



**CITY OF
Modesto, California**

**COMPREHENSIVE ANNUAL FINANCIAL REPORT
Fiscal Year Ended June 30, 2016**

**Prepared by
Finance Department**

CITY OF MODESTO
 June 30, 2016
TABLE OF CONTENTS

INTRODUCTORY SECTION

Transmittal Letter iii - ix
 Certificate of Achievement for Excellence in Financial Reporting x
 City of Modesto Organizational Chart xi

FINANCIAL SECTION

Independent Auditor's Report 3-5
 Management's Discussion and Analysis 6- 15
 Basic Financial Statements:
 Government-wide Financial Statements:
 Statement of Net Position 19
 Statement of Activities 20-21
 Fund Financial Statements:
 Balance Sheet – Governmental Funds 22
 Reconciliation of the Balance Sheet of Governmental Funds to the
 Statement of Net Position – Governmental Activities 23
 Statement of Revenues, Expenditures, and Changes in Fund Balances -
 Governmental Funds 24
 Reconciliation of the Statement of Revenues, Expenditures, and
 Changes in Fund Balances of Governmental Funds to the Statement of Activities –
 Governmental Activities 25
 Statement of Net Position – Proprietary Funds 26
 Statement of Revenues, Expenses, and Changes in Fund Net Position -
 Proprietary Funds 27
 Statement of Cash Flows – Proprietary Funds 28-29
 Statement of Fiduciary Net Position – Fiduciary Funds 30
 Statement of Changes in Fiduciary Net Position – Private Purpose Trust Fund 31
 Notes to Basic Financial Statements 32-74
 Required Supplementary Information:
 Schedule of Changes in the Net Pension Liability and Related Ratios 77-78
 Schedule of Plan Contributions 79
 Schedule of Funding Progress for OPEB 80
 Schedule of Revenues – Budget (GAAP Basis) and Actual – General Fund 81
 Schedule of Expenditures by Function – Budget (GAAP Basis) and Actual – General Fund 82
 Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget (GAAP Basis)
 and Actual - Housing and Community Development Special Revenue Fund 83
 Notes to Required Supplementary Information 84-85
 Combining and Individual Fund Statements and Schedules:
 Nonmajor Governmental Funds:
 Combining Balance Sheet 90-92
 Combining Statement of Revenues, Expenditures, and Changes in
 Fund Balances 94-96

Schedules of Revenues, Expenditures, and Changes in Fund Balance –	
Budget (GAAP Basis) and Actual:	
Operating Grants Special Revenue Fund.....	97
Local Transportation Special Revenue Fund.....	98
Traffic Safety Special Revenue Fund	99
Downtown Improvement District Special Revenue Fund.....	100
Strategic Planning and Development Special Revenue Fund	101
Special Gas Tax Street Improvement Special Revenue Fund	102
Nonmajor Enterprise Funds:	
Combining Statement of Net Position	104-105
Combining Statement of Revenues, Expenses, and Changes in	
Fund Net Position.....	106-107
Combining Statement of Cash Flows.....	108-111
Internal Service Funds:	
Combining Statement of Net Position	114-115
Combining Statement of Revenues, Expenses, and Changes in	
Fund Net Position.....	116-117
Combining Statement of Cash Flows.....	118-121
Agency Funds:	
Statement of Changes in Assets and Liabilities.....	123

STATISTICAL SECTION

Financial Trends:	
Net Position by Component	128
Changes in Net Position	129-130
Fund Balances of Governmental Funds	131
Changes in Fund Balances of Governmental Funds.....	132
Revenue Capacity:	
Water Utility System	133
Debt Capacity:	
Ratio of Outstanding Debt by Type.....	134
Computation of Direct and Overlapping Debt.....	135
Computation of Legal Debt Margin	136
Revenue Bond Coverage, Wastewater Revenue Bonds.....	137
Demographic and Economic Information:	
Demographic and Economic Statistics	138
Principal Employers	139
Principal Property Taxpayers	140
Operating Information:	
Full-Time City Government Employees by Function	141
Operating Indicators by Function	142
Capital Asset Statistics by Function/Program	143

CONTINUING DISCLOSURE SECTION

Continuing Disclosure Requirements Information.....	144-156
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INTRODUCTORY
DIVIDER

INTRODUCTORY
DIVIDER

INTRODUCTORY SECTION



December 15, 2016

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

We are pleased to present to you the Comprehensive Annual Financial Report (CAFR) for the City of Modesto (City). The City of Modesto City Charter and Municipal Code require that a complete CAFR, which is comprised of financial statements and report on the finances of the City, be submitted to the City Council at the end of each fiscal year. This report fulfills that requirement for the year ended June 30, 2016.

City management assumes full responsibility for the completeness and reliability of the information contained in this report. We believe the data fairly represents the financial position and results of operations of the City. The disclosures necessary to enable the reader to understand the City's financial affairs have been included. The City's accounting system has been developed and maintained with due consideration given to the adequacy of internal controls. Because the cost of internal controls should not exceed the anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements. The evaluation of the costs and benefits of a particular control requires estimates and judgments by management.

The Modesto City Charter also requires an annual audit be performed by an independent certified public accountant selected by the Modesto City Council. The accounting firm of Macias Gini & O'Connell LLP was selected in 2015 to perform the City's annual financial audits. The auditors have issued an unmodified ("clean") opinion on the financial statements for the fiscal year ended June 30, 2016, 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 Amendments of 1996 and Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). The auditor's reports related specifically to the Single Audit will be presented separately at a later date.

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

City of Modesto Profile

Modesto is located in the heart of California's San Joaquin Valley and is the County Seat of Stanislaus County. It is also the retail, service and financial center of Stanislaus County. The City currently occupies a land area of 37.4 square miles and serves a population of 211,903. The City has a diverse economy and population with a strong sense of community pride.

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

City of Modesto

1010 Tenth Street
P.O. Box 642
Modesto, CA 95353
209/577-5369

Hearing and Speech
Impaired Only
TDD 209/526-9211

The Council sets policy and tax rates, approves budgets, and passes ordinances and resolutions, which govern the City. The Council also appoints citizens to advisory boards, committees and commissions as well as appoints the City Manager, City Attorney, City Clerk and City Auditor. The City Manager is responsible for carrying out Council policy and managing the day-to-day affairs of the City.

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

The City's financial reporting entity includes all funds and activities of the City 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 there is a financial benefit/burden relationship with the City or management has operational responsibility over the component unit. These component units are the Modesto Public Financing Authority and the City of Modesto Community Facilities Districts.

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

Local Economy

Modesto is the county seat for fast-growing Stanislaus County. A major center for local commerce, the City attracts thousands to its environs for work, shopping and entertainment. Major employment sectors include manufacturing, healthcare, education and retail. Modesto and its surrounding communities contain canneries, packing plants and warehouses which ship agricultural products across the nation and the world. An active farm to table movement has been spearheaded by the area's large production of nuts, dairy, poultry and other locally grown products.

The unemployment rate within the county-wide Modesto Statistical Area decreased during the 2015-2016 fiscal year. As of June 30, 2016, the MSA's unemployment rate was recorded at 9.1%, which is down from the 9.3% rate of a year ago. The total non-farm employment in the MSA is projected to reach 182,800 jobs by 2022. The industry sector consisting of private educational service, health care, and social assistance is expected to increase by 32.4 percent during this projection period with the health care and social assistance subsector contributing 8,500 jobs. Leisure and hospitality is expected to grow by almost 30 percent, adding 4,400 jobs in the area. Retail trade anticipates job gains of 3,200, led by a job growth of 900 jobs in general merchandise stores.

The 2016-17 Stanislaus County assessment roll, on which property taxes are based, is \$44.3 billion, which is an increase of nearly 6 percent over the previous year. The 2016 median home sales price in Modesto is approximately \$265,000 or \$166 per square foot, up from a square foot price of \$147 a year ago. Modesto building permit activity during fiscal year 2015-2016 ended with a total of 4,939 permits issued with a valuation of \$92,768,634.

Modesto is a prime and central location for business, and has attracted both start-ups and expanding firms. Specialized health care facilities like HealthSouth and Central Valley Specialty Hospital have chosen to expand their services and operations in Modesto. There is also a strong culture of entrepreneurship and innovation. Datapath, a technology management company with headquarters in Modesto, has been recognized by Inc. Magazine as one of the fastest-growing private companies in America. E&J Gallo Winery, also based in Modesto, is the world's largest privately owned winery and the leading US exporter of California wines. The Gallo Glass Company is a state of the art glass manufacturer and a leading producer of wine and spirits glass bottles in the US.

The median sales price for a home in the City is approximately \$325,000 or \$204/square foot, which reflects an increase of approximately 22% when compared to the prior year.

Entertainment and Tourism

Modesto is the home of the Modesto Nuts baseball team, which is an affiliate of major league team, the Seattle Mariners.

Downtown Modesto features a Third Thursday Art Walk with local artists displaying art for sale, artist demos, and local gallery shows. Downtown Modesto is also home of the Modesto Historic Graffiti Cruise Route, the Legends of the Cruise Walk of Fame, and the Classic Community Mural series of large scale art celebrating the American Graffiti history which was immortalized in the award-winning film American Graffiti by native son and filmmaker, George Lucas.

The Gallo Center for the Arts is a community asset and state-of-the-art performing arts complex in the downtown area. It provides national and international entertainment, arts, multicultural programming and activities for the Central Valley region.

The City's annual Architectural Festival includes tours, exhibits and workshops to celebrate and heighten awareness of Modesto's architecture and architectural design history. Modesto's mid-century buildings have been featured four times in Museum of Modern Art publications.

Our Strategic Priorities

During 2016, the City updated its 2015-2018 Strategic Plan to incorporate input from newly elected Councilmembers and to reaffirm our strategic priorities. Our priorities bring the City's vision and values to life in our community and define our overall direction as a city. It also confirms our commitment to our citizens. While the priorities are individually important, they are also interconnected and cannot be addressed in isolation. In addition, they are the basis of our scorecard that measures success and upon which our performance metrics are built.

- **Healthy Economy and Great Quality of Life:** Increase the City's proactive economic development efforts by creating and preserving jobs, strengthening our economic base and enhancing the City's revenue base.
- **Vibrant Infrastructure and Sustainable Environment:** Strengthen and maintain a safe infrastructure of City roads, water supply, storm sewers, transit and airport needs for residents, businesses and visitors.
- **Great Safe Neighborhoods:** Explore new approaches to public safety, working in partnership with the community to reduce crime and maintain a safe and inviting community in which to live, work and play. Increase collaboration with neighborhoods and school districts to achieve quality of life improvements, and safe neighborhoods through supporting community self-reliance, problem solving and public/private partnerships.
- **Effective, Responsive and Transparent Government:** Enhance the organization's commitment to develop new and creative methods to leverage technology, market organization strengths and remain dedicated to seeking efficiencies and continuous improvement.

Long-Term Financial Planning

The City continues to refine its 10-year forecasting model and update estimates and assumptions used to project future operations. At the end of fiscal year 2015-16, General Fund Balance was as follows: Restricted and Nonspendable - \$4.7 million; Committed - \$3 million; Assigned - \$6.5 million; and Unassigned \$12.8 million. The Committed Fund Balance allows the City to respond to unplanned circumstances and maintain adequate working capital to meet its cash flow needs.

The City's long-term maintenance of a stable fund balance is a direct reflection of the Mayor and Council's leadership and prudent fiscal management.

SIGNIFICANT EVENTS and ACCOMPLISHMENTS

Local Initiatives and Accomplishments



Healthy Economy
& Great Quality Of
Life

- American Planning Association award for the City's Downtown Form Based Code
- Food Network star and celebrity chef Guy Fieri visits three Modesto locations for an episode of "Diners, Drive-Ins and Dives" including the Food Fix Truck (Chef Hank Olson), Bauer's 66 ½ Skillet & Grill, and Commonwealth Gastropub
- The Turlock/Modesto Branch of the American Association of University Women recognized the Docent Council for the McHenry Mansion for their outstanding work in preserving Modesto's heritage and presenting it to the community
- Noted by Streetsblog.org as a progressive bicycle friendly city that has been applying complete street principles on its roads
- Installation of 10th Street Improvements/Art Block Project
- Downtown Revitalization - Formation of the Downtown Community Benefit District
- Over 37,000 visitors attended Modesto On Ice skating rink
- Over 150,000 participants were served through Modesto's recreation and neighborhood programming
- More than 26,000 participants were served through the Modesto Senior Citizen Center's health and wellness programming as well as over 5,000 others who enjoyed free services such as meals, tax-preparation and special events
- Staff coordinated 1,567 volunteers to complete 11,200 hours of community service at a value of \$307,645 to the City of Modesto



Great Safe Neighborhoods

- Increased Neighborhood Watch Groups by 5%
- Increased Crime Free Multi-Housing properties by 10% along with the number of properties inspected
- Ranked 1st in California and 5th in the nation for areas with a population of 100,000 to 299,000 for participation in National Night Out with a total of 174 parties hosted in 2016
- Modesto Police Department (MPD) hosted 4 Town Hall Meetings, one for each area command as well as multiple Coffee with Cops events throughout the City
- Received a \$50,000 grant to implement a field situational awareness technology platform to enable MFD and shared resource partners to aid in comprehensive resource allocation/tracking on multi-jurisdictional incidents
- Hired 8 new firefighter paramedics to further help Modesto Fire Department (MFD) in provide the most effective and efficient advanced life support to the community
- The Public Education Clown Program was expanded to two-weeks and reached 5,000 elementary students with important and fun fire and life safety information
- Taught hands-only CPR to 2,000 junior high school students in partnership with Modesto City Schools
- Placed two new Engines and one new Brush apparatus into service
- Expended \$415,000 in one-time enhancement funds to aid in the deferred maintenance of our 11 fire stations
- Reopened Splash playgrounds during the hottest summer months
- Stanislaus County is ranked number 30 out of 3111 counties in the United States for “Natural aspects of attractiveness” according to the USDA
- Named a Tree City USA for 35 Years by the Arbor Day Foundation
- 2016 Outstanding Planning Award for Downtown Form-Based Zoning Code by APA California Central Section
- Tower Park Completed - a 50-unit affordable housing project restricted to seniors 55 years and over, earning 30% - 60% of the area median income
- “Tag We’re On It” Program for Tagging Abatement Implemented
- Constructed a Class IV bicycle facility connecting Modesto Junior College East and West campuses. This project was featured on the cover of a brochure prepared by the California Bicycle Coalition
- The McHenry Mansion Docents funded an exhibit of clothing and accessories in the closet of Oramil McHenry’s bedroom. Much of the clothing was purchased by the Mansion’s Acquisitions Committee and covers the 1896-1906 period
- Recreation staff provided safe and educational after-school programming to an average of 1,100 students per day!
- 1,097 youth took swim lessons this year and another 4,085 swimmers took advantage of our public recreational swim program



