(1,410,537)	(516,061)
Payments for interfund services used	(207,940)	(5,542,397)	(4,961,767)
Net cash provided (used) by operating activities	<u>15,156</u>	<u>1,012,198</u>	<u>556,316</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>			
Operating grants received		(1,669)	
Taxes received			
Transfers in	(59,046)	700,293	
Transfers out		(322,314)	(113,902)
Net cash provided (used) by noncapital financing activities	<u>(59,046)</u>	<u>376,310</u>	<u>(113,902)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>			
Acquisition and construction of capital assets	(673,319)	(2,752)	
Principal repayments			
Interest paid			53
Trustee fees			
Capital grants received		12,430	
Net cash used by capital and related financing activities	<u>(673,319)</u>	<u>9,678</u>	<u>53</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Interest received	6,424	35,014	5,756
Net increase in the fair value of investments	3,164	17,203	2,856
Net cash provided by investing activities	<u>9,588</u>	<u>52,217</u>	<u>8,612</u>
Net increase (decrease) in cash and cash equivalents	(707,621)	1,450,403	451,079
CASH AND CASH EQUIVALENTS, JULY 1	807,391	1,856,463	312,271
PRIOR PERIOD ADJUSTMENT			
CASH AND CASH EQUIVALENTS, JUNE 30	<u>\$ 99,770</u>	<u>\$ 3,306,866</u>	<u>\$ 763,350</u>
<b>RECONCILIATION TO STATEMENT OF NET ASSETS:</b>			
Cash and cash equivalents	\$ 99,770	\$ 3,306,866	\$ 763,350
Cash and cash equivalents with fiscal agent			
TOTAL CASH AND CASH EQUIVALENTS	<u>\$ 99,770</u>	<u>\$ 3,306,866</u>	<u>\$ 763,350</u>

<u>Airport</u>	<u>Golf</u>	<u>Community Center</u>	<u>Total</u>
\$ 856,169	\$ 2,014,894	\$ 877,507	\$ 12,163,243
(1,089,944)	(2,118,475)	(521,881)	1,839
(409,806)		(909,632)	2,665,883
282,523	74,017	(151,895)	(3,836,359)
<u>(361,058)</u>	<u>(29,564)</u>	<u>(705,901)</u>	<u>(10,507,459)</u>
			487,147
			(1,669)
265,587			265,587
	270,000	264,034	1,175,281
			<u>(436,216)</u>
<u>265,587</u>	<u>270,000</u>	<u>264,034</u>	<u>1,002,983</u>
(240,495)			(916,566)
	(235,000)		(235,000)
	939		992
	(2,800)		(2,800)
<u>49,375</u>			<u>61,805</u>
<u>(191,120)</u>	<u>(236,861)</u>		<u>(1,091,569)</u>
17,474	(4,958)	(713)	58,997
<u>6,893</u>	<u>(2,533)</u>	<u>(375)</u>	<u>27,208</u>
<u>24,367</u>	<u>(7,491)</u>	<u>(1,088)</u>	<u>86,205</u>
(262,224)	(3,916)	(442,955)	484,766
1,606,063	603,194	600,722	5,786,104
	(5,000)		(5,000)
<u>\$ 1,343,839</u>	<u>\$ 594,278</u>	<u>\$ 157,767</u>	<u>\$ 6,265,870</u>
\$ 1,343,839	\$ (8,872)	\$ 157,767	\$ 5,662,720
	603,150		603,150
<u>\$ 1,343,839</u>	<u>\$ 594,278</u>	<u>\$ 157,767</u>	<u>\$ 6,265,870</u>

(continued)

**CITY OF MODESTO**  
**COMBINING STATEMENT OF CASH FLOWS - NON MAJOR ENTERPRISE FUNDS (Continued)**  
Year ended June 30, 2010

	Parking	Storm Drain	Compost
<b>RECONCILIATION OF OPERATING INCOME (LOSS)</b>			
<b>TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</b>			
Operating income (loss)	\$ (551,287)	\$ 301,976	\$ 236,638
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	396,667	619,268	281,908
Rental income			
Taxes paid	(26,415)		
Change in assets and liabilities:			
(Increase) decrease in accounts receivable	(284)	2,825	52,336
(Increase) in utilities receivable		(12,840)	
Increase (decrease) in accounts payable and accrued expenses	144,250	104,510	(19,093)
Increase in accrued salaries and benefits	192	(3,541)	5,063
Increase (decrease) in due to other funds	73,373		
Increase (decrease) in due to other governments	(21,340)		(536)
Increase (decrease) in deferred revenues			
Total adjustments	566,443	710,222	319,678
Net cash provided (used) by operating activities	\$ 15,156	\$ 1,012,198	\$ 556,316
 <b>NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:</b>			
Capital assets transferred from other funds		\$ 113,862	

<u>Airport</u>	<u>Golf</u>	<u>Community Center</u>	<u>Total</u>
\$ <u>(1,231,121)</u>	\$ <u>(282,778)</u>	\$ <u>(1,846,918)</u>	\$ <u>(3,373,490)</u>
810,924	310,227	761,478	3,180,472
166,672	90,431	419,454	676,557
(418)	(263,553)		(290,386)
11,989	1,374	(31,509)	36,731
			(12,840)
(121,667)	48,360	(11,127)	145,233
1,142		2,721	5,577
	67,301		140,674
(522)			(22,398)
<u>1,943</u>	<u>(926)</u>		<u>1,017</u>
<u>870,063</u>	<u>253,214</u>	<u>1,141,017</u>	<u>3,860,637</u>
\$ <u><u>(361,058)</u></u>	\$ <u><u>(29,564)</u></u>	\$ <u><u>(705,901)</u></u>	\$ <u><u>487,147</u></u>

\$ 599,938

## 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.

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**CITY OF MODESTO**  
**COMBINING STATEMENT OF NET ASSETS - INTERNAL SERVICE FUNDS**  
**June 30, 2010**

	Fleet Management	Central Services	Information & Technology Services
<u>ASSETS</u>			
Current assets:			
Cash and cash equivalents	\$ 9,865,815	\$ 1,003,921	\$ 4,742,907
Receivables:			
Accounts receivable	1,550		
Interest	17,423	1,780	8,444
Inventories		482,315	
Due from governments			142,462
Prepaid expenses			189,000
Due from other funds			
Total current assets	9,884,788	1,488,016	5,082,813
Noncurrent assets:			
Notes receivable, net			
Land and construction in progress	533,015		1,043,109
Other capital assets, net of accumulated depreciation	13,408,732	78,658	2,691,641
Total assets	23,826,535	1,566,674	8,817,563
<u>LIABILITIES</u>			
Current liabilities:			
Accounts payable	68,922	86,600	910,889
Accrued salaries and benefits	47,191	7,805	75,192
Interest Payable			
Current portion - compensated absences			
Current portion - claims liability			
Current portion - capital lease			187,135
Current portion - long-term debt	33,778		
Total current liabilities	149,891	94,405	1,173,216
Noncurrent liabilities:			
Compensated absences			
Claims liability			
Net OPEB obligation			
Long-term debt:			
Notes payable	20,658		
Obligations under capital leases			705,974
Total liabilities	170,549	94,405	1,879,190
<u>NET ASSETS</u>			
Invested in capital assets, net of related debt	13,907,969	78,658	3,028,776
Unrestricted	9,748,017	1,393,611	3,909,597
Total net assets	\$ 23,655,986	\$ 1,472,269	\$ 6,938,373

<u>Insurance</u>	<u>Employee Benefits Management</u>	<u>Building Services</u>	<u>Total</u>
\$ 18,848,205	\$ 17,200,599	\$ 181,959	\$ 51,843,406
208,989	18,472		229,011
19,734	31,890	384	79,655
			482,315
			142,462
			189,000
<u>19,076,928</u>	<u>17,250,961</u>	<u>182,343</u>	<u>52,965,849</u>
			1,576,124
	<u>1,637</u>	<u>112,996</u>	<u>16,293,664</u>
<u>19,076,928</u>	<u>17,252,598</u>	<u>295,339</u>	<u>70,835,637</u>
110,566	17,879	41,980	1,236,836
13,822	3,701	17,299	165,010
3,138	446		3,584
	4,808,016		4,808,016
4,880,570			4,880,570
			187,135
			33,778
<u>5,008,096</u>	<u>4,830,042</u>	<u>59,279</u>	<u>11,314,929</u>
	6,931,285		6,931,285
16,390,335			16,390,335
	45,527,073		45,527,073
			20,658
			<u>705,974</u>
<u>21,398,431</u>	<u>57,288,400</u>	<u>59,279</u>	<u>80,890,254</u>
	1,637	112,996	17,130,036
<u>(2,321,503)</u>	<u>(40,037,439)</u>	<u>123,064</u>	<u>(27,184,653)</u>
<u>\$ (2,321,503)</u>	<u>\$ (40,035,802)</u>	<u>\$ 236,060</u>	<u>\$ (10,054,617)</u>

**CITY OF MODESTO**  
**COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES**  
**IN FUND NET ASSETS - INTERNAL SERVICE FUNDS**  
Year ended June 30, 2010

	Fleet Management	Central Services	Information & Technology Services
<b>OPERATING REVENUES:</b>			
Charges for services	\$ 6,369,042	\$ 35,618	\$ 6,440,645
Sales		4,289,240	
Cost of sales		(3,733,953)	
Total operating revenues	<u>6,369,042</u>	<u>590,905</u>	<u>6,440,645</u>
<b>OPERATING EXPENSES:</b>			
Salaries and wages	1,025,718	218,619	1,972,207
Contractual services	577,712	81,137	245,465
Utilities	8,155	1,033	208,661
Maintenance and supplies	2,428,611	42,729	1,257,050
Insurance	87,830	10,086	84,826
Claims expense			
Employee benefits	513,181	107,377	750,616
Administration services	190,759	10,200	105
Allocated indirect administrative costs	308,280		
Other	12,152	507	16,517
Depreciation	2,856,159	9,415	531,431
Total operating expenses	<u>8,008,557</u>	<u>481,103</u>	<u>5,066,878</u>
<b>OPERATING INCOME (LOSS)</b>	<u>(1,639,515)</u>	<u>109,802</u>	<u>1,373,767</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Operating grant			142,462
Loss on disposition of capital assets	(375,994)	(2,001)	(18,907)
Interest income	89,665	8,460	45,083
Net increase (decrease) in fair value of investments	48,680	4,401	23,945
Interest expense	(4,311)		(4,284)
Total nonoperating revenues (expenses)	<u>(241,960)</u>	<u>10,860</u>	<u>188,299</u>
<b>INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS</b>	(1,881,475)	120,662	1,562,066
Capital contributions			6,566
Transfers in	1,414,206		
Transfers out	(294,518)	(77,000)	(492,103)
<b>CHANGE IN NET ASSETS</b>	(761,787)	43,662	1,076,529
<b>NET ASSETS (DEFICITS), July 1, (as restated)</b>	24,451,315	1,428,607	5,861,844
<b>PRIOR PERIOD ADJUSTMENTS</b>	<u>(33,542)</u>		
<b>NET ASSETS (DEFICITS), June 30</b>	<u>\$ 23,655,986</u>	<u>\$ 1,472,269</u>	<u>\$ 6,938,373</u>

<u>Insurance</u>	<u>Employee Benefits Management</u>	<u>Building Services</u>	<u>Total</u>
\$ 24,468,686	\$ 2,953,289	\$ 1,801,831	\$ 42,069,111
			4,289,240
			(3,733,953)
<u>24,468,686</u>	<u>2,953,289</u>	<u>1,801,831</u>	<u>42,624,398</u>
380,716	90,951	392,925	4,081,136
61,534	277,281	582,935	1,826,064
1,383		218,505	437,737
8,452	9,439	191,917	3,938,198
14,919,158	3,365	37,265	15,142,530
6,541,335			6,541,335
156,714	7,794,596	210,299	9,532,783
1,448,533	52,937	25,883	1,728,417
			308,280
13,120	12,201	449	54,946
5,921	1,025	4,773	3,408,724
<u>23,536,866</u>	<u>8,241,795</u>	<u>1,664,951</u>	<u>47,000,150</u>
<u>931,820</u>	<u>(5,288,506)</u>	<u>136,880</u>	<u>(4,375,752)</u>
			142,462
			(396,902)
324,800	165,945	41,008	674,961
109,355	98,948	1,012	286,341
			(8,595)
<u>434,155</u>	<u>264,893</u>	<u>42,020</u>	<u>698,267</u>
1,365,975	(5,023,613)	178,900	(3,677,485)
			6,566
			1,414,206
		(91,591)	(955,212)
<u>1,365,975</u>	<u>(5,023,613)</u>	<u>87,309</u>	<u>(3,211,925)</u>
(3,687,478)	(35,012,189)	148,751	(6,809,150)
			(33,542)
<u>\$ (2,321,503)</u>	<u>\$ (40,035,802)</u>	<u>\$ 236,060</u>	<u>\$ (10,054,617)</u>

**CITY OF MODESTO**  
**COMBINING STATEMENT OF CASH FLOWS - INTERNAL SERVICE FUNDS**  
**Year ended June 30, 2010**

	<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	\$ 192,495	\$ 15,144	\$ (54,816)
Receipts from interfund services provided	6,183,389	575,760	6,352,999
Payments to suppliers	(2,891,105)	(165,373)	(1,047,352)
Payment of insurance claims			
Payments to employees	(1,526,745)	(326,734)	(2,708,057)
Payments for interfund services used	(775,886)	(80,680)	(86,226)
Net cash provided (used) by operating activities	<u>1,182,148</u>	<u>18,117</u>	<u>2,456,548</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>			
Transfers in	1,414,206		
Transfers out	(294,518)	(77,000)	(492,103)
Due from other funds	101,576		
Operating grants received			142,462
Net cash provided (used) by noncapital financing activities	<u>1,221,264</u>	<u>(77,000)</u>	<u>(349,641)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>			
Acquisition and construction of capital assets	(1,399,903)	(30,362)	(1,693,630)
Proceeds from sale of capital assets	(375,994)	(2,001)	(18,907)
Principal repayments	(31,816)		822,393
Interest paid	(4,311)		(4,284)
Net cash used by capital and related financing activities	<u>(1,812,024)</u>	<u>(32,363)</u>	<u>(894,428)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Interest received	101,393	9,095	48,942
Net increase in the fair value of investments	48,680	4,401	23,945
Net cash provided by investing activities	<u>150,073</u>	<u>13,496</u>	<u>72,887</u>
Net increase (decrease) in cash and cash equivalents	741,461	(77,750)	1,285,366
PRIOR PERIOD ADJUSTMENTS	(33,542)		
CASH AND CASH EQUIVALENTS, JULY 1	<u>9,157,896</u>	<u>1,081,671</u>	<u>3,457,541</u>
CASH AND CASH EQUIVALENTS, JUNE 30	<u>\$ 9,865,815</u>	<u>\$ 1,003,921</u>	<u>\$ 4,742,907</u>

<u>Insurance</u>	<u>Employee Benefits Management</u>	<u>Building Services</u>	<u>Total</u>
\$ (719,891)	\$ 2,825,011	\$ (320,897)	\$ 1,937,046
25,090,373	109,806	2,122,728	40,435,055
(15,583,186)	(953,816)	(928,133)	(21,568,965)
(6,695,983)			(6,695,983)
(536,373)	(3,430,169)	(597,804)	(9,125,882)
(1,489,335)	(71,490)	(156,201)	(2,659,818)
<u>65,605</u>	<u>(1,520,658)</u>	<u>119,693</u>	<u>2,321,453</u>
			1,414,206
		(91,591)	(955,212)
			101,576
<u>3,138</u>	<u>446</u>		<u>146,046</u>
<u>3,138</u>	<u>446</u>	<u>(91,591)</u>	<u>706,616</u>
			(3,123,895)
			(396,902)
			790,577
			<u>(8,595)</u>
			<u>(2,738,815)</u>
330,422	203,241	41,244	734,337
109,355	98,948	1,012	286,341
<u>439,777</u>	<u>302,189</u>	<u>42,256</u>	<u>1,020,678</u>
508,520	(1,218,023)	70,358	1,309,932
			(33,542)
<u>18,339,685</u>	<u>18,418,622</u>	<u>111,601</u>	<u>50,567,016</u>
\$ <u>18,848,205</u>	\$ <u>17,200,599</u>	\$ <u>181,959</u>	\$ <u>51,843,406</u>

(continued)

**CITY OF MODESTO**  
**COMBINING STATEMENT OF CASH FLOWS - INTERNAL SERVICE FUNDS (Continued)**  
**Year ended June 30, 2010**

	<u>Fleet Management</u>	<u>Central Services</u>	<u>Information &amp; Technology Services</u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO</b>			
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</b>			
Operating income (loss)	\$ <u>(1,639,515)</u>	\$ <u>109,802</u>	\$ <u>1,373,767</u>
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	2,856,159	9,414	531,431
Change in assets and liabilities:			
(Increase) decrease in accounts receivable	6,842		
(Increase) decrease in due from governments			(142,462)
(Increase) in prepaid expenses			(189,000)
Decrease in inventories		429,747	
Increase (decrease) in accounts payable and accrued expenses	(53,492)	(530,108)	868,046
Increase in accrued salaries and benefits payable	12,154	(738)	14,766
Increase in compensated absences and OPEB			
Decrease in claims liability			
Total adjustments	<u>2,821,663</u>	<u>(91,685)</u>	<u>1,082,781</u>
Net cash provided (used) by operating activities	<u>\$ <u>1,182,148</u></u>	<u>\$ <u>18,117</u></u>	<u>\$ <u>2,456,548</u></u>
 <b>NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:</b>			
Capital contributions			\$ 6,566
New capital lease transaction			

<u>Insurance</u>	<u>Employee Benefits Management</u>	<u>Building Services</u>	<u>Total</u>
\$ <u>931,820</u>	\$ <u>(5,288,506)</u>	\$ <u>136,880</u>	\$ <u>(4,375,752)</u>
5,921	1,025	4,773	3,408,723
(98,204)	(18,472)		(109,834)
			(142,462)
			(189,000)
			429,747
(620,341)	(670,082)	(27,380)	(1,033,357)
1,057	884	5,420	33,543
	4,454,493		4,454,493
<u>(154,648)</u>			<u>(154,648)</u>
<u>(866,215)</u>	<u>3,767,848</u>	<u>(17,187)</u>	<u>6,697,205</u>
\$ <u><u>65,605</u></u>	\$ <u><u>(1,520,658)</u></u>	\$ <u><u>119,693</u></u>	\$ <u><u>2,321,453</u></u>
			\$ 6,566

## 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.

**City-County Capital Improvements and Financing Agency** - 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 built 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.

**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.

**Ceres-Modesto Fire Protection Agency** - 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.

**CITY OF MODESTO**  
**STATEMENT OF CHANGES IN ASSETS AND LIABILITIES AGENCY FUNDS**  
Year ended June 30, 2010

	Balance June 30, 2009	Additions	Deletions	Balance June 30, 2010
<hr/> <u>Special Districts</u> <hr/>				
<u>ASSETS</u>				
Cash and cash equivalents	\$ 4,057,360	\$ 2,389,806	\$ 2,325,290	\$ 4,121,876
Cash and cash equivalents with fiscal agent	3,896,016	1,992,583	1,964,163	3,924,436
	<u>\$ 7,953,376</u>	<u>\$ 4,382,389</u>	<u>\$ 4,289,453</u>	<u>\$ 8,046,312</u>
 <u>LIABILITIES</u>				
Due to special district bondholders	\$ 7,953,376	\$ 4,382,389	\$ 4,289,453	\$ 8,046,312
	<u>\$ 7,953,376</u>	<u>\$ 4,382,389</u>	<u>\$ 4,289,453</u>	<u>\$ 8,046,312</u>
<hr/> <u>Tuolumne River Regional Park</u> <hr/>				
<u>ASSETS</u>				
Cash and cash equivalents	\$ (3)	\$ 2,304,493	\$ 1,909,780	\$ 394,710
	<u>\$ (3)</u>	<u>\$ 2,304,493</u>	<u>\$ 1,909,780</u>	<u>\$ 394,710</u>
 <u>LIABILITIES</u>				
Deposits held as agent for others	\$ (3)	\$ 2,304,493	\$ 1,909,780	\$ 394,710
	<u>\$ (3)</u>	<u>\$ 2,304,493</u>	<u>\$ 1,909,780</u>	<u>\$ 394,710</u>
<hr/> <u>City/County Joint Powers Financing Authority</u> <hr/>				
<u>ASSETS</u>				
Cash and cash equivalents	\$ 269,059	\$ 2,057,813	\$ 2,118,581	\$ 208,291
	<u>\$ 269,059</u>	<u>\$ 2,057,813</u>	<u>\$ 2,118,581</u>	<u>\$ 208,291</u>
 <u>LIABILITIES</u>				
Deposits held as agent for others	\$ 269,059	\$ 2,057,813	\$ 2,118,581	\$ 208,291
	<u>\$ 269,059</u>	<u>\$ 2,057,813</u>	<u>\$ 2,118,581</u>	<u>\$ 208,291</u>
<hr/> <u>Stanislaus Drug Enforcement Agency</u> <hr/>				
<u>ASSETS</u>				
Cash and cash equivalents	\$ 2,569,440	\$ 3,623,932	\$ 2,496,119	\$ 3,697,253
	<u>\$ 2,569,440</u>	<u>\$ 3,623,932</u>	<u>\$ 2,496,119</u>	<u>\$ 3,697,253</u>
 <u>LIABILITIES</u>				
Deposits held as agent for others	\$ 2,569,440	\$ 3,623,932	\$ 2,496,119	\$ 3,697,253
	<u>\$ 2,569,440</u>	<u>\$ 3,623,932</u>	<u>\$ 2,496,119</u>	<u>\$ 3,697,253</u>
<hr/> <u>Industrial Fire District</u> <hr/>				
<u>ASSETS</u>				
Cash and cash equivalents	\$ 236,564	\$ 493,141	\$ 296,186	\$ 433,519
	<u>\$ 236,564</u>	<u>\$ 493,141</u>	<u>\$ 296,186</u>	<u>\$ 433,519</u>
 <u>LIABILITIES</u>				
Deposits held as agent for others	\$ 236,564	\$ 493,141	\$ 296,186	\$ 433,519
	<u>\$ 236,564</u>	<u>\$ 493,141</u>	<u>\$ 296,186</u>	<u>\$ 433,519</u>
<hr/> <u>Totals - All Agency Funds</u> <hr/>				
<u>ASSETS</u>				
Cash and cash equivalents	\$ 7,132,420	\$ 10,869,185	\$ 9,145,956	\$ 8,855,649
Cash and cash equivalents with fiscal agent	3,896,016	1,992,583	1,964,163	3,924,436
	<u>\$ 11,028,436</u>	<u>\$ 12,861,768</u>	<u>\$ 11,110,119</u>	<u>\$ 12,780,085</u>
 <u>LIABILITIES</u>				
Due to special district bondholders	\$ 7,953,376	\$ 4,382,389	\$ 4,289,453	\$ 8,046,312
Deposits held as agent for others	3,075,060	8,479,379	6,820,666	4,733,773
	<u>\$ 11,028,436</u>	<u>\$ 12,861,768</u>	<u>\$ 11,110,119</u>	<u>\$ 12,780,085</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