Vibrant Infrastructure & Sustainable Environment

- Partnered with the McHenry Mansion Foundation on a Parks Project to install synthetic grass on the heavily shaded garden side of the Modesto Mansion. The turf is better suited to sustain high traffic and saves water
- The City has recently completed the Phase 2 BNR/Tertiary Treatment Facilities, which was built to produce recycled water to meet more stringent discharge requirements
- The City is now partnering with a local irrigation district interested in purchasing recycled water from the City, as part of the North Valley Regional Recycled Water Program. Construction is expected to be complete by December 2017
- Construction of the 6 million gallon North Tank is nearly complete. This will be the largest tank in the City's water system
- Construction started on the Tuolumne River Regional Park (TRRP) Gateway Parcel Phase 2 project which will complete the habitat restoration along the Tuolumne River at the Gateway Parcel and will add to the current trail system in TRRP



Effective Responsive & Transparent Government

- Provided staff support to the Mayor's 100 Day Review Committee as they examined City process for efficiencies and cost-saving reductions
- Prepared Action Plans to achieve recommendations from the Mayor's 100 Day Review Committee and updated the 2015-2018 Strategic Plan
- Launched the GoModesto mobile application in May 2016 with approximately 2,700 downloads and over 2,300 service request communications from users
- Redesigned the City's website with a July 2016 launch date
- Began implementation of a new budgeting software system which will allow the City to link its budget to performance metrics
- Began a reengineering of the City's purchasing processes in order to improve process flow and maximize efficiencies
- Prepared the City's first Popular Annual Financial Report and received a Certificate of Achievement for it from the Government Finance Officer's Association
- Selected to participate in Bloomberg's *What Works Cities Program* to improve the City's Open Data platform and enhance Performance and Analytics delivery to its citizens
- Ranked first in California and seventh nationwide in the Center for Digital Government's Digital Cities Award

Awards and Acknowledgments

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Modesto for its comprehensive annual financial report for the fiscal year ended June 30, 2015. This was the 32nd consecutive year that the government has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

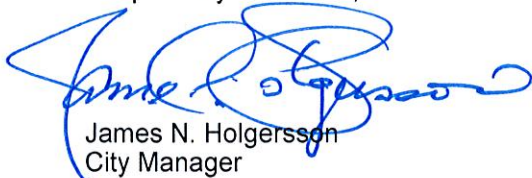
A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

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

In addition, the City submitted and received award from the GFOA for its first ever Popular Annual Financial Report (PAFR) for fiscal year ended June 30, 2015. A PAFR presents financial information in a manner that appeals to the reader, is understandable and shows creativity and usefulness. The PAFR award is valid for one year and the City intends to again submit its 2016 PAFR to the GFOA for consideration.

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

Respectfully submitted,



James N. Holgersson
City Manager



Gloriette Genereux
Director of Finance



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**City of Modesto
California**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2015

Executive Director/CEO

CITY OF MODESTO ORGANIZATIONAL CHART



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

CITIZENS OF MODESTO

CITY COUNCIL
Ted Brandvold, Mayor

Mani Grewal, District 1 Tony Madrigal, District 2 Kristi Ah You, District 3	Bill Zoslocki, District 4 Jenny Kenoyer, District 5 Doug Ridenour, Sr., District 6
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CITY ATTORNEY
Adam Lindgren

CITY AUDITOR
Moss Adams

CITY CLERK
Stephanie Lopez

**MODESTO
CITY MANAGER**
James N. Holgersson

**DEPUTY CITY MANAGER
OPERATIONS**
Brent Sinclair

PUBLIC WORKS
Bill Sandhu

UTILITIES
Larry Parlin

**PARKS, RECREATION
& NEIGHBORHOODS**
Vacant

**COMMUNITY & ECONOMIC
DEVELOPMENT**
Cynthia Birdsill

POLICE DEPARTMENT
Galen Carroll

FIRE DEPARTMENT
Sean Slamon

Safe Neighborhoods

Emergency Service Calls, Dispatch, Rescue, Hazardous Materials Control, Fire Prevention, Safety Education, Crime Prevention and Mapping, Patrols, Traffic Enforcement, Gang Enforcement

**DEPUTY CITY
MANAGER SUPPORT**
Joe Lopez

FINANCE
Gloriette Genereux

HUMAN RESOURCES
Vacant

INFORMATION TECHNOLOGY
John Dickey

PUBLIC RELATIONS
Amy Vickery

**INNOVATION &
PERFORMANCE
MANAGEMENT**

**Healthy Economy, Vibrant
Infrastructure & Sustainable
Environment**

Neighborhood Engagement, Utility and Infrastructure Maintenance and Repair, Recycling and Waste Removal, Community Programming and Neighborhood Development, Environmental Compliance, Construction Management, Economic Development, Transportation Management, Land Acquisition and Development

**Effective Responsive &
Transparent Government**

Driving Performance and Innovation, Recruitment and Testing, Customer Service Delivery, Innovation in Service delivery, Accessible Technology Implementation, Information Dissemination, Community Outreach

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FINANCIAL SECTION
DIVIDER

FINANCIAL SECTION
DIVIDER

FINANCIAL SECTION



Independent Auditor's Report

City Council of the City of Modesto
Modesto, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Modesto, California (City), as of and for the fiscal year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of June 30, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of changes in the net pension liability and related ratios, schedule of plan contributions, schedule of funding progress for OPEB, schedule of revenues – budget (GAAP basis) and actual – General Fund, schedule of expenditures by function – budget (GAAP basis) and actual – General Fund, and schedule of revenues, expenditures, and changes in fund balance – budget (GAAP basis) and actual – Housing and Community Development special revenue fund, as listed in the accompanying 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.

Other Information

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

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2016 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Macias Gini & O'Connell LLP

Walnut Creek, California
December 15, 2016

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, 2016. 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 2016 fiscal year by \$978,430,122 (*total net position*). Of this amount, \$137,672,402 is restricted for a specific purpose (*restricted net position*), \$921,708,464 is invested in capital assets, net of related debt and (\$80,950,744) is unrestricted (*unrestricted net position*).
- The City's total net position increased by \$10,892,198 compared to the prior year. This increase is attributed to additions made to the City's infrastructure and improvements.
- As of June 30, 2016, the City's governmental funds reported combined fund balances of \$117,053,754, an increase of \$1,406,154 in comparison with the prior year. This increase is attributed to the beginning fund balance restated by \$993,395 due to adjustments related to prior year. The current year change based on fiscal year 2015-16 activity resulted in an increase in fund balance of \$412,759.
- Approximately 47.3% of the General fund balance of \$12,822,134 is available to meet the City's current and future needs (*General Fund unassigned fund balance*).
- At the end of the fiscal year, the General Fund balance was \$27,065,721 or 24.5% of total General Fund expenditures. Of this, \$2,092,126 is the restricted fund balances. The unassigned fund balance of \$12,822,134 represents 11.0% of total General Fund outflows. The City Council has adopted a goal of maintaining an 8% unassigned fund balance amount based on General Fund outflows.
- The City's total long-term liabilities showed a net decrease of \$3,552,947 in comparison with the prior year. This decrease was attributed to the principal payments made during the fiscal year and the refunding of the Wastewater Revenue Bonds Series 2005 A and partially refund for the 2006A bonds.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

Management's Discussion and Analysis (continued)

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, Compost, Airport, Bus, Golf, Community Center and Abatement and Public Nuisance operations.

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

The government-wide financial statements can be found on pages 19-21 of this report.

Fund Financial Statements are groupings of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate finance-related legal compliance. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental funds financial statements focus on *near-term inflows* and *outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating the City's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

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

The governmental funds financial statements can be found on pages 22-25 of this report

Proprietary funds are maintained two ways. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its Water, Sewer, Parking, Storm Drain, Compost, Airport, Bus, Golf, Community Center and Abatement and Public Nuisance 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 with the exception of portions of the net OPEB obligation and compensated absences that have been included within business-type activities. The rest of internal services benefiting business-type functions have been allocated as "internal balances".

Management's Discussion and Analysis (continued)

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 26-29 of this report.

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

The fiduciary fund financial statements can be found on page 30-31 of this report.

Notes to Basic Financial Statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes can be found on **pages 32-74** 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. This section also includes the schedules for net pension liability and OPEB.

Required supplementary information can be found on pages 77-85 of this report.

The *combining and individual fund statements and schedules* referred to earlier provide information for nonmajor 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 90-123** of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$978,430,122 at the close of the most recent fiscal year.

	Net Position					
	Governmental activities		Business-type activities		Total	
	2016	2015	2016	2015	2016	2015
Current and other assets	\$242,284,397	\$248,979,362	\$243,332,330	\$257,455,772	\$485,616,727	\$506,435,134
Capital assets	421,005,457	418,803,027	854,078,506	841,130,531	1,275,083,963	1,259,933,558
Total assets	<u>663,289,854</u>	<u>667,782,389</u>	<u>1,097,410,836</u>	<u>1,098,586,303</u>	<u>1,760,700,690</u>	<u>1,766,368,692</u>
Deferred outflow s of resources	29,527,963	23,792,551	49,190,388	40,254,775	78,718,351	64,047,326
Current and other liabilities	260,520,365	241,951,212	144,402,121	134,841,204	404,922,486	\$376,792,416
Long-term liabilities	90,656,679	91,288,243	343,719,665	346,641,048	434,376,344	437,929,291
Total liabilities	<u>351,177,044</u>	<u>333,239,455</u>	<u>488,121,786</u>	<u>481,482,252</u>	<u>839,298,830</u>	<u>814,721,707</u>
Deferred inflow s of resources	17,408,971	38,654,888	4,281,118	9,501,499	21,690,089	48,156,387
Net position:						
Net investment in capital assets	381,887,289	378,145,625	539,821,175	527,784,338	921,708,464	905,929,963
Restricted net position	115,619,807	121,105,182	22,052,595	20,622,619	137,672,402	141,727,801
Unrestricted net position	(173,275,294)	(179,570,210)	92,324,550	99,450,370	(80,950,744)	(80,119,840)
Total net position	<u>\$324,231,802</u>	<u>\$319,680,597</u>	<u>\$654,198,320</u>	<u>\$647,857,327</u>	<u>\$978,430,122</u>	<u>\$967,537,924</u>

The largest portion of the City's net position, \$921,708,464 (94.2 percent), reflects its investment in capital assets (e.g. land, water rights, buildings, improvements, furnishings and equipment, buses and fare boxes, pipelines, and infrastructure), less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for

Management's Discussion and Analysis (continued)

future spending. Although the City's investment in its capital assets is reported net of debt and related deferred outflows and inflows, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Another significant portion of the City's net position represents *unrestricted net position* of (\$80,950,744) (-8.3 percent).

The remaining balance of the City's net position of \$137,672,402 (14.1 percent) represents resources that are subject to external restrictions on how they may be used.

The City's net position increased by \$10,892,198 during the current fiscal year was largely due to the additions associated with the City's infrastructure and reduction on the City's long-term liabilities.

The long-term liabilities decrease was attributed to the principal payments of about \$7.3 million made during the fiscal year and the refunding of the Wastewater Revenue Bonds Series 2005 A and partially refund for the 2006A bonds.

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

Changes in Net Position

	Governmental activities		Business-type activities		Total	
	2016	2015	2016	2015	2016	2015
Revenues:						
Program revenues:						
Charges for services	\$24,689,546	\$23,226,339	\$124,982,742	\$127,236,623	\$149,672,288	\$150,462,962
Operating grants and contributions	3,630,185	5,862,566	14,153,568	14,223,954	17,783,753	20,086,520
Capital grants and contributions	1,708,602	5,878,550	4,753,223	13,820,127	6,461,825	19,698,677
General revenues:						
Taxes	54,965,459	52,619,101	206,854	237,546	55,172,313	52,856,647
Intergovernment revenue not restricted for specific purposes	65,234,052	83,094,795	-	-	65,234,052	83,094,795
Unrestricted investment earnings	582,565	564,314	2,247,061	554,180	2,829,626	1,118,494
Settlements and recoveries	-	-	-	13,851	-	13,851
Miscellaneous	2,440,696	2,281,008	1,368,761	1,214,729	3,809,457	3,495,737
Total revenues	153,251,105	173,526,673	147,712,209	157,301,010	300,963,314	330,827,683
Expenses:						
General government	12,838,583	12,085,051	-	-	12,838,583	12,085,051
Community development	12,552,115	11,888,475	-	-	12,552,115	11,888,475
Highways and streets	20,149,011	21,269,704	-	-	20,149,011	21,269,704
Public works	10,749,465	9,810,989	-	-	10,749,465	9,810,989
Parks and recreation	3,493,743	4,641,611	-	-	3,493,743	4,641,611
Public safety	86,907,876	86,782,741	-	-	86,907,876	86,782,741
Interest on long-term debt	2,691,894	3,204,203	-	-	2,691,894	3,204,203
Water	-	-	59,127,625	54,718,239	59,127,625	54,718,239
Sewer	-	-	33,093,921	30,281,361	33,093,921	30,281,361
Bus	-	-	19,709,745	18,614,175	19,709,745	18,614,175
Parking	-	-	1,625,943	1,513,185	1,625,943	1,513,185
Storm drain	-	-	5,312,896	3,913,204	5,312,896	3,913,204
Compost	-	-	11,998,345	7,841,048	11,998,345	7,841,048
Airport	-	-	1,787,081	2,025,146	1,787,081	2,025,146
Golf	-	-	3,130,536	2,998,505	3,130,536	2,998,505
Community center	-	-	1,981,307	1,852,585	1,981,307	1,852,585
Abatement and Public Nuisance	-	-	84,152	93,067	84,152	93,067
Total expenses	149,382,687	149,682,774	137,851,551	123,850,515	287,234,238	273,533,289

Management's Discussion and Analysis (continued)

	Changes in Net Position (cont'd)					
	Governmental activities		Business-type activities		Total	
	2016	2015	2016	2015	2016	2015
Increase in net position before transfers	3,868,418	23,843,899	9,860,658	33,450,495	13,729,076	57,294,394
Transfers	(567,177)	(775,377)	567,177	775,377	-	-
Total transfers	(567,177)	(775,377)	567,177	775,377	-	-
Change in net position	3,301,241	23,068,522	10,427,835	34,225,872	13,729,076	57,294,394
Net position - beginning, as previously reported	319,680,597	434,379,349	647,857,327	675,271,738	967,537,924	1,109,651,087
Adjustment to reimbursement agreement	-	17,247,750	-	-	-	17,247,750
Adjustment to property held for resale	-	(784,000)	-	(630,000)	-	(1,414,000)
Adjustment to capital assets	256,569	(3,402,733)	(4,086,842)	(5,970,727)	(3,830,273)	(9,373,460)
Adjustment to unearned revenue and accruals	(190,305)	40,371,373	-	26,037	(190,305)	40,397,410
Adjustment to loans payable	1,183,700	-	-	-	1,183,700	-
Adjustment to compensated absences	-	2,330,638	-	-	-	2,330,638
Adjustment to pollution remediation liability	-	-	-	(20,903,557)	-	(20,903,557)
Adjustment for net pension liability	-	(193,530,302)	-	(38,945,215)	-	(232,475,517)
Adjustment for reimbursement related to MID	-	-	-	4,783,179	-	4,783,179
Net position - beginning, as restated	320,930,561	296,612,075	643,770,485	613,631,455	964,701,046	910,243,530
Net position - ending	<u>\$324,231,802</u>	<u>\$319,680,597</u>	<u>\$654,198,320</u>	<u>\$647,857,327</u>	<u>\$978,430,122</u>	<u>\$967,537,924</u>

Governmental activities. Governmental activities increased the City's net position by \$4,551,205. This increase was mainly due to an increase in the governmental capital assets and the reduction in long-term liabilities associated with our revenue bonds, loans payable and capital leases. Taxes continue to increase slightly by \$2.3 million compared to 2015 due to a continuous improvement in the economy. Charges for service revenues increased by \$1.5 million mainly due to on-going efforts to promote the City of Modesto programs. Operating and capital grants contributions decreased due to several construction projects being completed in 2015. Intergovernmental revenue decreased due to a majority of the construction cost for the Pelandale Interchange project occurring in 2015.

Expenses in total were lower compared to the prior year by \$300,087, or -0.2%, due mainly to continuous efforts to reduce departmental operational cost from position savings. Additionally, the volume of grant expense activity was significantly less compared to the prior year due to projects being completed.

Business-type activities. Business-type activities increased the City's net position by \$6,340,993. This increase is attributed to a healthy net position in our Sewer Fund which generated an increase in net position by \$19.2 million and increase in our business-type capital assets. The Sewer fund has been able to manage their operational revenues due to rate increases to ensure they meet the debt ratio requirements set by Council. The capital contributions decreased significantly due to major bus purchases made in 2015.

In the Water Fund, the net position decreased due to a restatement in net position for a correction in capitalized interest from the prior year. The other Enterprise funds had a decrease in net position due to accounting for a pollution remediation liability of \$2.6 million associated with the Carpenter Road Landfill.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

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

At June 30, 2016, the City's governmental funds reported combined fund balances of \$117,053,754 an increase of \$1,406,154 from the prior year. This increase is attributed to the beginning fund balance restated by \$993,395 due to adjustments related to prior year. The current year change resulted in an increase in fund balance of \$412,759. The total unassigned fund balance for the governmental funds was \$12,097,293, which includes a positive \$12,822,134, which represents the General Fund unassigned fund balance that is available to meet the City's current and future needs. The remainder of fund balance is *nonspendable, restricted, committed and assigned* to indicate that it is *not* available for new spending because certain constraints have been placed on the use of the balances.

Management's Discussion and Analysis (continued)

The General Fund is the chief operating fund of the City. At June 30, 2016, unassigned fund balance of the General Fund was \$12,822,134 while total fund balance was \$27,065,721. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 11.6% of total General Fund expenditures, while total fund balance represents 24.5% of that same amount. The prior year ratios were 13.6% and 23.2%, respectively.

The Housing and Community Development fund accounts for the grants and funds received to disburse for projects developed and administered under the Housing and Community Development Act. At June 30, 2016, total fund balance was \$25,533,233, an increase of \$3,480,806 from prior year. This increase is attributed to new program income received to fund future low income project activity.

Revenues of governmental funds totaled \$159,658,987 in fiscal year 2015-16, which represents a decrease of \$10,871,571 from fiscal year 2014-15.

Expenditures of governmental funds totaled \$156,071,836 in fiscal year 2015-16, representing a decrease of \$6,570,638 from fiscal year 2014-15.

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 2016		FY 2015		Increase (Decrease)	
	Amount	Percent	Amount	Percent	Amount	% Change
Taxes	\$54,965,459	34.3%	\$52,619,101	30.8%	\$2,346,358	4.5%
Licenses and permits	186,624	0.1%	149,888	0.1%	36,736	24.5%
Intergovernmental	76,317,229	47.8%	88,906,770	52.1%	(12,589,541)	-14.2%
Charges for services	20,429,860	12.8%	22,337,357	13.1%	(1,907,497)	-8.5%
Special assessments	3,168,260	2.0%	1,924,623	1.1%	1,243,637	64.6%
Interest and rent	1,297,734	0.8%	957,846	0.6%	339,888	35.5%
Net increase (decrease) in fair value	102,422	0.1%	(320,398)	-0.2%	422,820	-132.0%
Fines and forfeits	904,802	0.6%	1,171,076	0.7%	(266,274)	-22.7%
Miscellaneous	2,286,597	1.5%	2,784,295	1.7%	(497,698)	-17.9%
Total	\$159,658,987	100.0%	\$170,530,558	100.0%	(\$10,871,571)	-6.4%

- Taxes – Revenues for property and business license taxes came in higher than the prior year due to an ongoing positive upturn in the economy and increased collection and compliance efforts by City staff.
- Intergovernmental – Revenues decreased by \$12.6 million due to a majority of the construction cost for the Pelandale Interchange project occurring in 2015.
- Special Assessments – Revenues increased by \$1.2 million due to increases to the assessed values for property values.
- Interest and rent – Revenues increased due to increases to our interest earnings based on improvements to our return on investment in the City's portfolio.

Management's Discussion and Analysis (continued)

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

Exp by Function	Expenditures by Function – Governmental Funds					
	FY 2016		FY 2015		Increase (Decrease)	
	Amount	Percent	Amount	Percent	Amount	% Change
General government	\$12,414,982	8.0%	\$11,334,202	7.0%	\$1,080,780	9.5%
Community development	12,453,678	8.0%	11,511,154	7.1%	942,524	8.2%
Highways and streets	8,498,783	5.4%	9,672,790	5.9%	(1,174,007)	-12.1%
Public works	10,393,169	6.7%	9,228,780	5.7%	1,164,389	12.6%
Parks and recreation	3,385,484	2.2%	4,212,301	2.6%	(826,817)	-19.6%
Public safety	84,022,670	53.8%	81,353,131	50.0%	2,669,539	3.3%
Capital outlay	19,817,025	12.7%	30,339,677	18.6%	(10,522,652)	-34.7%
Debt Service-principal retirement	2,345,362	1.5%	1,789,335	1.1%	556,027	31.1%
Debt Service-interest charges	2,043,278	1.3%	2,417,840	1.5%	(374,562)	-15.5%
Debt Service-other	697,405	0.4%	783,264	0.5%	(85,859)	-11.0%
Total	\$156,071,836	100.0%	\$162,642,474	100.0%	(\$6,570,638)	-4.0%

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

- Public Works – Expenditures increased by \$1,164,389 or 12.6% due to increase cost associated with parks maintenance and restructuring of a Public Work administration division.
- Parks and recreation – Expenditures decreased by \$826,817 or 19.6% over the prior year, due to the position vacancy savings and re-organizational structure changes from various public buildings such as McHenry Museum and Mansion moving to Community Development.
- Public safety – Expenditures increased by \$2,669,539 or 3.3% over the prior year, due to an increase of expenses for police services. These increases were attributed to continuous increases to workers' compensation cost for police, information technology and police equipment and salary and benefit increase for the police department.
- Capital outlay – Expenditures decreased by \$10,522,652 or 34.7% reflects a majority of the construction cost associated with the new Pelandale Interchange project occurring in FY 2014-15.

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

	FY 2016	FY 2015	Increase/(Decrease)	
			Amount	Percent
Transfers in	\$6,960,425	\$8,157,278	(\$1,196,853)	-14.7%
Transfers out	(10,572,346)	(10,682,539)	110,193	-1.0%
Capital leases	330,947	1,070,472	(739,525)	-69%
Sale of assets	106,582	94,489	12,093	100.0%
Net financing (uses)	(\$3,174,392)	(\$1,360,300)	(\$1,814,092)	133.4%

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 in/out from governmental funds for 2016 were \$(3,611,921) compared to \$(2,525,261) in the prior year. This net transfer is to various City funds including transferring funds from the General Fund, Capital Facility Fee funds and the Public Financing Authority to cover the debt service payments and various transfers to cover City grant matches.

Debt transactions – A lease was issued in 2016 for the acquisition of one Pierce 4X4 Freightliner Wildland pumper in the amount of \$330,947 under a capital lease agreement.

Management's Discussion and Analysis *(continued)*

The fund balance of the City's General Fund increased by \$2,246,221 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% unassigned fund balance amount based on General Fund outflows.

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	Other	Total
Operating revenues	\$55,094,860	\$46,304,239	\$3,352,615	\$17,777,914	\$122,529,628
Operating expenses	(54,401,134)	(31,513,657)	(19,170,860)	(25,383,773)	(130,469,424)
Operating income (loss)	693,726	14,790,582	(15,818,245)	(7,605,859)	(7,939,796)
Nonoperating revenues (expenses), net	(1,302,864)	2,511,696	12,896,349	1,408,837	15,514,018
Income (loss) before capital contributions and transfers	(609,138)	17,302,278	(2,921,896)	(6,197,022)	7,574,222
Contributions and transfers	(528,114)	1,850,232	69,231	3,929,051	5,320,400
Changes in net position	(1,137,252)	\$19,152,510	(\$2,852,665)	(\$2,267,971)	\$12,894,622

The Water fund did not have a CPI increase and the Sewer fund had a rate increase of 3.1% in fiscal year 2015-16. The Water fund continues to have a decline in revenue due to the drought conservation efforts in California. With the water drought, if metered rates drop, there will be a corresponding drop in sewer revenues from the City's commercial and industrial customers as part of the metered water consumed but due to the Sewer rate increases the revenues were higher by \$1,067,348.

A pollution remediation liability was reported for the Water and Sewer fund in the amounts of \$8,998,408 and \$10,210,999 based on net recoveries the City has received from various settlements. Additional information regarding these liabilities can be found under Note II-M.

GENERAL FUND BUDGETARY HIGHLIGHTS

Budget to actual information for the General Fund is presented as Required Supplementary Information, beginning on **page 81-82** of this report.

While the City Council amended the budget several times through the year, the differences between the original budget and the final amended budget for the General Fund were increased overall mainly due to an increase in taxes, intergovernmental revenue, and miscellaneous revenue. The estimated revenues increased about \$1,245,214 while total appropriations were increased \$3,202,172. 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 \$3,952,062 more than final estimates. Variances in Business Taxes \$688,291, Franchise Taxes \$986,658, In-lieu sales taxes \$1,638,425, Other Intergovernmental \$1,023,276, and Miscellaneous Revenue \$988,936 were due to an increase in collection and compliance efforts and the insurance and recovery reimbursements.

Expenditures, overall, were \$6,180,201 under budget, primarily due to efforts of departments to realize savings, and certain purchases being deferred to future periods.

Management's Discussion and Analysis (continued)

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital assets

The City's investment in capital assets for its governmental and business-type activities as of June 30, 2016, amounted to \$1,275,083,963 (net of accumulated depreciation). The total increase in the City's investment in capital assets compared to 2015 was 1.0%.

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)	
	2016	2015	2016	2015	2016	2015	Percent Change	\$ Change
Land	\$33,219,069	\$33,123,493	\$33,515,655	\$31,102,451	\$66,734,724	\$64,225,944	4%	\$2,508,780
Capitalized interest	-	-	9,223,227	14,284,878	9,223,227	14,284,878	-35%	(5,061,651)
Buildings	14,603,828	15,277,849	40,330,338	42,830,095	54,934,166	58,107,944	-6%	(3,173,778)
Improvements	57,067,075	50,396,012	143,743,848	142,808,165	200,810,923	193,204,177	4%	7,606,746
Furnishings and equipment	3,330,779	3,632,117	5,204,484	4,587,762	8,535,263	8,219,879	4%	315,384
Intangible assets	4,022,157	4,483,709	155,976	23,464	4,178,133	4,507,173	-7%	(329,040)
Equipment pool	13,053,646	11,708,692	-	-	13,053,646	11,708,692	12%	1,344,954
Service animals	25,844	26,809	-	-	25,844	26,809	-4%	(965)
Water rights	-	-	286,581,352	298,522,242	286,581,352	298,522,242	-4%	(11,940,890)
Streets	211,616,811	215,037,817	-	-	211,616,811	215,037,817	-2%	(3,421,006)
Signalization	5,043,639	3,702,835	-	-	5,043,639	3,702,835	36%	1,340,804
Bridges	29,947,394	20,097,532	-	-	29,947,394	20,097,532	49%	9,849,862
Buses & fareboxes	25,103	-	14,192,976	12,453,248	14,218,079	12,453,248	14%	1,764,831
Pipelines	-	-	119,208,492	113,970,684	119,208,492	113,970,684	5%	5,237,808
Construction in progress	49,050,112	61,316,162	201,922,158	180,547,542	250,972,270	241,863,704	4%	9,108,566
Total	\$421,005,457	\$418,803,027	\$854,078,506	\$841,130,531	\$1,275,083,963	\$1,259,933,558	1%	\$15,150,405

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

- Infrastructure – Some major construction projects were completed related to the LED street light upgrade, road improvements, and Carpenter Road bridge improvements.
- Buses and fareboxes - New bus enhancements to existing buses were made in fiscal year 2015-16.
- Construction in progress – New water construction projects related to improvements to our waters system were made in fiscal year 2015-16.

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 45-46 of this report.