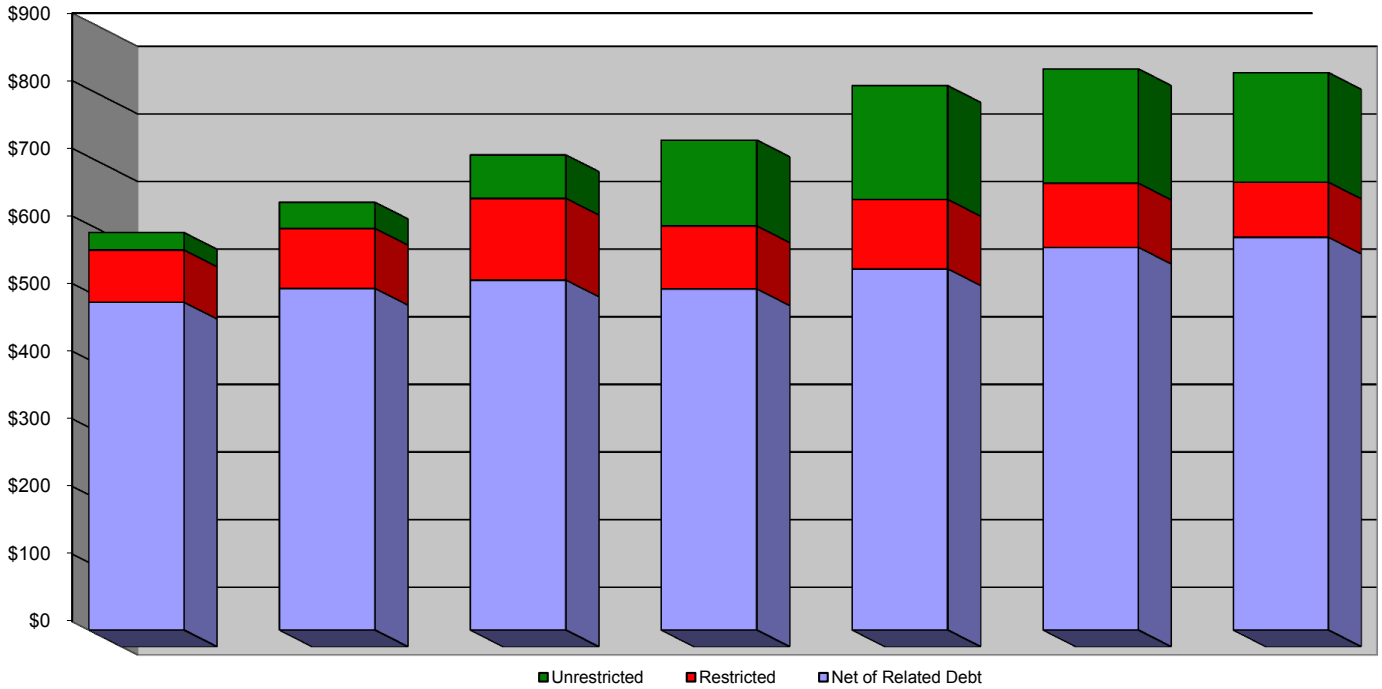
### Operating Information

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 2003.

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



	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
<b>Governmental activities</b>							
Invested in capital assets, net of related debt	\$275,171,096	\$288,391,776	\$296,401,824	\$333,409,532	\$339,396,266	\$347,357,492	\$329,592,169
Restricted	76,577,126	88,725,341	120,937,678	93,168,664	102,602,698	94,819,773	81,528,516
Unrestricted	(11,382,001)	(6,715,483)	(2,303,306)	(12,566,297)	4,627,884	(472,402)	14,399,778
Total governmental activities net assets	<u>\$340,366,221</u>	<u>\$370,401,634</u>	<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>
<b>Business-type activities</b>							
Invested in capital assets, net of related debt	\$209,230,461	\$216,558,150	\$220,881,691	\$170,791,021	\$194,435,373	\$218,432,739	\$251,025,494
Restricted	763,190						
Unrestricted	37,266,369	45,548,813	66,550,276	139,613,374	163,792,245	169,639,845	147,661,517
Total business-type activities net assets	<u>\$247,260,020</u>	<u>\$262,106,963</u>	<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>
<b>Primary government</b>							
Invested in capital assets, net of related debt	\$484,401,557	\$504,949,926	\$517,283,515	\$504,200,553	\$533,831,639	\$565,790,231	\$580,617,663
Restricted	77,340,316	88,725,341	120,937,678	93,168,664	102,602,698	94,819,773	81,528,516
Unrestricted	25,884,368	38,833,330	64,246,970	127,047,077	168,420,129	169,167,443	162,061,295
Total primary government net assets	<u>\$587,626,241</u>	<u>\$632,508,597</u>	<u>\$702,468,163</u>	<u>\$724,416,294</u>	<u>\$804,854,466</u>	<u>\$829,777,447</u>	<u>\$824,207,474</u>

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

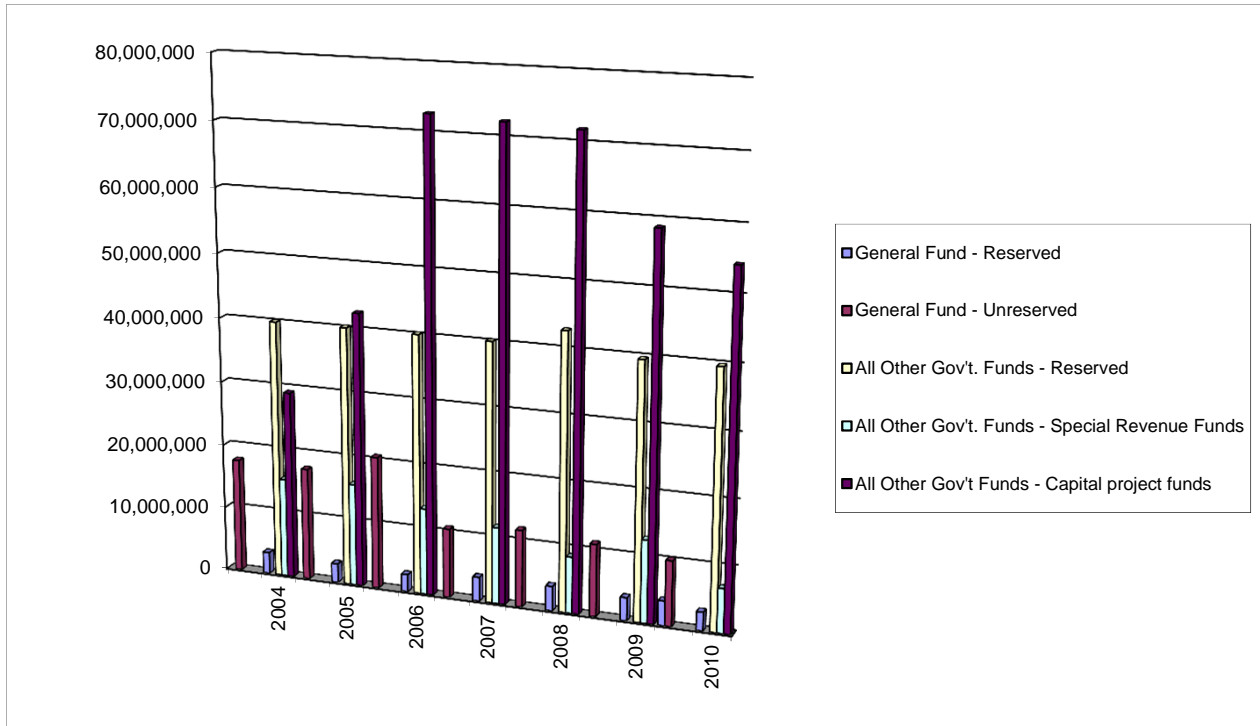
	2004	2005	2006	2007	2008	2009	2010
<b>Expenses</b>							
<b>Governmental Activities:</b>							
General Government	\$13,954,909	\$15,273,174	\$15,529,735	\$17,227,876	\$15,997,582	\$12,700,264	\$12,093,091
Community Development	\$10,517,243	\$14,105,411	\$12,241,213	12,025,105	14,619,525	14,694,997	18,912,766
Highways and streets	23,136,950	23,721,458	26,025,311	26,246,306	26,436,475	23,682,253	23,668,779
Public works	6,458,522	5,263,984	6,491,062	12,557,512	11,471,344	9,151,786	6,759,562
Parks and Recreation	12,682,746	13,334,330	11,733,698	14,568,192	14,264,334	15,070,007	13,268,871
Public safety	68,258,235	71,239,341	74,500,043	83,793,361	88,651,249	84,395,987	80,254,834
Interest on Long Term Debt	4,515,439	4,987,911	5,178,130	7,286,026	4,998,482	6,114,875	5,766,421
<b>Total Governmental Activities Expenses</b>	<b>139,524,044</b>	<b>147,925,609</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>Business-Type Activities:</b>							
Parking	651,330	1,162,479	1,287,450	1,475,340	1,982,066	2,011,386	1,826,401
Water	27,051,982	30,691,348	29,989,775	35,540,918	36,713,351	38,190,214	43,619,704
Sewer	21,386,084	22,422,268	22,716,100	24,156,577	23,974,989	22,416,713	28,055,056
Storm Drain	5,327,334	6,111,317	5,795,746	6,924,335	6,349,113	6,140,963	5,201,741
Compost			941,919	1,225,462	1,312,511	1,130,816	1,480,068
Airport	1,120,922	1,131,889	1,342,645	2,039,988	1,444,667	1,682,644	1,918,113
Bus	10,122,176	11,074,907	12,119,311	13,758,421	14,834,612	15,210,224	15,671,731
Golf	2,432,202	2,354,759	2,461,470	2,479,447	2,497,161	2,440,599	2,473,968
Community Center	2,078,752	2,323,169	2,465,644	2,543,121	2,465,825	2,303,256	2,346,175
<b>Total Business-Type Activities Expenses</b>	<b>70,170,782</b>	<b>77,272,136</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>Total Primary Government Expenses</b>	<b>\$209,694,826</b>	<b>\$225,197,745</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>Program Revenues</b>							
<b>Governmental Activities:</b>							
<b>Charges for Services:</b>							
General Government	\$3,321,760	\$3,252,732	\$4,179,505	\$3,775,368	\$6,726,893	\$6,987,127	\$6,323,865
Community Development	9,592,055	11,294,130	9,466,082	10,873,541	7,869,742	4,788,324	2,941,932
Highway and streets	2,005,336	14,081,840	12,104,089	10,719,009	5,804,342	8,222,178	2,801,213
Public Works	9,267,650	2,024,509	1,986,957	1,757,648	5,110,428	1,349,956	3,344,967
Parks and Recreation	3,992,598	4,821,884	4,928,366	4,437,320	5,590,196	4,006,123	6,038,468
Public Safety	6,794,911	8,011,509	7,124,387	8,414,456	4,868,612	4,625,935	4,325,231
Operating Grants and Contributions	15,975,814	13,736,453	11,892,511	12,701,177	14,221,390	11,424,548	14,559,357
Capital Grants and Contributions	18,368,908	22,799,320	38,484,548	4,207,389	17,930,957	6,595,213	10,876,018
<b>Total Government Activities Program Revenues</b>	<b>69,319,032</b>	<b>80,022,377</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>Business-Type Activities:</b>							
<b>Charges for Services:</b>							
Parking	890,263	908,920	1,176,061	1,128,755	1,297,484	1,256,360	1,239,995
Water	31,353,046	31,315,920	42,639,348	49,305,033	51,679,042	53,218,692	54,670,041
Sewer	25,292,995	24,419,607	23,083,280	24,833,019	29,340,615	35,854,857	37,310,731
Storm Drain	5,227,844	5,162,217	5,277,304	5,403,474	5,338,838	5,301,150	5,428,291
Compost			1,317,105	1,254,137	1,075,032	1,397,708	1,706,189
Airport	559,479	559,215	577,688	604,214	593,349	661,524	675,565
Bus	2,077,503	2,264,506	2,645,622	2,545,790	3,182,762	2,944,108	2,769,814
Golf	2,160,223	2,115,712	2,222,738	2,189,384	2,124,672	1,984,769	1,924,015
Community Center	496,680	504,338	543,085	552,878	532,471	492,989	489,562
Operating Grants and Contributions	6,217,613	7,525,367	8,317,889	11,059,129	12,459,707	11,462,346	13,706,512
Capital Grants and Contributions	10,145,892	8,498,408	10,467,873	7,962,675	9,793,356	4,527,875	2,898,489
<b>Total Business-Type Activities Program Revenue</b>	<b>84,421,538</b>	<b>83,274,210</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>Total Primary Government Program Revenues</b>	<b>\$153,740,570</b>	<b>\$163,296,587</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>Net (Expense)/Revenue</b>							
Governmental Activities	(\$70,205,012)	(\$67,903,232)	(\$61,532,747)	(116,818,470)	(108,316,431)	(117,810,765)	(109,513,273)
Business-Type Activities	14,250,756	6,002,074	19,147,933	16,694,879	25,843,033	27,575,563	20,226,247
<b>Total Primary Government Net Expense</b>	<b>(\$55,954,256)</b>	<b>(\$61,901,158)</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>