The City had major capital commitments for contracts awarded for various construction projects. As of June 30, 2016, there were major contracts awarded for water, sewer system improvements, enhancements to bus and vehicle purchases, the Pelandale interchange reconstruction, and major street and street lighting improvements throughout the City in the amount of \$12.4 million for governmental funds. Additional information on the City's commitments can be found in note III-D on page 63 of this report.

Long-term debt

At June 30, 2016, the City had total long-term liabilities outstanding of \$434,376,344 net of unamortized discounts and premiums, as compared to \$437,929,291 in the prior year. This amount was comprised of \$56,305,000 of lease revenue bonds, \$48,330,053 of certificates of participation, \$33,945,516 of revenue bonds payable, \$132,375,084 of reimbursement agreement related to Modesto Irrigation District bonds, \$8,789,950 of estimated compensated absences, \$23,596,531 of claims liability, \$126,285,704 of loans payable, \$1,238,449 of developer advances, \$942,057 of capital leases, and \$2,568,000 of notes payable.

Management’s Discussion and Analysis (continued)

Overall, the long-term debt decreased was mainly due to the principal payments made during the fiscal year and the refunding of the Wastewater Revenue Bonds Series 2005 A and partially refund for the 2006A bonds. Additional information on the City’s long-term debt can be found in Note II-C on pages 47-56 of this report.

The City maintains a current bond rating for the various bonds listed below.

BONDS	Moody’s Rating	S & P Rating	Fitch Rating
1993 Golf Certificates of Participation		AA-	
Wastewater Revenue Bonds, Series 2006A	A2	AA	AA-
2008 Lease Revenue Bonds		A/A-1	A+
2008 Water Certificates of Participation	Aa1	AA+/A-1	

Modesto maintains an Employee Benefits internal service fund (EBF) to pay a portion of retiree health benefits and other employee related expenses. As of June 30, 2016, the net OPEB obligation amounts to approximately \$56.2 million. This contributes significantly to the Employee Benefit Fund’s \$55.1 million deficit net position. Additional information on the City’s EBF can be found in Notes II-H, III-F 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 ten years and serves as a measure for the growth in the cost for supplies and services used by the City. In the fiscal year ended June 30, 2016, the CPI-Western Urban Index increased by 1.7%.
- *Utility Service Charges* - Water and Sewer utility rates have a 25.0% and 6.0% scheduled rate increase for fiscal year 2016-17. For the Water and Sewer utility rates, these planned rate increases was effective on July 1, 2016. These rate increases will be used to assist with maintaining the debt coverage ratio requirements and related capital improvements for the utility funds.

All of these factors were considered in preparing the City’s budget for fiscal year 2016-17.

During the current fiscal year, fund balance in the General Fund increased by \$2,246,221, to \$27,065,721, which represents 23.2% of total General Fund outflows which exceeds the City Council’s target value of 8% unassigned fund balance amount based on General Fund outflows. The budget adopted for fiscal year 2016-17 reflects a planned reduction in the reserve level on a temporary basis, from 8% to a flat reserve amount of \$7 million. This amount is reported as part of the unassigned fund balance.

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.

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BASIC FINANCIAL STATEMENTS

CITY OF MODOSTO
STATEMENT OF NET POSITION
JUNE 30, 2016

	Governmental Activities	Business-type Activities	Total
<u>ASSETS</u>			
Cash and cash equivalents	\$ 63,071,635	\$ 172,690,709	\$ 235,762,344
Accounts receivable, net	1,921,575	1,443,352	3,364,927
Interest receivable	342,096	461,266	803,362
Utility billings receivable, net	807,115	10,711,148	11,518,263
Taxes receivable	16,479,342	-	16,479,342
Due from governments, net	9,480,814	9,654,191	19,135,005
Prepaid expenses	548,577	2,604,082	3,152,659
Internal balances	3,837,081	(3,837,081)	-
Inventories	333,239	36,420	369,659
Investments in joint ventures	10,206,026	-	10,206,026
Restricted assets:			
Cash and cash equivalents	58,687,579	24,394,528	83,082,107
Cash and cash equivalents with fiscal agent	5,561,794	25,173,715	30,735,509
Reimbursement agreement	16,328,450	-	16,328,450
Notes and loan receivable, net	54,679,074	-	54,679,074
Capital assets:			
Land and construction in progress	82,269,181	235,437,813	317,706,994
Other capital assets, net of accumulated depreciation	338,736,276	618,640,693	957,376,969
Total assets	663,289,854	1,097,410,836	1,760,700,690
<u>DEFERRED OUTFLOWS OF RESOURCES</u>			
Deferred pensions	16,116,338	2,960,766	19,077,104
Loss on refunding	-	1,006,949	1,006,949
Accumulated decrease in fair value of hedging derivatives	13,411,625	45,222,673	58,634,298
Total deferred outflows of resources	29,527,963	49,190,388	78,718,351
Total assets and deferred outflows of resources	692,817,817	1,146,601,224	1,839,419,041
<u>LIABILITIES</u>			
Accounts payable	9,694,298	10,790,460	20,484,758
Accrued salaries and benefits	2,280,862	699,190	2,980,052
Approved loans payable	2,573,464	-	2,573,464
Interest payable	37,623	215,305	252,928
Unearned revenue	3,270,971	8,649,641	11,920,612
Refundable deposits	3,589,749	2,341,933	5,931,682
Derivative instrument - interest swap	13,411,625	45,222,673	58,634,298
Pollution remediation liability	-	21,809,407	21,809,407
Net OPEB obligation	37,247,217	18,944,114	56,191,331
Net pension liability	188,414,556	35,729,398	224,143,954
Long-term liabilities:			
Due within one year	10,218,816	13,151,781	23,370,597
Due in more than one year	80,437,863	330,567,884	411,005,747
Total liabilities	351,177,044	488,121,786	839,298,830
<u>DEFERRED INFLOWS OF RESOURCES</u>			
Deferred pensions	17,408,971	4,281,118	21,690,089
Total liabilities and deferred inflows of resources	368,586,015	492,402,904	860,988,919
<u>NET POSITION</u>			
Net investment in capital assets	381,887,289	539,821,175	921,708,464
Restricted for:			
Capital projects	46,682,558	-	46,682,558
Housing and community development	53,961,126	-	53,961,126
Other purposes	14,976,123	22,052,595	37,028,718
Unrestricted	(173,275,294)	92,324,550	(80,950,744)
Total net position	\$ 324,231,802	\$ 654,198,320	\$ 978,430,122

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

CITY OF MODESTO
STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED JUNE 30, 2016

	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
FUNCTIONS/PROGRAMS:				
Governmental activities:				
General government	\$ 12,838,583	\$ 6,539,908	\$ -	\$ -
Community development	12,552,115	6,885,850	2,792,292	-
Highways and streets	20,149,011	1,154,290	-	1,636,078
Public works	10,749,465	5,469,419	-	-
Parks and recreation	3,493,743	771,733	-	72,524
Public safety	86,907,876	3,868,346	837,893	-
Interest on long-term debt	2,691,894	-	-	-
Total governmental activities	<u>149,382,687</u>	<u>24,689,546</u>	<u>3,630,185</u>	<u>1,708,602</u>
Business-type activities:				
Water	59,127,625	55,992,533	149,322	-
Sewer	33,093,921	47,859,680	619,052	2,072,601
Bus	19,709,745	3,352,615	12,904,371	1,046,883
Parking	1,625,943	1,289,211	-	-
Storm drain	5,312,896	5,588,169	-	-
Compost	11,998,345	7,352,767	288,944	-
Airport	1,787,081	622,383	191,879	1,633,739
Golf	3,130,536	2,431,904	-	-
Community center	1,981,307	326,839	-	-
Abatement and public nuisance	84,152	166,641	-	-
Total business-type activities	<u>137,851,551</u>	<u>124,982,742</u>	<u>14,153,568</u>	<u>4,753,223</u>
Total	\$ 287,234,238	\$ 149,672,288	\$ 17,783,753	\$ 6,461,825

General revenues:

Taxes:

Utility users tax

Property taxes, levied for general purposes

Property taxes, generated by and allocated to the airport

Transient occupancy tax

Franchise tax

Business license tax, levied for general purposes

Business license tax, levied for downtown improvement district

Intergovernmental revenue:

Sales tax (state appropriation)

Motor vehicle license fee

Gas tax funding

Community facilities district fees

Special assessments, levied

Other

Unrestricted investment earnings

Miscellaneous

Transfers, net

Total general revenues and transfers

Changes in net position

Net position, July 1

Prior year adjustments

Net position, June 30

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

Net (Expense) Revenue and
Changes in Net Position

Governmental Activities	Business-type Activities	Total
\$ (6,298,675)	\$ -	\$ (6,298,675)
(2,873,973)	-	(2,873,973)
(17,358,643)	-	(17,358,643)
(5,280,046)	-	(5,280,046)
(2,649,486)	-	(2,649,486)
(82,201,637)	-	(82,201,637)
(2,691,894)	-	(2,691,894)
<u>(119,354,354)</u>	<u>-</u>	<u>(119,354,354)</u>
-	(2,985,770)	(2,985,770)
-	17,457,412	17,457,412
-	(2,405,876)	(2,405,876)
-	(336,732)	(336,732)
-	275,273	275,273
-	(4,356,634)	(4,356,634)
-	660,920	660,920
-	(698,632)	(698,632)
-	(1,654,468)	(1,654,468)
-	82,489	82,489
<u>-</u>	<u>6,037,982</u>	<u>6,037,982</u>
(119,354,354)	6,037,982	(113,316,372)
19,564,921	-	19,564,921
14,552,304	-	14,552,304
-	206,854	206,854
2,523,087	-	2,523,087
6,194,733	-	6,194,733
11,944,291	-	11,944,291
186,123	-	186,123
29,878,815	-	29,878,815
14,548,427	-	14,548,427
4,533,572	-	4,533,572
3,829	-	3,829
3,168,260	-	3,168,260
13,101,149	-	13,101,149
582,565	2,247,061	2,829,626
2,440,696	1,368,761	3,809,457
(567,177)	567,177	-
<u>122,655,595</u>	<u>4,389,853</u>	<u>127,045,448</u>
3,301,241	10,427,835	13,729,076
319,680,597	647,857,327	967,537,924
<u>1,249,964</u>	<u>(4,086,842)</u>	<u>(2,836,878)</u>
<u>\$ 324,231,802</u>	<u>\$ 654,198,320</u>	<u>\$ 978,430,122</u>

CITY OF MODESTO
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2016

	General	Housing and Community Development	Other Governmental	Total Governmental
ASSETS				
Cash and cash equivalents	\$ 9,223,485	\$ 3,283,273	\$ 12,460,356	\$ 24,967,114
Receivables:				
Accounts, net	324,997	23,674	89,323	437,994
Interest	67,508	2,430	124,518	194,456
Utilities, net	807,115	-	-	807,115
Taxes	16,135,237	-	344,105	16,479,342
Due from governments	778,346	408,053	8,275,572	9,461,971
Due from other funds	5,277,977	-	-	5,277,977
Prepaid expenditures	179,831	1,546	84,696	266,073
Advances to other funds	2,467,861	-	-	2,467,861
Restricted assets:				
Cash and cash equivalents	2,092,126	-	47,193,984	49,286,110
Cash and cash equivalents with fiscal agent	-	-	5,556,724	5,556,724
Notes receivable, net	-	52,397,895	2,281,179	54,679,074
Total assets	\$ 37,354,483	\$ 56,116,871	\$ 76,410,457	\$ 169,881,811
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 3,583,333	\$ 135,504	\$ 2,703,482	\$ 6,422,319
Accrued salaries and benefits	1,921,342	12,532	196,543	2,130,417
Accrued interest payable	-	7,699	3,965	11,664
Approved loans payable	-	1,998,464	-	1,998,464
Due to other funds	-	-	4,935,597	4,935,597
Unearned revenue	275,056	-	2,938,797	3,213,853
Refundable deposits	3,577,293	-	12,456	3,589,749
Advances from other funds	931,738	-	1,164,817	2,096,555
Total liabilities	10,288,762	2,154,199	11,955,657	24,398,618
Deferred inflows of resources:				
Unavailable revenue	-	28,429,439	-	28,429,439
Fund balances:				
Nonspendable	2,647,692	1,546	84,696	2,733,934
Restricted	2,092,126	25,531,687	55,031,887	82,655,700
Committed	3,000,000	-	-	3,000,000
Assigned	6,503,769	-	10,063,058	16,566,827
Unassigned	12,822,134	-	(724,841)	12,097,293
Total fund balances	27,065,721	25,533,233	64,454,800	117,053,754
Total liabilities, deferred inflows of resources, and fund balances	\$ 37,354,483	\$ 56,116,871	\$ 76,410,457	\$ 169,881,811

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

CITY OF MODESTO
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION - GOVERNMENTAL ACTIVITIES
JUNE 30, 2016

Total fund balances - total governmental funds \$ 117,053,754

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

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

General capital assets:

Nondepreciable	\$ 80,061,306	
Depreciable	153,938,897	
Accumulated depreciation on general capital assets	(78,119,309)	
Infrastructure:		
Depreciable	566,918,863	
Accumulated depreciation on infrastructure	<u>(320,311,020)</u>	402,488,737

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

Deferred in the governmental funds	\$ 28,429,439	
Reimbursement agreement with Successor Agency	16,328,450	
Investments in joint ventures	<u>10,206,026</u>	54,963,915

Derivative instruments:

Rate swaps are not reported in governmental funds.	\$ (13,411,625)	
Deferred outflows of resources used to accumulate decreases in fair value of hedging derivatives also are not reported in governmental funds.	<u>13,411,625</u>	-

Internal service funds are used by management to charge the costs of activities to individual funds. The assets, liabilities, and deferred inflows of resources of internal service funds are included in governmental activities in the statement of net position.

(8,314,318)

Deferred outflows and inflows of resources for pension items in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.

Deferred outflows of resources	\$ 15,437,648	
Deferred inflows of resources	<u>(16,312,713)</u>	(875,065)

Some liabilities, are not due and payable in the current period and therefore are not reported in the funds.