(continued)

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

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
General Revenues and Other Changes in Net Assets							
Governmental Activities:							
Taxes:							
Utility Users Tax	\$14,659,986	\$15,621,566	\$17,583,690	\$18,319,573	\$19,173,295	19,093,222	12,306,702
Property taxes, levied for general purposes	11,294,599	11,316,694	14,318,747	16,456,379	16,202,587	13,863,471	19,117,518
Tax increments for redevelopment agency	3,183,871	3,909,452	4,450,836	5,303,521	5,813,822	6,228,634	6,521,515
Transient occupancy tax	2,110,909	2,098,303	2,181,467	2,264,699	2,038,255	1,853,732	1,460,613
Franchise tax	3,455,535	3,420,453	3,693,307	3,823,216	7,735,131	4,779,854	3,962,159
Business license tax - for general purposes	9,231,136	9,726,816	10,374,157	10,359,058	9,680,721	9,330,563	9,068,219
Business license tax - for downtown improvement district	190,644	201,308	214,022	221,487	202,100	196,253	169,471
Grants and contributions not restricted to specific programs:							
Sales tax	27,151,779	26,589,449	29,627,835	27,884,852	26,305,982	24,578,230	22,301,060
Motor vehicle license fee	9,052,449	16,403,864	14,986,883	16,233,262	16,856,108	15,255,503	13,945,172
Other	1,204,485	1,702,234	4,070,593	4,169,354	917,347	3,285,651	1,286,466
Unrestricted investment earnings	1,004,974	4,463,080	3,255,401	8,330,079	9,960,367	5,247,506	1,211,702
Miscellaneous	2,479,871	3,792,340	2,827,161	3,582,325	3,469,916	5,809,581	2,502,397
Settlements							
Transfers	(1,902,932)	(1,306,914)	(1,416,790)	(1,153,632)	(779,437)	(5,490,881)	402,303
Special Item - PCE legal fees							
<b>Total Government Activities</b>	<u>83,117,306</u>	<u>97,938,645</u>	<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>
Business-Type Activities:							
Taxes:							
Property taxes, generated by and allocated to the airport	204,091	239,518	166,641	209,722	182,031	202,460	265,587
Business license tax, generated by and allocated to the airport	7,870	20,546	41,108	13,054	19,188		
Unrestricted investment earnings	857,751	1,819,870	2,504,291	5,406,639	7,099,765	6,227,615	3,155,954
Miscellaneous		1,306,914				253,032	
Transfers	1,902,932	7,396,627	1,416,790	1,153,632	779,437	5,490,881	(402,303)
Settlements and Recoveries			3,784,295		14,525,389		447,102
Special item	(6,298,525)	(1,938,606)	(1,736,054)	(505,498)	(625,620)	(2,211,514)	(1,326,309)
<b>Total Business-Type Activities</b>	<u>(3,325,881)</u>	<u>8,844,869</u>	<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>
<b>Total Primary Government</b>	<u>\$79,791,425</u>	<u>\$106,783,514</u>	<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>
Change in Net Assets							
Governmental Activities	\$12,912,294	\$30,035,413	\$44,634,562	(\$1,024,297)	\$9,259,763	(\$13,779,446)	(\$15,257,976)
Business-Type Activities	10,924,875	14,846,943	25,325,004	22,972,428	47,823,223	37,538,037 #	22,366,278
<b>Total Primary Government</b>	<u>\$23,837,169</u>	<u>\$44,882,356</u>	<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>

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



	2004	2005	2006	2007	2008	2009	2010
<b>General Fund</b>							
Reserved	\$3,327,569	\$2,955,054	2,702,381	\$3,734,973	\$3,816,559	\$3,568,273	\$2,871,715
Unreserved	17,651,800	17,460,005	20,607,134	10,713,910	11,942,168	11,185,485	10,103,645
<b>Total General Fund</b>	<u>\$20,979,369</u>	<u>\$20,415,059</u>	<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>
<b>All Other Governmental Funds</b>							
Reserved	\$40,013,124	\$40,160,539	\$40,168,886	\$40,174,920	\$42,799,130	\$39,607,945	39,686,892
Unreserved, reported in:							
Special revenue funds	15,398,402	15,931,290	13,431,304	11,885,910	8,746,111	12,808,809	6,867,750
Capital project funds	29,172,787	42,534,688	72,752,412	72,253,464	71,780,583	58,718,023	54,341,594
<b>Total all other governmental funds</b>	<u>\$84,584,313</u>	<u>\$98,626,517</u>	<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>

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.

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

	2004	2005	2006	2007	2008	2009	2010
<b>Revenues</b>							
Taxes	\$44,185,552	\$46,295,678	\$52,816,596	\$56,748,017	\$57,142,392	\$55,345,729	\$52,606,197
Licenses, permits and fees	250,129	128,754	146,854	187,289	153,545	132,459	138,811
Intergovernmental	70,583,373	73,889,063	64,759,658	66,129,862	71,179,504	63,606,634	61,551,617
Charges for services	33,203,507	41,660,016	37,802,149	36,979,023	33,319,642	27,051,151	23,509,170
Special assessments levied	386,368	107,696	65,909	51,634	35,294	37,299	38,520
Interest and rent	2,911,392	3,146,452	3,755,169	4,837,419	5,236,476	2,909,155	1,322,005
Net increase in fair value of investments	(1,458,065)	186,515	103,036	1,168,857	1,404,913	860,820	399,322
Fines and forfeits	1,294,193	1,646,472	1,675,926	2,699,445	2,614,523	2,443,506	2,253,014
Contribution from property owners			30,473,773				
Miscellaneous	2,479,871	2,991,745	2,821,161	2,814,421	3,469,916	5,809,581	2,502,397
<b>Total Revenues</b>	<b>153,836,320</b>	<b>170,052,391</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>Expenditures</b>							
Current:							
General government	11,878,443	11,819,603	14,111,535	15,517,544	15,107,461	13,715,577	11,482,240
Community development	10,113,628	12,832,640	12,296,072	11,789,640	13,820,295	14,137,095	18,536,120
Highways and streets	11,568,810	12,152,087	14,357,041	12,553,681	12,549,018	9,721,445	8,102,327
Public works	4,876,115	5,053,030	5,647,023	11,307,307	9,719,098	7,667,125	6,124,685
Parks and recreation	11,374,052	12,021,937	11,662,263	13,348,613	12,605,651	13,307,764	12,138,077
Public safety	62,747,623	70,882,176	74,527,875	80,988,650	82,707,285	78,103,260	75,081,791
Capital outlay	33,092,718	24,412,735	21,563,774	30,194,778	22,745,308	27,663,037	16,655,242
Debt service:							
Principal retirement	1,563,472	1,666,764	1,901,827	2,008,538	2,265,000	1,093,000	2,045,000
Interest	4,502,666	4,425,980	4,576,780	4,413,300	3,473,369	3,033,829	4,032,612
Advance refunding escrow				822,228			
Other	18,355	553,645	618,742	1,333,129	1,337,611	1,395,211	1,408,771
<b>Total Expenditures</b>	<b>151,735,882</b>	<b>155,820,597</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>
Excess of revenues over (under) expenditures	2,100,438	14,231,794	33,157,299	(12,661,441)	(1,773,891)	(11,641,009)	(11,285,812)
<b>Other Financing Sources (Uses)</b>							
Transfers in	19,332,436	17,962,442	17,724,718	23,985,863	24,429,880	19,237,526	12,346,246
Transfers out	(20,819,979)	(19,644,937)	(20,267,476)	(26,399,280)	(22,579,265)	(18,149,564)	(12,402,937)
Proceeds of capital lease							
Proceeds of loan payable	212,241			44,138	244,650	209,575	
Proceeds of notes payable	4,500,000						
Proceeds of lease revenue bonds				62,275,000		65,170,000	
Refunding of lease revenue bonds						(65,210,000)	
Sale of Assets		928,595	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>3,224,698</b>	<b>(753,900)</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>Net Change in fund balances</b>	<b>5,325,136</b>	<b>13,477,894</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>
FUND BALANCES, July 1	100,238,546	105,563,682	119,041,576	149,662,117	138,763,177	\$139,084,551	\$125,888,535
PRIOR PERIOD ADJUSTMENT						(\$416,197)	(\$674,436)
<b>FUND BALANCES, June 30</b>	<b>\$105,563,682</b>	<b>\$119,041,576</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>
Debt service as a percentage of noncapital expenditures	0.05389	0.04884	0.04886	0.04979	0.03917	0.03020	0.04623

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

**CITY OF MODESTO**  
**REVENUE CAPACITY - MOST SIGNIFICANT LOCAL REVENUE SOURCE**  
**WATER UTILITY CHARGES**  
**(Fiscal Year ended June 30, 2010)**

Ten Largest Customers of Water Utility System, Year Ended 06/30/10

<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	418,286	1.44%	\$759,779	1.52%
2) Signature Fruit Co, LLC	491,435	1.69%	644,383	1.29%
3) Modesto City Schools	385,633	1.33%	619,042	1.24%
4) Stanislaus Food Products	346,940	1.20%	468,984	0.94%
5) Foster Farms	330,064	1.14%	430,271	0.86%
6) Modesto Irrigation Dist	198,817	0.69%	285,468	0.57%
7) Stanislaus Housing Authority	161,363	0.56%	271,324	0.54%
8) Stanislaus County Building MAI	126,208	0.43%	206,937	0.41%
9) Sylvan Union School Dist	125,689	0.43%	203,885	0.41%
10) Yosemite Comm Coll Dist	109,723	0.38%	199,493	0.40%
Total Top Ten	<u>2,694,158</u>	<u>9.29%</u>	<u>\$4,089,566</u>	<u>8.18%</u>

Total Flat/Metered Revenues (Water Sales)

\$50,015,340

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

Sales Revenue, Year Ended 0

Residential - flat rates

\$21,256,928

Commercial, Industrial and municipal - metered rates

28,758,412

Total Water Sales

\$50,015,340

Water Rates and Charges as of 07/01/09

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

\$42.31

Commercial Accounts:

\$13.71  
19.45  
33.66  
50.79  
96.51  
147.88  
290.51  
461.75  
661.58  
1,232.31

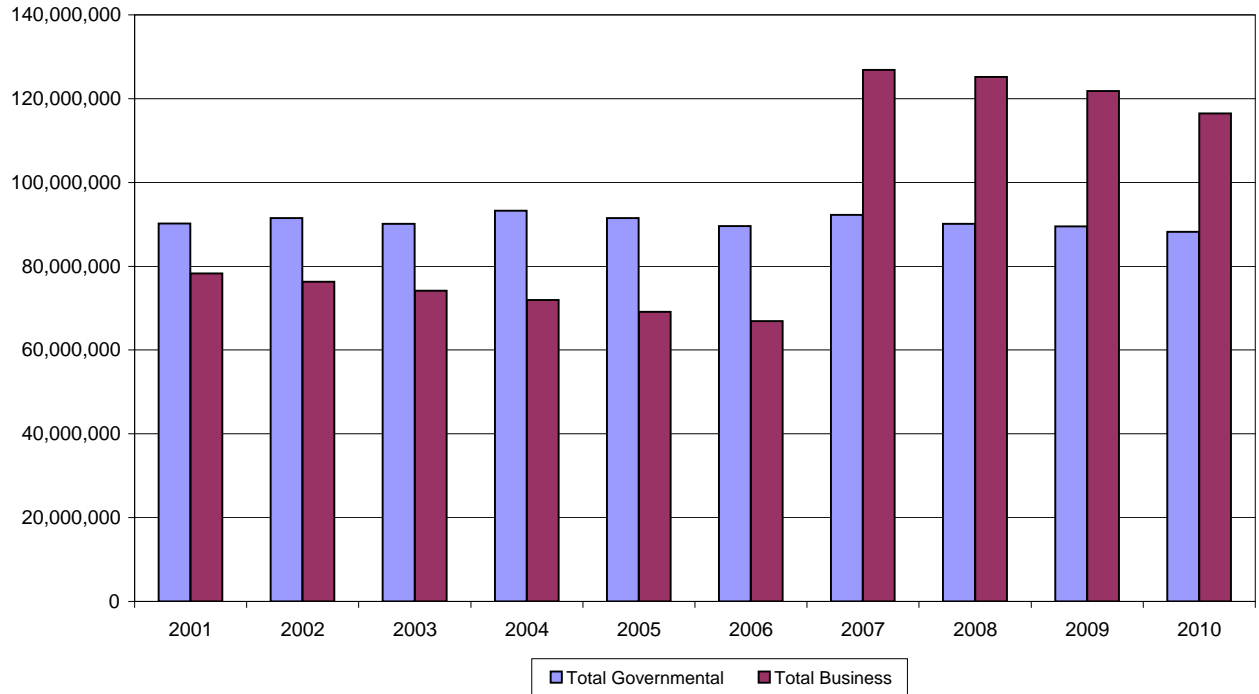
In addition to these minimum charges, commercial accounts are charged \$1.28 per 100 cubic feet of water used.

Source:

City of Modesto-Customer Services

**Note: Information about Water Utility Customers was not available for the year ended June 30, 1998.**

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



**Governmental Activities**

Fiscal Year	Governmental Activities					Total
	Loans Payable	Certificates of Participation	Lease Revenue Bonds	Notes Payable	Obligations Under Capital Leases	
2001		25,280,000	64,615,000		329,594	90,224,594
2002	\$191,835	24,625,000	64,250,000	\$262,807	2,153,350	91,482,992
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

**Business-Type Activities**

Fiscal Year	Business-Type Activities					Total Primary Government	Percentage of Personal Income (a)	Per Capita (a)
	Loans Payable	Certificates of Participation	Revenue Bonds	Capital Leases	Total			
2001	3,056,210	30,525,000	44,735,000		78,316,210	168,540,804	3.82%	895.13
2002	2,887,342	29,765,000	43,640,000		76,292,342	167,775,334	3.55%	844.79
2003	2,713,066	28,965,000	42,490,000		74,168,066	164,311,904	3.33%	808.22
2004	2,533,380	28,125,000	41,285,000		71,943,380	165,191,588	3.09%	801.12
2005	2,347,602	27,240,000	39,235,000	\$290,487	69,113,089	160,646,075	2.87%	773.70
2006	2,156,040	26,305,000	38,245,000	222,588	66,928,628	156,515,200	2.81%	752.09
2007	1,958,276	71,595,000	53,130,000	151,633	126,834,909	219,120,847	3.76%	1,047.55
2008	1,754,300	71,915,000	51,420,000	77,485	125,166,785	215,330,185	3.69%	1,025.69
2009	1,543,554	70,545,000	49,760,000	0	121,848,554	211,375,569	3.47%	1,006.13
2010	1,326,174	67,066,213	48,050,000	0	116,442,387	204,659,738	3.07%	967.49

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.

**CITY OF MODESTO**  
**COMPUTATION OF DIRECT AND OVERLAPPING DEBT**  
**June 30, 2010**

<u>Jurisdiction</u>	<u>Net Debt Outstanding (1)</u>	<u>Percentage Applicable to City of Modesto (2)</u>	<u>Amount Applicable to City of Modesto</u>
Direct debt:			
City of Modesto	\$ <u>0</u>	100%	\$ <u>0</u>
Overlapping General Obligation debt - school districts:			
Ceres Unified District	44,794,682	5.71	2,557,776
Hart-Ransom Union School District	3,899,767	34.75	1,355,169
Modesto Elementary School District	15,963,051	79.23	12,647,525
Modesto High School District	59,694,357	67.18	40,102,669
Paradise Elementary School District	400,000	0.00	0
Salida Union Elementary District	940,000	28.99	272,506
Stanislaus Union School District	13,005,000	27.09	3,523,055
Sylvan School District	27,555,000	77.27	21,291,749
Yosemite Community College District	<u>228,190,000</u>	35.62	81,281,278
Total overlapping debt	<u>394,441,857</u>		<u>163,031,727</u>
Total direct and overlapping debt	<u>\$ 394,441,857</u>		<u>\$ 163,031,727</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, 2010**