Approved loans payable	\$ (575,000)	
Net pension liability	(180,170,843)	
Bonds payable, and other long-term debt	(60,313,419)	
Accrued interest	<u>(25,959)</u>	<u>(241,085,221)</u>

Net position of governmental activities \$ 324,231,802

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
FISCAL YEAR ENDED JUNE 30, 2016

	General	Housing and Community Development	Other Governmental	Total Governmental
REVENUES:				
Taxes	\$ 53,643,145	\$ -	\$ 1,322,314	\$ 54,965,459
Licenses and permits	100,924	-	85,700	186,624
Intergovernmental	48,105,209	4,980,896	23,231,124	76,317,229
Charges for services	13,132,794	-	7,297,066	20,429,860
Special assessments levied	-	-	3,168,260	3,168,260
Interest and rent	707,767	217	589,750	1,297,734
Net increase in fair value of investments	30,505	36	71,881	102,422
Fines and forfeits	452,235	-	452,567	904,802
Miscellaneous	1,732,673	2,000	551,924	2,286,597
Total revenues	<u>117,905,252</u>	<u>4,983,149</u>	<u>36,770,586</u>	<u>159,658,987</u>
EXPENDITURES:				
Current:				
General government	12,163,866	-	251,116	12,414,982
Community development	6,041,659	2,328,642	4,083,377	12,453,678
Highways and streets	-	-	8,498,783	8,498,783
Public works	6,210,676	-	4,182,493	10,393,169
Parks and recreation	3,104,742	-	280,742	3,385,484
Public safety	81,704,702	-	2,317,968	84,022,670
Capital outlay	714,410	1,015	19,101,600	19,817,025
Debt service:				
Principal retirement	459,362	221,000	1,665,000	2,345,362
Interest	23,615	115,657	1,904,006	2,043,278
Other	-	-	697,405	697,405
Total expenditures	<u>110,423,032</u>	<u>2,666,314</u>	<u>42,982,490</u>	<u>156,071,836</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>7,482,220</u>	<u>2,316,835</u>	<u>(6,211,904)</u>	<u>3,587,151</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	551,992	41,457	6,366,976	6,960,425
Transfers out	(6,222,300)	(64,406)	(4,285,640)	(10,572,346)
Capital leases	330,947	-	-	330,947
Sale of assets	103,362	3,220	-	106,582
TOTAL OTHER FINANCING SOURCES (USES)	<u>(5,235,999)</u>	<u>(19,729)</u>	<u>2,081,336</u>	<u>(3,174,392)</u>
CHANGES IN FUND BALANCES	2,246,221	2,297,106	(4,130,568)	412,759
FUND BALANCES, JULY 1	24,819,500	22,052,427	68,775,673	115,647,600
PRIOR PERIOD ADJUSTMENTS	-	1,183,700	(190,305)	993,395
FUND BALANCES, JUNE 30	<u>\$ 27,065,721</u>	<u>\$ 25,533,233</u>	<u>\$ 64,454,800</u>	<u>\$ 117,053,754</u>

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

CITY OF MODESTO
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES -GOVERNMENTAL ACTIVITIES
FISCAL YEAR ENDED JUNE 30, 2016

Net change in fund balances - total governmental funds \$ 412,759

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

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

Capital outlay	\$ 19,817,025	
Depreciation expense	<u>(17,843,971)</u>	1,973,054

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

47,517

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

Change in unearned revenues	\$ (5,340,472)	
Change in investments in joint ventures	<u>(1,512,336)</u>	(6,852,808)

Recognition of Successor Agency annual payment for their Reimbursement Agreement receivable associated with long-term debt.

(482,850)

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

Principal retirement	\$ 2,345,362	
Proceeds of long-term debt	<u>(330,947)</u>	2,014,415

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

Change in accrued interest	\$ 48,789	
Pension expense associated with net pension liability	<u>4,190,263</u>	4,239,052

Revenues in the governmental funds provide current financial resources which are not reported as revenue with the governmental activities.

Principal income associated with housing loans		325,569
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Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue (expense) of internal service funds is reported with governmental activities.

1,624,533

Change in net position of governmental activities

\$ 3,301,241

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

CITY OF MODESTO
STATEMENT OF NET POSITION - PROPRIETARY FUNDS
JUNE 30, 2016

	Enterprise					Internal Service
	Water	Sewer	Bus	Other Enterprise	Total Enterprise	
ASSETS						
Current assets:						
Cash and cash equivalents	\$ 64,410,950	\$ 82,488,496	\$ 8,743,727	\$ 17,047,536	\$ 172,690,709	\$ 38,104,521
Receivables:						
Accounts, net	13,646	75,405	70,660	1,283,641	1,443,352	1,483,581
Interest	179,493	221,462	17,411	42,900	461,266	147,640
Utilities, net	5,928,897	4,005,477	-	776,774	10,711,148	-
Prepaid expenses	2,486,845	36,149	16,810	64,278	2,604,082	282,504
Due from governments	128,364	5,660,105	2,504,287	1,361,435	9,654,191	18,843
Inventories	-	95	-	36,325	36,420	333,239
Total current assets	<u>73,148,195</u>	<u>92,487,189</u>	<u>11,352,895</u>	<u>20,612,889</u>	<u>197,601,168</u>	<u>40,370,328</u>
Noncurrent assets:						
Advances to other funds	171,660	923,400	-	-	1,095,060	781,738
Restricted cash and cash equivalents	10,110,512	14,284,016	-	-	24,394,528	9,401,469
Restricted cash and cash equivalents with fiscal agent	23,073,137	1,473,436	-	627,142	25,173,715	5,070
Land and construction in progress	52,736,041	164,768,751	4,777,335	13,155,686	235,437,813	2,207,875
Other capital assets, net of accumulated depreciation	396,539,964	153,827,597	34,649,044	33,624,088	618,640,693	16,308,845
Total noncurrent assets	<u>482,631,314</u>	<u>335,277,200</u>	<u>39,426,379</u>	<u>47,406,916</u>	<u>904,741,809</u>	<u>28,704,997</u>
Total assets	<u>555,779,509</u>	<u>427,764,389</u>	<u>50,779,274</u>	<u>68,019,805</u>	<u>1,102,342,977</u>	<u>69,075,325</u>
DEFERRED OUTFLOWS OF RESOURCES						
Deferred pensions	1,105,414	1,068,948	178,451	607,953	2,960,766	678,690
Loss on refunding	451,547	555,402	-	-	1,006,949	-
Accumulated decrease in fair value of hedging derivatives	45,222,673	-	-	-	45,222,673	-
Total deferred outflows of resources	<u>46,779,634</u>	<u>1,624,350</u>	<u>178,451</u>	<u>607,953</u>	<u>49,190,388</u>	<u>678,690</u>
Total assets and deferred outflows of resources	<u>\$ 602,559,143</u>	<u>\$ 429,388,739</u>	<u>\$ 50,957,725</u>	<u>\$ 68,627,758</u>	<u>\$ 1,151,533,365</u>	<u>\$ 69,754,015</u>
LIABILITIES						
Current liabilities:						
Accounts payable	\$ 2,600,984	\$ 2,867,069	\$ 2,368,848	\$ 2,953,559	\$ 10,790,460	\$ 3,271,979
Accrued salaries and benefits	256,419	241,569	39,884	161,318	699,190	150,445
Interest payable	3,973	184,165	-	27,167	215,305	-
Due to other funds	-	-	-	342,380	342,380	-
Current portion - compensated absences	-	-	-	-	-	3,453,298
Current portion - claims liability	-	-	-	-	-	5,033,143
Current portion - long-term debt	4,709,532	7,206,419	-	340,000	12,255,951	-
Current portion - developer advances	93,112	-	-	-	93,112	-
Unearned revenue	-	976,948	7,251,243	421,450	8,649,641	57,118
Total current liabilities	<u>7,664,020</u>	<u>11,476,170</u>	<u>9,659,975</u>	<u>4,245,874</u>	<u>33,046,039</u>	<u>11,965,983</u>
Noncurrent liabilities:						
Payable from restricted assets - refundable deposits	1,312,009	1,029,924	-	-	2,341,933	-
Advances from other funds	-	-	-	2,248,104	2,248,104	-
Compensated absences	-	-	-	-	-	5,336,652
Claims liability	-	-	-	-	-	18,563,388
Derivative instrument - interest swap	45,222,673	-	-	-	45,222,673	-
Pollution remediation liability	8,998,408	10,210,999	-	2,600,000	21,809,407	-
Net OPEB obligation	-	-	-	-	-	56,191,331
Net pension liability	13,375,005	12,889,654	2,149,389	7,315,350	35,729,398	8,243,713
Long-term debt:						
Reimbursement agreement related to MID debt	128,055,084	-	-	-	128,055,084	-
Revenue bonds payable	-	31,595,489	-	-	31,595,489	-
Loans payable	451,547	120,454,871	-	-	120,906,418	-
Certificates of participation	44,705,053	-	-	2,920,000	47,625,053	-
Developer advances	1,145,337	-	-	-	1,145,337	-
Total noncurrent liabilities	<u>243,265,116</u>	<u>176,180,937</u>	<u>2,149,389</u>	<u>15,083,454</u>	<u>436,678,896</u>	<u>88,335,084</u>
Total liabilities	<u>250,929,136</u>	<u>187,657,107</u>	<u>11,809,364</u>	<u>19,329,328</u>	<u>469,724,935</u>	<u>100,301,067</u>
DEFERRED INFLOWS OF RESOURCES						
Deferred pensions	1,674,119	1,524,191	249,231	833,577	4,281,118	1,096,258
NET POSITION						
Net investment in capital assets	294,879,473	161,368,407	39,426,379	44,146,916	539,821,175	18,516,720
Restricted for other purposes	8,798,503	13,254,092	-	-	22,052,595	9,401,469
Unrestricted	46,277,912	65,584,942	(527,249)	4,317,937	115,653,542	(59,561,499)
Total net position	<u>349,955,888</u>	<u>240,207,441</u>	<u>38,899,130</u>	<u>48,464,853</u>	<u>677,527,312</u>	<u>(31,643,310)</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 602,559,143</u>	<u>\$ 429,388,739</u>	<u>\$ 50,957,725</u>	<u>\$ 68,627,758</u>	<u>\$ 1,151,533,365</u>	<u>\$ 69,754,015</u>
Adjustment to reflect the consolidation of internal service fund activities					(23,328,992)	
Net position of business-type activities					<u>\$ 654,198,320</u>	

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

CITY OF MODESTO
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET POSITION - PROPRIETARY FUNDS
FISCAL YEAR ENDED JUNE 30, 2016

	Enterprise					Internal Service
	Water	Sewer	Bus	Other Enterprise	Total Enterprise	
OPERATING REVENUES:						
Charges for services	\$ 54,876,083	\$ 46,303,738	\$ 2,939,307	\$ 17,710,200	\$ 121,829,328	\$ 41,890,170
Sales	-	-	-	-	-	4,620,700
Miscellaneous	218,777	501	413,308	67,714	700,300	-
Total operating revenues	<u>55,094,860</u>	<u>46,304,239</u>	<u>3,352,615</u>	<u>17,777,914</u>	<u>122,529,628</u>	<u>46,510,870</u>
OPERATING EXPENSES:						
Salaries and wages	8,242,887	7,776,715	1,290,492	5,278,543	22,588,637	4,295,185
Cost of sales	-	-	-	-	-	3,966,108
Contractual services	10,463,029	4,614,224	11,641,066	8,174,146	34,892,465	5,442,676
Utilities	2,450,698	2,668,629	147,511	602,244	5,869,082	252,813
Maintenance and supplies	2,113,128	1,989,826	1,747,999	3,968,564	9,819,517	2,689,072
Water purchases	9,177,116	-	-	-	9,177,116	-
Insurance	188,896	469,979	20,234	398,894	1,078,003	16,892,897
Claims	-	-	-	-	-	9,732,872
Employee benefits	2,333,158	971,754	401,581	1,492,437	5,198,930	4,033,995
Administration services	820,680	3,584,130	779,613	2,379,658	7,564,081	532,077
Allocated indirect administrative costs	1,461,882	665,616	316,333	413,985	2,857,816	297,137
Depreciation	17,149,660	8,772,784	2,826,031	2,675,302	31,423,777	3,080,548
Total operating expenses	<u>54,401,134</u>	<u>31,513,657</u>	<u>19,170,860</u>	<u>25,383,773</u>	<u>130,469,424</u>	<u>51,215,380</u>
OPERATING INCOME (LOSS)	<u>693,726</u>	<u>14,790,582</u>	<u>(15,818,245)</u>	<u>(7,605,859)</u>	<u>(7,939,796)</u>	<u>(4,704,510)</u>
NONOPERATING REVENUES (EXPENSES)						
Operating grants	149,322	619,052	12,904,371	480,823	14,153,568	78,932
Gain (loss) on disposition of capital assets	2,595,041	56,925	(171,075)	88,892	2,569,783	(4,998)
Tax revenue	-	-	-	206,854	206,854	-
Tax expense	(171,426)	(142,526)	-	(13,556)	(327,508)	-
Interest income	591,243	733,480	829	121,572	1,447,124	611,722
Net increase in fair value of investments	678,172	89,501	7,427	24,837	799,937	83,023
Connection fees	897,673	1,555,441	-	-	2,453,114	-
Rental income	41,572	503,281	154,797	669,111	1,368,761	-
Interest expense and amortization	(5,583,686)	(902,913)	-	(168,417)	(6,655,016)	-
Trustee and letter of credit fees	(500,775)	(545)	-	(1,279)	(502,599)	-
Total nonoperating revenues (expenses)	<u>(1,302,864)</u>	<u>2,511,696</u>	<u>12,896,349</u>	<u>1,408,837</u>	<u>15,514,018</u>	<u>768,679</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	<u>(609,138)</u>	<u>17,302,278</u>	<u>(2,921,896)</u>	<u>(6,197,022)</u>	<u>7,574,222</u>	<u>(3,935,831)</u>
Capital contributions	-	2,072,601	1,046,883	1,633,739	4,753,223	48,833
Transfers in	265,321	131,719	1,500	3,396,467	3,795,007	3,413,074
Transfers out	<u>(793,435)</u>	<u>(354,088)</u>	<u>(979,152)</u>	<u>(1,101,155)</u>	<u>(3,227,830)</u>	<u>(368,330)</u>
CHANGES IN NET POSITION	<u>(1,137,252)</u>	<u>19,152,510</u>	<u>(2,852,665)</u>	<u>(2,267,971)</u>	<u>12,894,622</u>	<u>(842,254)</u>
NET POSITION, JULY 1	<u>355,179,982</u>	<u>221,054,931</u>	<u>41,751,795</u>	<u>50,732,824</u>		<u>(30,801,056)</u>
PRIOR YEAR ADJUSTMENTS	<u>(4,086,842)</u>	<u>-</u>	<u>-</u>	<u>-</u>		<u>-</u>
NET POSITION, JUNE 30	<u>\$ 349,955,888</u>	<u>\$ 240,207,441</u>	<u>\$ 38,899,130</u>	<u>\$ 48,464,853</u>		<u>\$ (31,643,310)</u>
Adjustment to reflect the consolidation of internal service funds					<u>(2,466,787)</u>	
Change in net position of business-type activities				<u>\$ 10,427,835</u>		