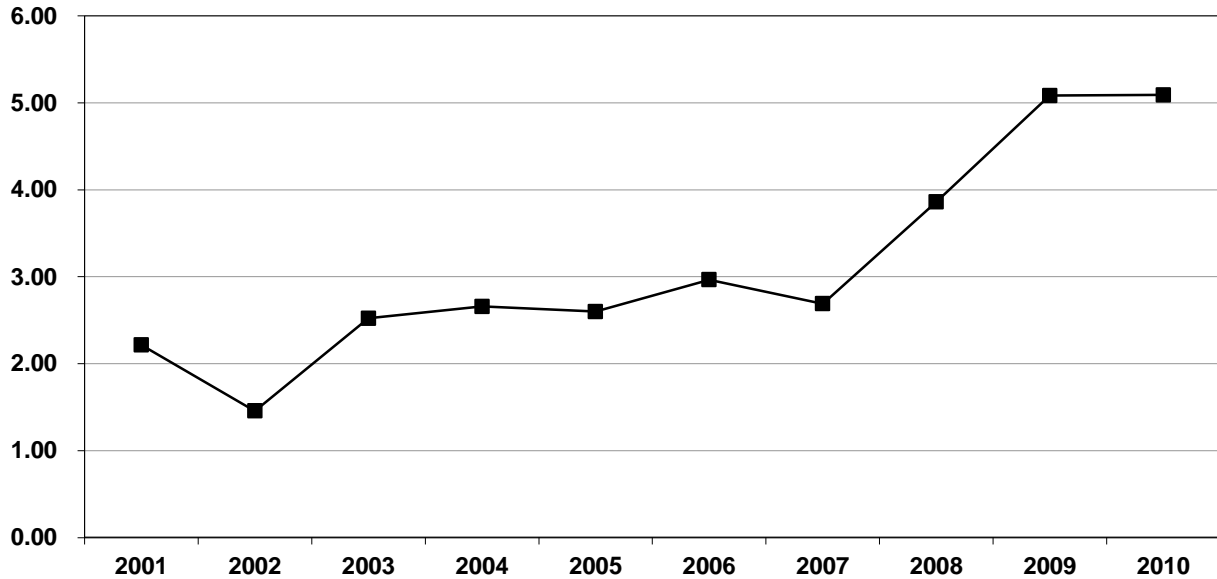
Net assessed value (1)		\$ 12,151,454,248
Plus homeowners' exemption (1)		<u>226,617,558</u>
Gross assessed value (1)		\$ 12,378,071,806
Debt limit - 15% of gross assessed value (2)		\$ 1,856,710,771
Amount of debt applicable to debt limit:		
Total general bonded debt, including special assessment debt	\$	<u>0</u>
Less: Assets in debt service funds available for payment of principal	\$	<u>0</u>
Other deductions: Special assessment debt	<u>0</u>	
Total deductions		<u>0</u>
Total amount of debt applicable to debt limit		<u>0</u>
Legal debt margin		<u><u>\$ 1,856,710,771</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
2006	\$ 1,911,402,504	\$ 0	\$ 1,911,402,504	0%
2007	\$ 2,160,683,976	\$ 0	\$ 2,160,683,976	0%
2008	\$ 2,327,946,572	\$ 0	\$ 2,327,946,572	0%
2009	\$ 2,138,574,915	\$ 0	\$ 2,138,574,915	0%
2010	\$ 1,856,710,771	\$ 1	\$ 1,856,710,771	0%

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

Note: The City has elected to show only three Five 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>
2001	21,102,892	13,244,750	7,858,142	3,549,180	2.21
2002	22,288,061	17,117,917	5,170,144	3,550,017	1.46
2003	24,623,786	15,664,660	8,959,126	3,551,958	2.52
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

- 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, 2010**

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	57,018	95.52%	55.25%
Commercial	2,635	4.41%	12.27%
Industrial	42	0.07%	30.78%
Total	59,695	100.00%	98.30%

Ten Largest Users of Sewer Facilities, Year Ended 6/30/10

<u>User</u>	<u>Sewer Fee Revenue</u>	<u>% of Sewer Fee Operating Revenue</u>
1) Del Monte Corporation	\$ 2,248,400	6.34%
2) Stanislaus Food Products	2,040,183	5.75%
3) Signature Fruit CO, LLC	1,737,981	4.90%
4) Gallo Glass	1,146,917	3.23%
5) Frito Lay, Site #34390	893,187	2.52%
6) Foster Farms	885,692	2.50%
7) City of Ceres	662,795	1.87%
8) Nestle Food Company	392,513	1.11%
9) Modesto City Schools	200,679	0.57%
10) Stan CO Housing Authority	158,417	0.45%
Total (Top Ten Customers)	\$ 10,366,764	29.24%
Total (All Customers)	\$ 35,455,433	

The average single-family residence monthly sewer charge is \$24.11

<u>Commercial Group</u>	<u>Charge Per 1,000 Gallons</u>	<u>Fixed Charge</u>
Group 1 (no food, just toilets or working facilities)	\$1.76	\$3.33
Group 2 (commercial laundromats, service stations, hotels without food)	\$2.17	\$3.33
Group 3 (industrial laundromats, hotels with food)	\$2.58	\$3.33
Group 4 (restaurants, bakeries, auto steam, markets)	\$3.07	\$3.33

Industrial users pay a minimum account charge of \$3.33 with additional charges of: \$1,918.51 per million gallons of flow, \$95.25 per 1,000 pounds of excess biochemical oxygen demand (BOD), and \$166.57 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 27	
Principal Amount of Bonds and Other Parity Debt	Page 44-45	(Note III-C)
Historical Debt Service Coverage	Page 115	
	(continued)	

**CITY OF MODESTO**  
**WASTEWATER COMPARISON INFORMATION**  
**Year Ending June 30, 2010**

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>
2004/05	3.0
2005/06	0.0
2006/07	0.0
2007/08	30.0
2008/09	30.0
2009/10	0.0

**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, 2009**

<u>City</u>	<u>Monthly Residential Charge</u>
<b>Modesto</b>	<b>\$24.11</b>
Stockton	22.75
Fresno(1)	24.98
Lodi(2)	34.68
Turlock	38.55
Tracy	31.00

(1) Minimum charge.

(2) Based upon a three-bedroom residence.

**CITY OF MODESTO**  
**CONTINUING DISCLOSURE REQUIREMENTS**  
**Year Ending June 30, 2010**

**CITY OF MODESTO**  
**WASTEWATER SYSTEM**  
**Wastewater Connection Fees Comparison**  
**As of January 1, 2009**

<u>City</u>	<u>Connection Fee</u>
<b>Modesto</b>	<b>\$4,905</b>
Turlock (1)	2,281
Fresno	2,119
Stockton-South of the Calaveras River (2)	4,096
Tracy	15,300
Stockton-North of the Calaveras River (3)	4,911
Lodi (4)	5,785

---

(1) Based on local street rate.

(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, 2010**

1997 Water Utility System Refinancing Project, Refunding Revenue Certificates of Participation  
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 2007E<sup>(1)</sup>

Reserve Account Requirement as of 6/30/10	\$4,610,578
Surety Policy Value:	(2,082,513) Provided by FGIC
Balance in Parity Reserve Account as of 6/30/10	<u>(1,858,322)</u>
Shortfall/(Excess) Reserve Coverage:	<u><u>669,743</u></u>

Balance in Rate Stabilization Account as of 6/30/10: 3,000,000

Ten Largest Customers of Water Utility System, Year Ended 6/30/10

<u>Customer</u>	<u>Business Type</u>	<u>Usage (ccf) (2)</u>	<u>% of Total Usage</u>	<u>Water Sales Revenue (\$)</u>	<u>% of Total Water Sales Revenue</u>
1) City of Modesto	Local Government	418,286	1.44%	\$759,779	1.52%
2) Signature Fruit Co, LLC	Cannery	491,435	1.69%	644,383	1.29%
3) Modesto City Schools	Education	385,633	1.33%	619,042	1.24%
4) Stanislaus Food Products	Cannery	346,940	1.20%	468,984	0.94%
5) Foster Farms	Dairy Processor	330,064	1.14%	430,271	0.86%
6) Modesto Irrigation Dist	Power Company	198,817	0.69%	285,468	0.57%
7) Stanislaus Housing Authority	Housing Authority	161,363	0.56%	271,324	0.54%
8) Stanislaus County Building MAI	County Offices	126,208	0.43%	206,937	0.41%
9) Sylvan Union School Dist	Education	125,689	0.43%	203,885	0.41%
9) Yosemite Comm Coll Dist	Education	109,723	0.38%	199,493	0.40%
Total Top Ten		<u>2,694,158</u>	<u>9.29%</u>	<u>\$4,089,566</u>	<u>8.18%</u>

Total Flat/Metered Revenues (Water Sales)

\$50,015,340

(1) Grover Landscaping maintains City parks

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

Water Sales Revenue, Year Ended 6/30/10

Residential - flat rates	\$21,256,928
Commercial, industrial and municipal - metered rates	<u>28,758,412</u>
Total Water Sales	<u><u>\$50,015,340</u></u>

The average monthly flat rate service charge for residential customers is \$42.31

Current Water Rates as of 07/01/09- Commercial Accounts

<u>Meter Size</u>	
3/4"	\$13.71
1"	19.45
1 1/2"	33.66
2"	50.79
3"	96.51
4"	147.88
6"	290.51
8"	461.75
10"	661.58
12"	1,232.31

In addition to these minimum charges, commercial accounts are charged \$1.28 per 100 cubic feet of water used.

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 6/30/10, the balance of the 1998 Bonds was \$67,435,000 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**

	<u>Fiscal Year 2005</u>	<u>Fiscal Year 2006</u>	<u>Fiscal Year 2007</u>	<u>Fiscal Year 2008</u>
<b>GROSS OPERATING REVENUES</b>				
Charges for Services	\$ 31,315,920	\$ 42,639,348	\$ 49,289,417	\$ 51,433,282
DBCP Settlement	2,960,781	1,334,259		
Connection Charges	1,371,958	1,728,873	2,023,224	1,539,039
Interest and Rental Income	279,616	534,234	2,279,905	2,187,439
Gain/(Loss) on Disposition of Capital Assets				(10,300)
Draw from (Deposit to) Rate Stab, Fund	0	(153,200)	15,616	245,760
Miscellaneous				
<b>GROSS OPERATING REVENUES</b>	<u>35,928,275</u>	<u>46,083,514</u>	<u>53,608,162</u>	<u>55,395,220</u>
<b>OPERATING EXPENSES:</b>				
Total operating expenses	29,227,465	28,672,955	32,466,468	34,676,952
Less: Depreciation	(2,305,953)	(2,383,566)	(2,396,440)	(2,276,755)
T&DA debt service paid to MID(1)	(6,705,344)	(6,690,994)	(6,687,444)	(6,681,894)
Property taxes	82,673	84,556	85,487	86,733
Plus: Operating Transfers	<u>218,902</u>	<u>95,385</u>	<u>65,000</u>	<u>65,000</u>
<b>TOTAL OPERATING EXPENSES</b>	<u>20,517,743</u>	<u>19,778,336</u>	<u>23,533,071</u>	<u>25,870,036</u>
<b>NET OPERATING REVENUES</b>	15,410,532	26,305,178	30,075,091	29,525,184
<b>TOTAL DEBT SERVICE</b>				
Revenue obligations:				
1997 Certificates of Participation	1,784,908	1,790,658	1,794,120	1,791,930
2008 Revenue Certificates of Participation			1,082,432	1,982,256
Treatment & Delivery Agreement	6,705,344	6,690,994	6,687,444	6,681,894
CDWR Loan	<u>264,654</u>	<u>264,654</u>	<u>264,719</u>	<u>264,719</u>
<b>TOTAL DEBT SERVICE</b>	<u>\$ 8,754,906</u>	<u>\$ 8,746,306</u>	<u>\$ 9,828,715</u>	<u>\$ 10,720,799</u>
<b>DEBT SERVICE COVERAGE</b>				
(Net Operating Revenues/ Total Debt Service)	1.76	3.01	3.06	2.75

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

	Fiscal Year 2009	Fiscal Year 2010
\$	53,107,853	54,208,363
	852,532	576,651
	2,282,750	888,774
	(47,023)	(19,875)
	110,839	-
	<u>56,306,951</u>	<u>56,115,591</u>
	37,206,969	43,351,954
	(2,359,091)	(5,427,915)
	(6,672,406)	(6,681,894)
	89,219	92,291
	<u>569,315</u>	<u>1,197,325</u>
	28,834,006	32,531,761
	27,472,945	23,583,830
	1,867,883	1,891,599
	2,262,117	2,141,401
	6,672,406	6,681,894
	<u>263,079</u>	<u>262,989</u>
\$	11,065,485	\$ 10,977,883
	2.48	2.15