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

CITY OF MODESTO
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
FISCAL YEAR ENDED JUNE 30, 2016

	Enterprise					Internal Service
	Water	Sewer	Bus	Other Enterprise	Total Enterprise	
CASH FLOWS FROM OPERATING ACTIVITIES:						
Receipts from customers and users	\$ 54,111,340	\$ 47,309,216	\$ 3,274,979	\$ 18,146,950	\$ 122,842,485	\$ 548,431
Receipts from interfund services provided	51,295	444,757	-	75,029	571,081	46,457,375
Payments to suppliers	(17,103,931)	(7,030,178)	(20,672,946)	(5,683,685)	(50,490,740)	(28,167,613)
Payment of insurance claims	-	-	-	-	-	(8,666,972)
Payments to employees	(11,251,335)	(9,418,015)	(1,807,116)	(7,184,481)	(29,660,947)	(9,631,113)
Payments for interfund services used	(6,269,645)	(8,129,607)	-	(6,595,229)	(20,994,481)	(1,881,409)
Net cash provided (used) by operating activities	<u>19,537,724</u>	<u>23,176,173</u>	<u>(19,205,083)</u>	<u>(1,241,416)</u>	<u>22,267,398</u>	<u>(1,341,301)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:						
Operating grants received	149,322	619,052	15,442,222	480,823	16,691,419	78,932
Taxes received	-	-	-	206,854	206,854	-
Transfers in	265,321	131,719	1,500	3,396,467	3,795,007	3,413,074
Transfers out	(793,435)	(354,088)	(979,152)	(1,101,155)	(3,227,830)	(368,330)
Payments on advances from other funds	-	-	-	(34,200)	(34,200)	-
Receipts on advances to other funds	60,846	34,200	-	-	95,046	75,000
Net cash provided (used) by noncapital financing activities	<u>(317,946)</u>	<u>430,883</u>	<u>14,464,570</u>	<u>2,948,789</u>	<u>17,526,296</u>	<u>3,198,676</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:						
Acquisition and construction of capital assets	(25,002,752)	(19,091,236)	(967,847)	(3,494,787)	(48,556,622)	(3,032,493)
Proceeds from sale of capital assets	2,633,374	68,039	12,805	99,845	2,814,063	70,490
Proceeds of debt issues	-	27,681,211	-	-	27,681,211	-
Principal repayments	(4,697,325)	(23,530,000)	-	(325,000)	(28,552,325)	-
Interest paid	(7,451,707)	(1,446,787)	-	(141,250)	(9,039,744)	-
Trustee and letter of credit fees	(500,775)	(545)	-	(1,279)	(502,599)	-
Capital contributions	-	2,072,601	5,605,162	1,633,739	9,311,502	-
Connection fees for capital purposes	897,673	1,555,441	-	-	2,453,114	-
Net cash used by capital and related financing activities	<u>(34,121,512)</u>	<u>(12,691,276)</u>	<u>4,650,120</u>	<u>(2,228,732)</u>	<u>(44,391,400)</u>	<u>(2,962,003)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:						
Interest received	591,243	554,501	6,316	80,898	1,232,958	559,099
Net increase in the fair value of investments	678,172	89,501	7,427	24,837	799,937	83,023
Rental income received	41,572	503,281	154,797	669,111	1,368,761	-
Net cash provided (used) by investing activities	<u>1,310,987</u>	<u>1,147,283</u>	<u>168,540</u>	<u>774,846</u>	<u>3,401,656</u>	<u>642,122</u>
Net increase (decrease) in cash and cash equivalents	(13,590,747)	12,063,063	78,147	253,487	(1,196,050)	(462,506)
CASH AND CASH EQUIVALENTS, JULY 1	<u>111,185,346</u>	<u>86,182,885</u>	<u>8,665,580</u>	<u>17,421,191</u>	<u>223,455,002</u>	<u>47,973,566</u>
CASH AND CASH EQUIVALENTS, JUNE 30	<u>\$ 97,594,599</u>	<u>\$ 98,245,948</u>	<u>\$ 8,743,727</u>	<u>\$ 17,674,678</u>	<u>\$ 222,258,952</u>	<u>\$ 47,511,060</u>
RECONCILIATION TO STATEMENT OF NET POSITION:						
Cash and cash equivalents	\$ 64,410,950	\$ 82,488,496	\$ 8,743,727	\$ 17,047,536	\$ 172,690,709	\$ 38,104,521
Restricted cash and cash equivalents	10,110,512	14,284,016	-	-	24,394,528	9,401,469
Restricted cash and cash equivalents with fiscal agent	23,073,137	1,473,436	-	627,142	25,173,715	5,070
TOTAL CASH AND CASH EQUIVALENTS	<u>\$ 97,594,599</u>	<u>\$ 98,245,948</u>	<u>\$ 8,743,727</u>	<u>\$ 17,674,678</u>	<u>\$ 222,258,952</u>	<u>\$ 47,511,060</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)
FISCAL YEAR ENDED JUNE 30, 2016

	Enterprise					Internal Service
	Water	Sewer	Bus	Other Enterprise	Total Enterprise	
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:						
Operating income (loss)	\$ 693,726	\$ 14,790,582	\$ (15,818,245)	\$ (7,605,859)	\$ (7,939,796)	\$ (4,704,510)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:						
Depreciation	17,149,660	8,772,784	2,826,031	2,675,302	31,423,777	3,080,548
Taxes paid	(171,426)	(142,526)	-	(13,556)	(327,508)	-
Change in assets, liabilities, and deferred resources:						
(Increase) decrease in accounts receivable	12,873	(57,744)	(60,826)	183,363	77,666	407,505
Increase in utilities receivable	(871,278)	(453,159)	-	(209,601)	(1,534,038)	-
(Increase) decrease in due from governments	(128,364)	906,837	-	(492,578)	285,895	30,313
(Increase) decrease in prepaid expenses	4,236,616	(14,253)	(16,810)	(46,922)	4,158,631	(98,435)
(Increase) decrease in inventories	-	(95)	-	(4,933)	(5,028)	110,213
Increase (decrease) in accounts payable	(168,910)	(780,042)	(6,020,189)	1,918,154	(5,050,987)	11,980
Decrease in accrued salaries and benefits	(51,305)	(44,424)	(9,488)	(50,337)	(155,554)	(17,846)
Decrease in compensated absences	-	-	-	-	-	(156,131)
Decrease in net OPEB obligation	-	-	-	-	-	(760,531)
Increase in net pension liability and deferred resources	(623,985)	(625,122)	(105,556)	(363,164)	(1,717,827)	(367,425)
Increase in claims liability	-	-	-	-	-	1,065,900
Increase (decrease) in pollution remediation liability	(594,427)	(230,465)	-	2,600,000	1,775,108	-
Increase in due to other funds	-	-	-	324,594	324,594	-
Increase (decrease) in unearned revenue	-	976,948	-	(155,879)	821,069	57,118
Increase in refundable deposits	54,544	76,852	-	-	131,396	-
Total adjustments	18,843,998	8,385,591	(3,386,838)	6,364,443	30,207,194	3,363,209
Net cash provided (used) by operating activities	<u>\$ 19,537,724</u>	<u>\$ 23,176,173</u>	<u>\$ (19,205,083)</u>	<u>\$ (1,241,416)</u>	<u>\$ 22,267,398</u>	<u>\$ (1,341,301)</u>
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:						
Capital asset transfers	-	-	-	-	-	117,355
Amortization of debt items	-	543,874	-	-	543,874	-

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

CITY OF MODESTO
STATEMENT OF FIDUCIARY NET POSITION -FIDUCIARY FUNDS
JUNE 30, 2016

	Private-Purpose Trust	Agency
	<u> </u>	<u> </u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 1,507,927	\$ 3,545,139
Cash and cash equivalents held with fiscal agent	1,977,050	2,936,138
Interest receivable	6,795	-
Other assets	9,242	-
Capital assets, net of accumulated depreciation	790,067	-
Total assets	<u>4,291,081</u>	<u>\$ 6,481,277</u>
<u>LIABILITIES</u>		
Due to special district bondholders	\$ -	\$ 3,616,595
Deposits held as agent for others	-	2,864,682
Other payables	24,982	-
Due to other agencies	1,192,004	-
Loans payable:		
Due within one year	1,667,150	-
Due in more than one year	25,961,300	-
Total liabilities	<u>28,845,436</u>	<u>\$ 6,481,277</u>
<u>NET POSITION</u>		
Unrestricted	<u>\$ (24,554,355)</u>	

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

CITY OF MODESTO
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION - PRIVATE PURPOSE TRUST FUND
FISCAL YEAR ENDED JUNE 30, 2016

		<u>Private-Purpose Trust</u>
ADDITIONS:		
Redevelopment Agency Property Tax Trust Fund	\$	2,375,529
Interest and Investment Revenue:		
Use of money and property		<u>274,641</u>
Total additions		<u>2,650,170</u>
DEDUCTIONS:		
Distribution of property taxes to other taxing entities		<u>782,491</u>
Obligation retirements:		
Interest on note payable		<u>578,250</u>
Administrative expenses:		
City administrative expenses		188,301
Depreciation expense		<u>55,614</u>
Total administrative expenses		<u>243,915</u>
Total deductions		<u>1,604,656</u>
Change in net position		1,045,514
Net position, July 1		<u>(25,599,869)</u>
Net position, June 30	\$	<u><u>(24,554,355)</u></u>

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

**CITY OF MODESTO
NOTES TO BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2016**

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 (fire and police), highways and streets, drinking water, wastewater collection and treatment, storm drainage, public transit, recreation, 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 MPFA (Modesto Public Financing Authority) was established as a separate legal entity whose sole purpose is to provide financing for various City capital projects.
2. The City of Modesto has established several Community Facilities Districts to provide funding and reimbursement mechanisms for public facilities and services required by each District Specific Plan. These Districts are the vehicles used to ensure that all landowners in the Districts contribute to the cost of public improvements. There are currently nine active Districts, which are combined for presentation in these financial statements. Individual component unit financial statements are prepared for each District.

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

Although these component units are legally separate from the City, they are reported on a blended basis as part of the primary government because their boards consist of all seven members of the City Council and operational responsibility. There is an operational responsibility for the City related to these component units and for the MPFA it provides services solely for the City. Component unit financial statements may be obtained from the City's Finance Department.

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

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions 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. For grant revenues, the City considers this type of revenue to be available if collected within 180 days. This revenue recognition generated a change in accounting principles which had an immaterial impact to the financial statements. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest, compensated absences, claims and judgement expenditures are recorded as fund liabilities when due or when amounts have been accumulated in the debt service funds for payments to be made early in the following year.

Substantially all property taxes, taxpayer-assessed taxes (such as sales and use, utility users, business license, transient occupancy, franchise fees, and gas taxes), interest, special assessments levied, state and federal grants, and charges for current services are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Revenues from licenses, permits, and fines and forfeits are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

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

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, information and technology services,

insurance, employee benefits management, and building services provided to other departments or agencies of the City on a cost-reimbursement basis.

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

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

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise and internal service funds are charges to customers for sales and services. The Water and Sewer Funds also recognize as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the systems. Operating expenses for enterprise and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period including the note disclosures. Actual results could differ from those estimates.

D. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION/FUND BALANCE

1. Cash and Cash Equivalents

Cash and investments (including restricted assets) held in the City's investment pool are reported as cash and cash equivalents on the statement of net position 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 with the exception of the MID collateral agreement which has a maturity date based on the 18 year period of the interest swap agreement. Investments are stated at fair value. Valuations are obtained based on various levels identified further under Note II-A – Fair value measurements.

2. Restricted Assets - Cash and Cash Equivalents

Refundable deposits of the General Fund are classified as restricted assets – cash and cash equivalents on the governmental funds balance sheet because their use is restricted for repayment of those refundable deposits. Legal or contractual obligations associated with the nonmajor governmental funds have been reported as restricted assets due to the restrictions identified on the revenue sources generated from these funds. Refundable deposits in the Water and Sewer funds are also reported as restricted assets on the proprietary funds statement of net position. In addition, certain proceeds of Water certificates of participation and Sewer revenue bonds are considered restricted assets because their use is limited by applicable debt covenants. These proceeds are reported as part of “restricted assets – cash and cash equivalents” on the proprietary funds statement of net position. The Employee Benefits Management Fund collects funds which are restricted for future payouts for leave balances due to employees who terminate or retire from the City as well as any severance payouts. These assets are restricted due to management's designation of assets for future payments for

employee uses.

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 and prepaid items are offset by a nonspendable fund balance in applicable governmental funds to indicate they are not available for appropriation and are not expendable available financial resources to indicate that they are not in spendable form.

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 taxes recognized in governmental funds when it is available and measurable. The City considers property tax as available if it is received within 60 days after year-end.

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

Grant and entitlement revenues are recorded as receivables in the funds when they are susceptible to accrual (i.e., when all eligibility requirements have been met). The corresponding governmental fund revenues are recorded when they become available, with the differences recorded as deferred inflow of resources. The corresponding proprietary fund revenues are recorded as nonoperating revenues when the receivables are recorded. Some grant and entitlement revenues are not susceptible to accrual, in which case the corresponding revenues are recorded when received. The total amount due from governments for grants, entitlements, and shared receivables and revenues at June 30, 2016 is \$19,135,005.

Utility service accounts receivable are \$11,518,263 net of an allowance for doubtful collections of \$852,386 and include unbilled receivables using actual amounts billed in July for June services for all City funds. City accounts receivable of \$3,364,927 are reported net of an allowance for doubtful collections of \$1,237,432, and are based on miscellaneous receivables from the City's invoice system as well as other receivables accrued at year-end.

4. Inventories and Prepaid Expenses/Expenditures

Inventories of material and supplies held by governmental and proprietary funds are stated at average cost. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses/expenditures.

5. Capital Assets

Capital assets, which include property, plant and equipment, intangible assets and infrastructure assets (e.g., streets, 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 one year. 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 and enterprise funds are 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 of tax-exempted debt over the same period.

Depreciation is recorded using the straight line method over the estimated useful lives of the assets, which are 75 years for pipelines, 30 years for buildings, 20 years for improvements, 12 years for buses, 10 years for furnishings and equipment, 2 to 10 years for vehicles, 5 to 15 years for intangible assets, 30 to 50 years for streets, 20 years for signalization, and 50 years for bridges. Operating expenses include depreciation on all depreciable capital assets.

Capital leases are recorded as an asset and an obligation at an amount equal to the present value at the beginning of the lease term of minimum lease payments during the lease term.

6. Deferred Outflows and Inflows of Resources

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

7. Compensated Absences

All earned vacation, holiday, and compensating time, and a portion of accumulated sick leave payable upon termination or retirement, are accrued in the Employee Benefits Management Internal Service Fund as compensated absences. Estimated sick leave termination payments have been calculated using the GASB Statement 16 vesting method. Under this method, a liability is accrued for a portion of the sick leave balances of all employees who are currently eligible, or are assumed to become eligible in the future, to receive a payment for sick leave upon termination. As of June 30, 2016, the total estimated liability for all compensated absences, including vacation and sick leave, is \$8,789,950.

8. Fund Equity

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

- *Nonspendable fund balance* – amounts that cannot be spent because they are either (a) not spendable in form or (b) legally or contractually required to be maintained intact.
- *Restricted fund balance* – amounts with constraints placed on their use that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.
- *Committed fund balance* – amounts that can only be used for specific purposes determined by formal action of the City's highest level of decision-making authority (City Council) and that remain binding unless removed in the same manner. The underlying action that imposed the limitation needs to occur no later than the close of the reporting period.
- *Assigned fund balance* – amounts that are constrained by the City's intent to be used for specific purposes. The intent can be established at either the highest level of decision making, which includes City Council or by an official designated such as the City Manager for such purpose.
- *Unassigned fund balance* – the residual classification for the City's General Fund that includes amounts not contained in other classifications. In other funds, the unassigned classification is used

only if expenditures incurred for specific purposes exceed the amounts restricted, committed or assigned to those purposes.

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

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

9. Fund Balance Policy

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

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

The City has adopted a policy to achieve and maintain unrestricted fund balance in the General Fund of a flat \$7 million for fiscal year 2015-2016.

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 a reasonable period of time.

2. Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the California Public Employees' Retirement System (CalPERS) Safety (police and fire) and Miscellaneous (all other) Plans and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, the benefit payments (including refunds of employee contributions) are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value. GASB 68 requires that the reported results must pertain to the liability and asset information within certain defined timeframes. For this report, the following:

Valuation Date: June 30, 2014
Measurement Date: June 30, 2015
Measurement Period: July 1, 2014 to June 30, 2015

3. Interfund Transactions

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

F. NEW ACCOUNTING STANDARDS

During the fiscal year ended June 30, 2016, the City implemented the following GASB standards:

GASB Statement No. 72, Fair Value Measurement and Application. This statement is intended to improve accounting and financial reporting by enhancing the comparability of financial statements amount governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. The City implemented this change for the fiscal year ended June 30, 2016. Additional information is available under Note II-A.

GASB Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68. This statement establishes requirements for those pensions and pension plans that are not administered through a trust meeting specified criteria and thus are not covered by Statements Nos. 67 and 68. This statement did not have any impact to the City's financial statements.

GASB Statement No. 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments. This statement clarifies the hierarchy of generally accepted accounting principles (GAAP), and reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within the scope of authoritative GAAP. This statement did not have a significant impact to the City's financial statements.

GASB Statement No. 79, Certain External Investment Pools and Pool Participants. The statement addresses accounting and financial reporting for certain external investment pools and pool participants. The statement establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. It also establishes additional note disclosure requirements to include information about any limitations or restrictions on participant withdrawals. This statement did not have a significant impact to the City's financial statements.

The Agency is currently evaluating its accounting practices to determine the potential impact on the financial statements for the following GASB Statements:

In June 2015, GASB issued **Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans.** This statement addresses reporting by OPEB plans that administer benefits on behalf of governments. This Statement is effective for the City's fiscal year ending June 30, 2017.

In June 2015, GASB issued **Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.** This statement addresses reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments. This Statement is effective for the City's fiscal year ending June 30, 2018.

In August 2015, GASB issued **Statement No. 77, Tax Abatement Disclosures.** This statement requires governments that enter into tax abatement agreements to disclose the following information about the agreements: (i) brief descriptive information; (ii) the gross dollar amount of taxes abated during the period; and (iii) commitments made by a government, other than to abate taxes, as part of a tax abatement agreement. This Statement is effective for the City's fiscal year ending June 30, 2017.

In December 2015, the GASB issued **Statement No. 78, Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans.** The objective of this statement is to address a practice issue regarding the scope and applicability of Statement No. 68 associated with pensions provided through certain cost-sharing multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. Such plans are not considered a state or local government pension plan and are used to provide benefits to both employees of state and local governments and employees of employers that are not state or local governments. This Statement is effective for the City's fiscal year ending June 30, 2017.

In January 2016, the GASB issued **Statement No. 80, Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14.** The objective of this statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This statement amends the blending

requirements established in GASB Statement No. 14, The Financial Reporting Entity, as amended. This Statement is effective for the City's fiscal year ending June 30, 2017.

In March 2016, the GASB issued **Statement No. 81, Irrevocable Split-Interest Agreements**. The statement provides recognition and measurement guidance for situations in which a government is a beneficiary of these agreements. This Statement is effective for the City's fiscal year ending June 30, 2018.

In March 2016, the GASB issued **Statement No. 82, Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73**, to address certain issues that have been raised with respect to **Statements No. 67, Financial Reporting for Pension Plans, No. 68, Accounting and Financial Reporting for Pensions, and No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68**. The statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practices for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. This Statement is effective for the City's fiscal year ending June 30, 2017.

II. DETAILED NOTES

A. CASH AND INVESTMENTS

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

The City cash and investments are reported as follows:

Primary government:		
Cash and cash equivalents	\$	235,762,344
Restricted cash and cash equivalents		83,082,107
Restricted cash and cash equivalents with fiscal agent		30,735,509
Successor Agency Private-Purpose Trust Fund		
Cash and cash equivalents		1,507,927
Cash and cash equivalents held with fiscal agent		1,977,050
Agency funds		
Cash and cash equivalents		3,545,139
Cash and cash equivalents held with fiscal agent		2,936,138
		<hr/>
Total cash and investments	\$	<u>359,546,214</u>

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

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

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Minimum Credit Quality</u>	<u>Maximum Percentage Of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
Local Agency Bonds	5 years	None	None	None
Treasury Obligations	5 years	None	None	None
State Obligations	5 years	A Rating	None	None
CA Local Agency Obligations	5 years	A Rating	None	None
Federal Agencies	5 years	None	None	None
Banker's Acceptances	180 days	Federal Reserve Eligible	40%	5%
Commercial Paper	270 days	A1/P1 Rating	25%	5%
Negotiable Certificates of Deposit	5 years	A Rating	30%	5%
Certificates of Deposit	1 year	FDIC insured or collateralized	20%	5%
Repurchase Agreements	90 days	None	None	5%
Reverse Repurchase Agreements	92 days	None	20% of combined base value	5%
Medium Term Notes	5 years	A Rating	30%	5%
Money Market Mutual Funds	N/A	Multiple	15%	10%
Mortgage and Asset-backed Securities	5 years	AA Rating	20%	5%
CAMP	N/A	N/A	None	None
LAIF	N/A	N/A	N/A	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. Security types prohibited include, but are not limited to: Investments in inverse floaters, range notes, or interest only strips that are derived from a pool of mortgages. At June 30, 2016, the fair value approximated the City's cost. At June 30, 2016, these investments range from a maximum maturity of 5 years to some maturity limits of 180 days or less. The City reports its investments in CAMP at the fair value amounts provided by CAMP.

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.

Custodial Credit Risk – Deposits

The 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 deposits, or will not be able to recover collateral securities that are in the possession of an outside party. The City does not, currently, have a Custodial Credit Risk – Deposits Policy. 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 110% 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 City of Modesto has 11 deposit accounts at Bank of America that are monitored for deposit collateral purposes. As per the CA Government Code, the bank must provide collateral for the collected deposit balances at 110% coverage. The City is collateralized as part of the California Local Agency Collateral Pool Program. As of June 30, 2016 the City had collected deposit balances of \$30,328,519. On this amount, the FDIC insurance coverage was \$500,000 (\$250,000 for their time and savings accounts and \$250,000 for their demand accounts). The remainder of their balances was collateralized as part of the California Local Agency Pool Program.

For further information, on June 30, 2016, the total collected deposit balances at Bank of America from California Local Agency Pool Program participants was \$2,020,523,151 of which \$92,716,599 was FDIC insured. The remaining uninsured balances, \$1,927,806,552 were collateralized by securities pledged by Bank of America that had a market value of \$2,461,798,780. This results in collateral margin coverage of 126% far in excess of the 110% required by the California Government Code.

Custodial Credit Risk – Investments

The Custodial Credit Risk for Investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, the City will not be able to recover the value of investment or collateral securities that are in the possession of an outside 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.

The City's investments consist of pooled investments, dedicated investments, and other funds held by trustees. The dedicated investment funds represent restricted funds and relate to bond proceeds of the Water and Sewer Enterprise Funds, assessment districts (reported under Agency Funds) and the Successor Agency. The other funds held by trustees are made either in accordance with bond covenants and are pledged for payment of principal, interest, and specified capital improvements or in accordance with trust agreements. All investments held by a custodian are in the City's name excluding the Successor Agency.

Interest Rate Risk

Interest Rate Risk is the risk that interest rates will rise and reduce the fair value of an investment. Long-term fixed-income securities have the greatest amount of interest rate risk, due to potential loss in fair value.

As of June 30, 2016, the City owned four callable bonds. There were no Federal Agency callables. It is assumed the callable bonds will not be called in the segmented time distribution table on the following page. Information on those bonds has been provided as follows:

Corporate Notes			
Amount	Maturity Date	Call Date	Call Terms
\$2,920,000	9/19/2016	8/19/2016	Callable on and any time after 8/19/16
\$2,940,000	5/15/2017	4/15/2017	Callable on and any time after 4/15/17
\$5,475,000	5/22/2018	4/22/2018	Callable on and any time after 4/22/18
\$1,095,000	11/5/2018	10/5/2018	Callable on and any time after 10/5/18

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. The City may from time to time be invested in a security whose rating is downgraded subsequent to the date of purchase. In the event a rating drops below the minimum allowed rating category for that given investment type, the investment advisor shall notify the Finance Director and recommend a plan of action. The City will limit investments in any one non-government issuers, except investment pools to no more than 5% regardless of security type.

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

Investment Type	Credit Rating		Remaining Time to Maturity				
	Standard & Poor's	Moody's Investors Service	Total	Less Than 1 Year	1-2 Years	2-3 Years	3-4 years
U.S. Treasury Notes	AA+	Aaa	\$49,041,730	\$1,605,939	\$6,362,472	\$ 41,073,319	\$ -
Federal Agencies:							
Collateralized Mortgage Obligation	AA+	Aaa	10,850,498	-	2,026,754	6,701,149	2,122,595
Federal Agency Bond/Notes	AA+	Aaa	68,083,253	-	16,926,379	51,156,874	-
Corporate Notes	See Below	See Below	59,555,642	8,649,852	38,176,629	12,729,161	-
Negotiable Certificates of Deposit	See Below	See Below	47,170,792	21,695,380	25,475,412	-	-
CAMP Pool	AAAm	N/A	62,924,672	62,924,672	-	-	-
Total			\$297,626,587	\$94,875,843	\$88,967,646	\$111,660,503	\$2,122,595
Held By Fiscal Agent							
Money Market Funds	AAAm	Aaa-mf	\$6,157,427	\$6,157,427	-	-	-
CAMP	AAAm	N/A	9,482,386	9,482,386	-	-	-
MID – Collateral Agreement	A+	Aa3	20,008,884	20,008,884	-	-	-
Fiscal Agent Total			\$35,648,697	\$35,648,697	\$ -	\$ -	\$ -
City of Modesto Banking Accts & Cash on Hand	A/A-1	A1/P1	26,826,913				
Timing Differences for Deposit & Electronic Vendor Payments			(555,983)				
Total Cash and Investments			\$359,546,214				

The following is a table indicating the credit ratings for the City's investment in Corporate Notes:

Amount	Standard & Poors	Moody's Investors Service
\$ 3,013,334	AA+	Aaa
884,213	AA	Aa2
3,011,448	AA-	Aa2
10,306,210	AA-	Aa3
6,459,421	A	A1
8,702,621	A+	A1
3,012,069	AA	A1
4,994,100	AA-	A1
9,267,455	A	A2
4,079,783	A-	A2
5,824,988	A-	A3
\$ 59,555,642		

The following is a table indicating the credit ratings for the City's investment in Negotiable Certificates of Deposit:

Amount	Standard & Poors	Moody's Investors Service
\$ 15,866,617	A-1	P-1
5,725,830	A-1	Aa3
10,553,071	A-1+	P-1
9,234,624	AA-	Aa3
5,790,650	AA-	Aa1
<u>\$ 47,170,792</u>		

In the event a rating drops below the minimum allowed rating category for a given investment type, the investment advisor shall notify the Finance Director and/or Designee and recommend a plan of action. The City will limit investments in any one non-government issuer, except local agency investment pools and money market funds, to no more than 5% regardless of security type.

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, 2016:

Issuer	Investment Type	Reported Amount	Percent of Portfolio
Federal Home Loan Bank	Federal agency securities	\$23,785,268	6.62%
Fannie Mae (FNMA)	Federal agency securities	46,759,496	13.01%

Fair Value measurements

The Pool categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. These principles recognize a three-tiered fair value hierarchy, of which levels 1 & 2 apply to the City as follows:

- Level 1: Valuations are based on quoted prices in active markets for identical assets or liabilities. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgement. Examples would be securities with prices derived from the major exchanges.
- Level 2: Valuations are based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-based valuations for which all significant assumptions are observable or can be corroborated by observable market data. Examples would be securities with prices derived from market corroborated sources such as indices and yield curves; and matrix pricing, such as for most debt securities.