**CITY OF MODESTO**  
**CITY WATER UTILITY SYSTEM**  
**PROJECTED OPERATING RESULTS**  
**CONTINUING DISCLOSURE REQUIREMENTS**  
**Next Five Fiscal Years**

	<u>2011</u>	<u>2012</u>
GROSS OPERATING REVENUES	\$	\$
Charges for Services	\$52,291,046	\$52,653,630
DBCP Settlement		
Interest and Rental Income	553,801	520,379
Gain/(Loss) on Disposition of Capital Assets		
Draw from (Deposit to) Rate Stab, Fund		
FUND 6101 Development fees & interest	360,257	360,257
Service Credits	2,106,146	2,148,269
Misc Revenue	52,200	53,244
GROSS OPERATING REVENUES	<u>55,363,450</u>	<u>55,735,779</u>
OPERATING EXPENSES:		
Total operating expenses	32,317,454	32,948,471
Less: Depreciation		
Less: Litigation Costs	-428,869	-600,000
T&DA debt service paid to MID(1)		
Property taxes		
Plus: Operating Transfers	<u>765,000</u>	<u>765,000</u>
TOTAL OPERATING EXPENSES	<u>32,653,585</u>	<u>33,113,471</u>
NET OPERATING REVENUES	22,709,865	22,622,308
TOTAL DEBT SERVICE		
Revenue obligations:		
1997 Certificates of Participation	1,794,013	1,795,513
2008 Revenue Certificates of Participation	2,271,034	2,259,523
2007 Treatment & Delivery Agreement COP's	4,123,147	4,123,147
1998 Treatment & Delivery Agreement	6,670,769	6,670,894
CDWR Loan	264,719	264,719
ARRA funding CDPH	<u>0</u>	<u>0</u>
TOTAL DEBT SERVICE	\$ 15,123,682	\$ 15,113,796
DEBT SERVICE COVERAGE		
(Net Operating Revenues/ Total Debt Service)	1.50	1.50

NOTE: Data on schedule revised November 1, 2010

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

NOTE: Additional financial information is available at the City of Modesto webpage [www.modestogov.com](http://www.modestogov.com)

NOTE: Projected years have been revised due to several capital improvement projects being reclassified to operating expenses.

	<u>2013</u>	<u>2014</u>	<u>2015</u>
\$	\$53,706,702	\$ 54,780,836	55,876,453
	400,621	377,238	453,255
	360,257	360,257	360,257
	2,191,234	2,235,059	2,279,760
	54,309	55,395	56,503
	<u>56,713,123</u>	<u>57,808,785</u>	<u>59,026,228</u>
	33,749,140	34,543,335	35,428,518
	-600,000	-600,000	-600,000
	765,000	765,000	765,000
	<u>33,914,140</u>	<u>34,708,335</u>	<u>35,593,518</u>
	22,798,983	23,100,450	23,432,710
	1,799,388	1,799,822	1,801,653
	2,271,045	2,257,959	2,831,111
	4,123,147	4,123,147	4,123,147
	6,666,644	6,655,160	6,655,554
	264,719	264,719	132,359
	0	36,614	36,614
\$	<u>15,124,943</u>	<u>15,137,421</u>	<u>15,580,438</u>
	1.51	1.53	1.50

**CITY OF MODESTO**  
**CITY WATER UTILITY SYSTEM STATISTICS**  
**CONTINUING DISCLOSURE REQUIREMENTS**  
**Year Ended June 30, 2010**

**CITY WATER UTILITY SYSTEM STATISTICS**  
**(Calendar Years 2005 through 2010)**

	2005	2006	2007	2008	2009	2010
Number of Service Accounts	74,779.0	75,227.0	76,661.0	76,852.0	76,899.0	76,508.0
Total Water Production (MG)(1)	25,720.0	25,660.0	25,886.0	25,182.0	23,824.0	21,712.0
Capacity (MGD)(2)	166.0	166.0	166.0	166.0	166.0	166.0
Peak Daily Distribution (MGD)	129.8	125.0	115.4	116.5	113.0	110.0
Average Daily Distribution (MGD)	70.4	69.8	70.9	68.8	65.3	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 2005 through 2010)**

Year Ending December 31	Well Water	Surface Water	Total
2005	15.13	10.59	25.72
2006	14.69	10.92	25.61
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

**CITY WATER UTILITY SYSTEM**  
**Comparison of**  
**Average Monthly, Water Rates**  
**Flat Rate (1" Service)**  
**As of July 1,2009**

<u>City</u>	<u>Flat Rate Typical Home</u>
<b>Modesto</b>	<b>\$37.23-\$42.31</b>
Stockton(1)	44.25
Tracy(2)	56.65
Turlock(3)	31.50
Sacramento	29.87
Merced	45.93

(1) All water is metered. A monthly base rate of \$22.75 plus an estimated monthly consumption of 25 units (CCF) (consumption charges is \$0.82 per ccf), are used to calculate the average monthly water charges.

(2) Rates change depending on season; summer rates (May-October) and winter rates (November-April).

(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.

**CITY OF MODESTO**  
**CONTINUING DISCLOSURE REQUIREMENTS**  
**Year Ended June 30, 2010**

The following table sets forth connection fees for all users except multi-family units by meter size for year 2009-2010

**CITY WATER UTILITY SYSTEM**  
**Connection Fees for All users**  
**Except Multiple Family Units**  
**(Fiscal Year 2009-2010)**

<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, 2010

**CITY WATER UTILITY SYSTEM**  
**Sale of Water**  
**(Fiscal Year Ended June 30, 2010)\***

	2005	2006	2007	2008	2009	2010
Revenues (\$000)						
Residential (Flat Rates)	\$19,117	\$26,591	\$30,716	\$31,495	\$30,585,450	\$21,256,928
Commercial, Industrial and Municipal (Metered)	10,847	14,516	17,006	17,890	20,445,393	28,758,412
Total Water Sales	<u>\$29,964</u>	<u>\$41,107</u>	<u>\$47,722</u>	<u>\$49,385</u>	<u>\$51,030,843</u>	<u>\$50,015,340</u>

The table below sets forth the adopted single family residential flat rates approved through fiscal year 2008-09.

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

Lot Size	Effective July1,2005	Effective July 1, 2006	Effective July 1,2007	Effective July 1, 2008	Effective July 1, 2009
0-5,000 sq. ft. lot	\$29.36	\$33.77	\$35.45	\$37.23	\$37.23
5,001-7,000 sq. ft. lot	33.37	38.38	40.30	42.31	42.31
7,001-11,000 sq. ft. lot	39.60	45.54	47.82	50.21	50.21
11,001-17,000 sq. ft. lot	42.40	48.34	50.76	53.30	53.30
over 17,000 sq. ft. lot	49.42	56.84	59.68	62.66	62.66

(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, 2010**

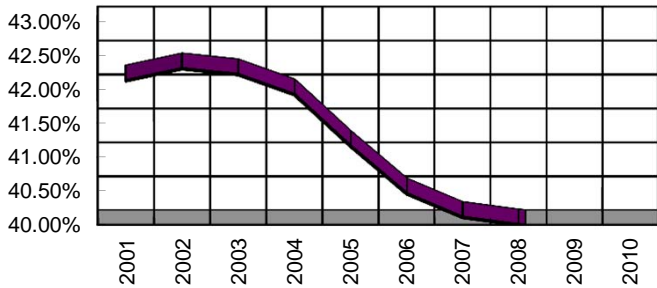
The following table sets forth the adopted monthly service charge and volume charge for commercial accounts through fiscal year 2009/10.

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

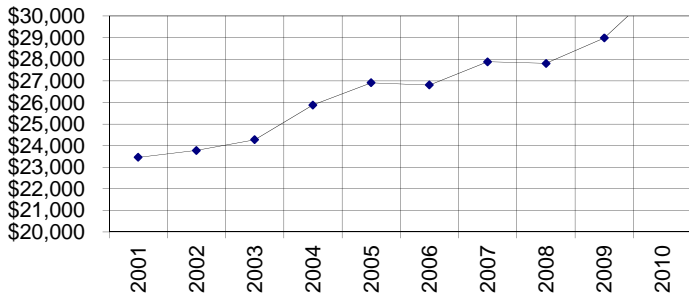
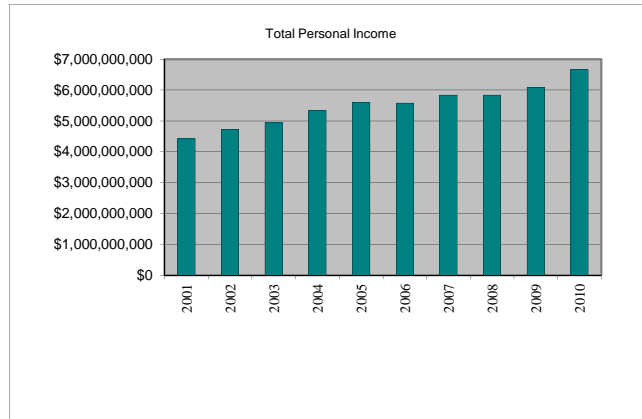
	<b>Effective July 1, 2005</b>	<b>Effective July 1, 2006</b>	<b>Effective July 1, 2007</b>	<b>Effective July 1, 2008</b>	<b>Effective July 1, 2009</b>
<b>Volume-based Rate (\$/hcf)</b>	\$1.01	\$1.16	\$1.22	\$1.28	\$1.28
<b>Fixed Monthly Meter Charge (in addition to volume-based charges)</b>					
5/8"-3/4" meter	\$10.82	\$12.44	\$13.06	\$13.71	\$13.71
1" meter	15.34	17.64	18.52	19.45	19.45
1-1/2" meter	26.55	30.53	32.06	33.66	33.66
2" meter	40.06	46.06	48.37	50.79	50.79
3" meter	76.12	87.53	91.91	96.51	96.51
4" meter	116.63	134.13	140.83	147.88	147.88
6" meter	229.14	263.51	276.68	290.51	290.51
8" meter	364.19	418.82	439.76	461.75	461.75
10" meter	521.80	600.07	630.08	661.58	661.58
12" meter	971.95	1,117.74	1,173.62	1,232.31	1,232.31

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)

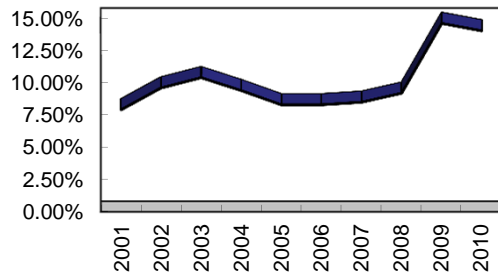
**CITY OF MODESTO**  
**DEMOGRAPHIC AND ECONOMIC STATISTICS**  
 Last ten fiscal years



■ 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
2001	188,286	\$4,417,566,132	23,462	7.9%	446,997	42.12%
2002	198,600	\$4,722,310,800	23,778	9.6%	469,512	42.30%
2003	203,300	\$4,935,310,800	24,276	10.4%	481,604	42.21%
2004	206,200	\$5,337,487,000	25,885	9.4%	491,900	41.92%
2005	207,634	\$5,588,469,110	26,915	8.3%	504,482	41.16%
2006	208,107	\$5,579,348,670	26,810	8.3%	514,370	40.46%
2007	209,174	\$5,833,026,164	27,886	8.5%	521,497	40.11%
2008	209,936	\$5,838,530,096	27,811	9.20%	525,903	40.00%
2009	210,088	\$6,089,400,680	28,985	14.60%	526,383	39.91%
2010	211,536	\$6,660,210,960	31,485	14.02%	530,584	39.87%

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)

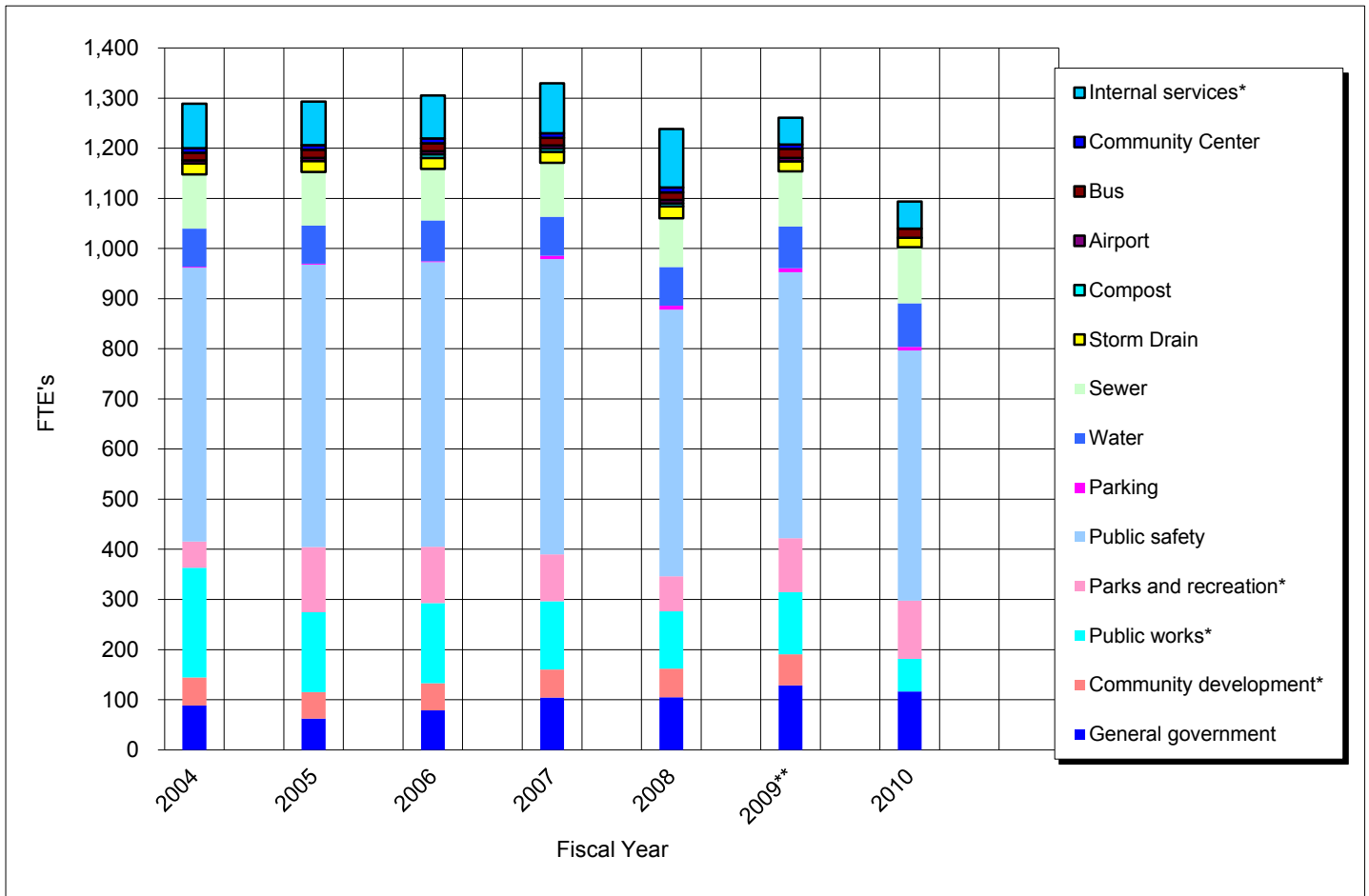
**CITY OF MODESTO  
Principal Employers**

Employer	<b>2009/10</b>		
	Number of Employees	Rank	Percentage of Total City Employment
E&J Gallo Winery	3,308	1	3.17%
Modesto City Schools	3,113	2	2.98%
Memorial Medical Center	3,013	3	2.89%
Seneca	2,100	4	2.01%
Doctors Medical Center	1,984	5	1.90%
Del Monte Foods	1,700	6	1.63%
Modesto Junior College	1,643	7	1.58%
Stanislaus Food Products	1,500	8	1.44%
Kaiser Permanente Modesto	1,500	9	1.44%
City of Modesto	1,187	10	1.14%
Subtotal	21,048		20.18%
Total City Employment	104,300		
Total City Population	211,536		

Source: Stanislaus Economic Development & Workforce Alliance

Note: Information about Principal Employers was not available for the fiscal year 1998-99.

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



Function	2004	2005	2006	2007	2008	2009**	2010
General government	88.25	62.25	79.00	104.10	105.00	128.60	116.60
Community development*	56.00	53.00	54.00	56.00	57.00	62.20	71.20
Public works*	219.00	159.00	159.50	136.50	114.00	124.00	65.00
Parks and recreation*	52.50	130.50	112.50	93.25	70.00	107.25	116.00
Public safety	546.00	563.00	567.75	588.75	532.00	530.75	499.00
Parking	2.00	2.00	2.00	7.00	8.00	8.00	7.00
Water	76.00	76.00	81.00	78.00	77.00	83.00	87.00
Sewer	108.00	107.00	103.00	107.00	97.00	110.00	112.00
Storm Drain	22.00	22.00	22.00	22.00	24.00	20.00	19.00
Compost			7.00	7.00	6.00	7.00	8.00
Airport	6.00	6.00	6.00	6.00	7.00	6.75	6.00
Bus	15.00	16.00	16.00	15.00	15.00	18.00	18.00
Community Center	9.25	9.50	9.50	9.50	9.50	8.50	8.50
Internal services*	89.00	87.00	86.00	99.60	117.00	54.00	54.00
<b>Total</b>	<b>1,289.00</b>	<b>1,206.25</b>	<b>1,305.25</b>	<b>1,329.70</b>	<b>1,238.50</b>	<b>1,268.05</b>	<b>1,187.30</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>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
<b>Function/Program</b>					
Public safety:					
Fire:					
Fire calls for service	20,200	21,526	23,246	22,911	20,888
Primary fire inspections conducted	1,006	936	976	1,069	1,012
Police:					
Police calls for Service	129,225	92,971	121,434	116,383	167,576
Law violations:					
Part I and Part II crimes	63,954	46,401	60,595	57,844	52,182
Physical arrests (adult and juvenile)	13,054	15,374	14,185	12,471	67,287
Traffic violations	23,104	27,111	25,739	26,914	30,941
Parking violations	20,308	21,600	16,079	21,391	18,041
Public works					
Street resurfacing ( lane miles)	9.98	10.06	9.32	1	7
Potholes repaired (square miles)	30,252	31,055	40,411	39,473	39,705
Water Utility Cust repaired				58,737	6,990
Airport:					
Number of passengers enplaned	23,969	50,782	49,525	28,470	25,640
Number of tenant aircraft	201	202	195	184	190
Number of hangars	109	109	109	109	118
Number of runways	2	2	2	2	2
Annual fuel consumption in gallons	998,978	1,102,439	1,140,426	672,406	639,971
Bus Service:					
Number of buses	43	51	56	56	56
Number of routes	19	19	20	20	20
Total route miles	305	356	362	362	362
Average weekday number of passengers	11,206	12,295	12,599	12,599	12,524
Total number of passengers carried	3,629,191	3,629,128	3,699,846	3,699,846	3,478,120
Community Development					
Permits issued	5,968	5,174	4,182	3,242	3,733
Estimated cost of construction	\$298,025,900	\$228,814,464	\$157,006,451	\$96,127,131	\$67,488,906
Building Inspections made	49,852	44,542	39,172	32,362	32,846
Traffic Electrical:					
Street lights		13,358	13,595	13,764	13,765
Traffic Signals		140	140	146	149
Lighted Ped Walks*				28	28
Beacons*				1	12
Four Way Flashers*				9	9
School Flashers*				22	22
CCTV*				38	38
Hubs*				5	5
Culture and recreation:					
Recreation class participants	5,291	5,175	4,255	3,271	3,171
Solid Waste:					
Recyclables Processed (tons per year)	61,080	74,645	106,664	74,288	47,170
Yard waste			38,889	41,235	48,856
Commercial food waste			280	597	667
Waste tires			7,120	5,214	3,683

\* Counts prior to 2009 are not available.

Source: City of Modesto - Various Departments

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

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

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
<b>Function/Program</b>					
Public safety:					
Fire stations	11	11	11	11	11
Police stations	1	1	1	1	1
Police patrol units	98	102	102	70	100
Public works					
Streets:					
Miles of streets (1)	672	674	675	675	675
Water:					
Miles of water mains	N/A	990	994	1,007	1,008
Fire hydrants	7,060	7,200	7,301	7,412	7,516
Storage capacity (thousands of gallons)	N/A	9,400,000	9,400,000	9,400,000	13,100,000
Wastewater:					
Miles of sanitary sewers	481	641.0	656.7	642	642
Miles of storm sewers	130	132.9	133.6	183	183
Number of treatment plants (2)	2	2	2	2	2
Treatment capacity (millions of gallons)	70	70	70	72	72
Community services:					
City parks	75	75	76	76	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	4
City trails miles	11	11	12	12	12
Regional park acreage	324	324	324	324	324
Regional park facilities:					
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	6	6	7	7
Senior centers	1	1	1	1	1
Sports centers	1	1	1	1	1
Performing arts centers	1	1	1	1	1
Swimming pools	16	16	13	13	13
Tennis courts	37	37	37	37	37
Baseball/softball diamonds	24	24	24	24	24
Soccer/football fields	22	22	22	22	22

(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