Union Bank is the custodian of the City's investments. Union Bank utilizes pricing services that deliver current market values and security information which is input into their trust accounting systems. A security will be valued on the basis of valuations provided by a pricing service vendor if it has a substantial public market (i.e. is not thinly traded), and is freely tradable without restriction, has a valid CUSIP or SEDOL and resides on one of the depositories. Based on their direction, Union Bank will continue to obtain valuations for all other securities and assets, for which they do not receive a pricing feed and/or descriptive information from their pricing service vendors, from various sources independent of Union Bank. If no current market value price is available from their pricing service vendors and their agents have provided Union Bank with pricing information, Union Bank will show the value of the asset at such value as Union Bank shall determine, such value to be for administrative purposes only and not be any indication of any market value.

The Pool has the following recurring fair value measurements as of June 30, 2016:

Investments by Fair Value for Investment Pool Investment Type	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
U.S Treasury Notes	\$ 49,041,730	\$ 49,041,730	\$ -
Corporate Notes	59,555,642	-	59,555,642
Negotiable Certificates of Deposit	47,170,792	-	47,170,792
Collateralized Mortgage Obligation	10,850,498	-	10,850,498
Federal Agency Bond/Notes	68,083,253	-	68,083,253
Total Investments measured at fair value	234,701,915	49,041,730	185,660,185
Investments not subject to Fair Value hierarchy CAMP	62,924,672		
	<u>\$ 297,626,587</u>		
Investments by Fair Value for Fiscal Agents			
Money Market Funds	\$ 6,157,427	\$ -	\$ 6,157,427
Total Fiscal Agent investments measured at fair value	6,157,427	-	6,157,427
Investments not subject to Fair Value hierarchy CAMP	9,482,386		
MID Collateral Agreement	20,008,884		
	<u>\$ 35,648,697</u>		

B. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2016 was as follows:

	Beginning Balance, <u>As Restated (1)</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 33,123,493	\$ 98,576	\$ (3,000)	\$ 33,219,069
Construction in progress	61,301,765	18,471,559	(30,723,212)	49,050,112
Total capital assets, not being depreciated:	<u>94,425,258</u>	<u>18,570,135</u>	<u>(30,726,212)</u>	<u>82,269,181</u>
Capital assets being depreciated:				
Buildings	34,178,867	328,426	-	34,507,293
Improvements other than buildings	96,471,657	11,215,180	(49,669)	107,637,168
Furnishings & equipment	16,245,837	570,351	(620,426)	16,195,762
Buses and fareboxes	-	278,852	-	278,852
Service animals	39,473	11,148	(8,072)	42,549
Intangible assets	8,623,144	14,375	(124,393)	8,513,126
Equipment pool	32,137,848	3,880,304	(1,295,316)	34,722,836
Infrastructure				
Streets	501,594,695	6,835,448	-	508,430,143
Signals	19,974,676	1,814,724	-	21,789,400
Bridges	26,528,179	10,171,142	-	36,699,321
Total capital assets, being depreciated:	<u>735,794,376</u>	<u>35,119,950</u>	<u>(2,097,876)</u>	<u>768,816,450</u>
Less accumulated depreciation for:				
Buildings	(18,951,024)	(952,441)	-	(19,903,465)
Improvements	(46,075,645)	(4,544,117)	49,669	(50,570,093)
Furnishings & equipment	(12,613,720)	(849,128)	597,865	(12,864,983)
Buses and fareboxes	-	(253,749)	-	(253,749)
Service animals	(12,664)	(6,430)	2,389	(16,705)
Intangible assets	(4,139,435)	(475,927)	124,393	(4,490,969)
Equipment pool	(20,429,156)	(2,470,101)	1,230,067	(21,669,190)
Infrastructure				
Streets	(286,556,878)	(10,256,454)	-	(296,813,332)
Signals	(16,271,841)	(473,920)	-	(16,745,761)
Bridges	(6,109,675)	(642,252)	-	(6,751,927)
Total accumulated depreciation	<u>(411,160,038)</u>	<u>(20,924,519)</u>	<u>2,004,383</u>	<u>(430,080,174)</u>
Total capital assets being depreciated, net	<u>324,634,338</u>	<u>14,195,431</u>	<u>(93,493)</u>	<u>338,736,276</u>
Governmental activities capital assets, net	<u>\$ 419,059,596</u>	<u>\$ 32,765,566</u>	<u>\$ (30,819,705)</u>	<u>\$ 421,005,457</u>

Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
General government	\$ 612,514
Community development	614,339
Highways and streets	11,791,928
Public works	512,764
Parks and recreation	167,028
Public safety	4,145,398
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	<u>3,080,548</u>
Total depreciation expense – Governmental activities	<u>\$20,924,519</u>

(1) Additional information regarding the restated beginning balance for the Governmental-type activities is available under Note III-H.

	Beginning Balance, <u>As Restated (1)</u>	<u>Additions</u>	<u>Deletions</u>	Ending <u>Balance</u>
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 31,102,451	\$ 2,423,879	\$ (10,675)	\$ 33,515,655
Construction in progress	180,547,542	42,786,965	(21,412,349)	201,922,158
Total capital assets, not being depreciated:	<u>211,649,993</u>	<u>45,210,844</u>	<u>(21,423,024)</u>	<u>235,437,813</u>
Capital assets being depreciated:				
Capitalized interest	19,496,181	-	-	19,496,181
Buildings	101,334,031	522,519	-	101,856,550
Improvements other than buildings	294,991,717	11,740,591	-	306,732,308
Furnishings and equipment	11,187,514	1,543,093	(233,165)	12,497,442
Intangible assets	206,527	210,030	-	416,557
Water rights	358,226,691	-	-	358,226,691
Buses and fareboxes	27,997,108	3,653,855	(3,163,161)	28,487,802
Pipelines	152,366,627	7,234,294	-	159,600,921
Total capital assets, being depreciated:	<u>965,806,396</u>	<u>24,904,382</u>	<u>(3,396,326)</u>	<u>987,314,452</u>
Less accumulated depreciation for:				
Capitalized interest	(9,298,145)	(974,809)	-	(10,272,954)
Buildings	(58,503,936)	(3,022,276)	-	(61,526,212)
Improvements other than buildings	(152,183,552)	(10,804,908)	-	(162,988,460)
Furnishings and equipment	(6,599,752)	(896,506)	203,300	(7,292,958)
Intangible assets	(183,063)	(77,518)	-	(260,581)
Water rights	(59,704,449)	(11,940,890)	-	(71,645,339)
Buses and fareboxes	(15,543,860)	(1,710,387)	2,959,421	(14,294,826)
Pipelines	(38,395,943)	(1,996,486)	-	(40,392,429)
Total accumulated depreciation	<u>(340,412,700)</u>	<u>(31,423,780)</u>	<u>3,162,721</u>	<u>(368,673,759)</u>
Total capital assets being depreciated, net	<u>625,393,696</u>	<u>(6,519,398)</u>	<u>(233,605)</u>	<u>618,640,693</u>
Business-type activities capital assets, net	<u>\$ 837,043,689</u>	<u>\$ 38,691,446</u>	<u>\$ (21,656,629)</u>	<u>\$ 854,078,506</u>

Business-type activities:	
Water	\$17,149,660
Sewer	8,772,784
Bus	2,826,031
Parking	440,097
Storm drain	569,787
Compost	170,181
Airport	694,568
Golf	51,424
Community center	749,248
Total depreciation expense – Business-type activities	<u>\$31,423,780</u>

(1) Additional information regarding the restated beginning balance for the Business-type activities is available under Note III-H.

C. LONG-TERM DEBT

Loans Payable

Governmental Activities:

No-interest loan payable to the Stanislaus County Economic Development Bank loan program, to pay costs incurred by the City for the Kiernan Business Park East Project; loan intended to be repaid within five years of project completion, provided funds are available from revenue stream. As of June 30, 2016, no payments have been made to the Stanislaus County Economic Development Bank as no funds are available. According to the agreement, the Project will be completed as of the date the City first issues building permits within the Kiernan Business Park East area. To date, no building permits have been issued. The authorized loan amount is up to \$500,000. Currently, there is a balance of \$498,362. Outstanding amount will increase as more eligible costs are incurred and remaining available loan amount is borrowed.

\$ 498,362

Total Principal Balance – Governmental-Type Activities

\$498,362

Business-Type Activities:

Water Enterprise Fund:

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

476,079

Sewer Enterprise Fund:

Loan payable to California State Water Resources Control Board, State Revolving Fund. The Project, commonly known as Tertiary Treatment Phase 1B Project generally consists of constructing a 12.6 million gallon per day tertiary treatment plant. Completion of construction date is established as June 1, 2016. Project completion date is established as December 1, 2016. The City agrees to repay all project funds at an interest rate of two and six-tenths percent (2.6%) per annum and an administrative service charge of zero percent (0%) per annum. The loan payable balance only reflects the current loan disbursements as of June 30, 2016. The total loan approved by the State Water Resources Control Board is \$125,161,776, plus \$5,328,665 in Accrued Construction Period Interest. The loan repayment term is 20 years (final payment due on December 1, 2035) and the annual principal and interest payments are \$8,114,485.

125,311,263

Total Principal Balances – Business-Type Activities

\$125,787,342

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

Year Ending June 30,	Governmental-Type Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2017	\$-	\$-	\$4,880,924	\$3,269,850
2018	498,362	-	5,007,807	3,142,967
2019	-	-	5,137,989	3,012,784
2020	-	-	5,271,557	2,879,218
2021	-	-	5,408,595	2,742,179
2022-2026	-	-	29,226,533	11,527,340
2027-2031	-	-	33,228,088	7,525,783
2032-2036	-	-	37,625,849	2,982,866
Total	<u>\$498,362</u>	<u>\$-</u>	<u>\$125,787,342</u>	<u>\$37,082,987</u>

Certificates of Participation:

Business-Type Activities:

Golf Enterprise Fund:

1993 Refunding Certificates of Participation issued to refund earlier certificates for the Creekside Golf Course capital project; serial certificates with annual maturities on November 1, in amounts from \$225,000 to \$235,000; interest rate of 5.5%; term certificates at 5.6% due November 1, 2016, and in the amount of \$3,585,000 at 5.0% due November 1, 2023, with annual payments ranging from \$250,000 to \$480,000 beginning in 2010. The certificates are repayable from any source of available funds of the City. However, the City has elected to repay the certificates from revenues of the Golf Enterprise Fund.

\$3,260,000

Water Enterprise Fund:

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.

While the 2008 COPS are in the Weekly Mode, they are subject to optional tender and mandatory tender for purchase. Funds for the payment of the purchase price of 2008 COPS that are tendered for purchase and that are not remarketed by the Remarketing Agent will be available (subject to certain conditions) under a Standby Certificate Purchase Agreement, dated May 1, 2008 (the "Liquidity Facility"). The Liquidity Facility does not support, secure or guaranty the payments of the principal of or interest with respect to the 2008 COPS. Subject to the terms and conditions of the Liquidity Facility, the Liquidity Facility Provider is to provide funds for the payment of the purchase price on each purchase of 2008 COPS up to \$47,625,000 in principal amount (the "Available Principal Commitment") and \$548,014 an amount equal to 35 days' interest on the Available Principal Commitment at an assumed rate of 12% and accrued interest on 2008 COPS subject to the Weekly Rate tendered or deemed tendered for purchase in the event that remarketing proceeds are not sufficient to pay the purchase price of such 2008 COPS. The Liquidity Facility will not provide for the payment of principal of and interest on any 2008 COPS other than with respect to the purchase price of the 2008 COPS tendered or deemed tendered and not remarketed. The initial Liquidity Facility expired on May 29, 2011 and was subsequently extended to July 14, 2017 by Bank of America.

Water Enterprise Fund:

The Liquidity Facility will not provide for the payment of principal of and interest on any 2008 COPS other than with respect to the purchase price of the 2008 COPS tendered or deemed tendered and not remarketed. Barring an event of default, any such draws on the Letter of Credit will be repaid under the terms of the Reimbursement Agreement. Under the terms of the Reimbursement Agreement, the City will repay the amount drawn in ten equal semi-annual installments of principal, plus monthly interest at the Bank Rate, over a 5 year period. However, the entire balance of the amount drawn shall become due immediately if the 2008 COPS are cancelled or prepaid, are remarketed, or converted to bear interest at a rate other than a daily rate or weekly rate; an alternate credit facility is secured; or an event of default occurs. The Credit Facility and Reimbursement Agreement initially expired May 29, 2011, but were subsequently extended to July 14, 2017 at a commitment fee of 0.875%.”

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, 2016.	45,180,000
	<hr/>
Total Principal Balances – Business-Type Activities	48,440,000
Less:	
Unamortized Bond Discount – 2008 Water Refunding Certificates of Participation	(109,947)
	<hr/>
Total Business-Type Activities – Certificates of Participation	<u>\$48,330,053</u>

The City has pledged future Water Enterprise Fund revenues, net of specified operating expenses, to repay the 2008 Certificates of Participation. The City has pledged future Golf Enterprise Fund revenues to pay the 1993 Certificates of Participation for the Golf Course Refinancing project. The Water and Golf Funds total principal and interest remaining to be paid on the certificates is \$58,514,700. The Water Fund’s principal, interest and other debt service cost paid on certificates for the current year, along with payments to Modesto Irrigation District under the Treatment and Delivery Agreement, totaled \$12,818,218, and net operating revenues of the Fund were \$19,857,757, which represented coverage of 155%. The Golf Fund’s principal and interest paid on certificates totaled \$493,417, and net operating revenues of the Fund were \$166,476, which represented coverage of .34%.

Annual debt service requirements to maturity for Certificates of Participation, for 2008 Water and 1993 Golf, are as follows:

Year Ending	Business-Type Activities	
	Principal	Interest
June 30,		
2017	\$705,000	\$832,369
2018	720,000	809,519
2019	775,000	785,331
2020	795,000	759,906
2021	805,000	733,731
2022-2026	9,475,000	3,129,600
2027-2031	14,110,000	2,094,112
2032-2036	17,185,000	911,344
2037	3,870,000	18,788
Total	<u>\$48,440,000</u>	<u>\$10,074,700</u>

Lease Revenue Bonds – Governmental Activities:

2008 Lease Revenue Refunding Bonds in the amount of \$65,170,000 issued to refund the balance of the 1998 Lease Revenue Bonds and the 2007 Lease Revenue Refunding and Capital Improvement Bonds; variable rate securities maturing September 1, 2033, with interest initially calculated weekly, fluctuating according to market conditions. The bonds may be converted to a daily, term, flexible, or fixed rate. The combination of the variable rate bonds and a floating swap rate creates a synthetic fixed-rate debt for the City. The synthetic fixed-rate was 3.61% at June 30, 2016.

Regularly scheduled payments of principal and interest are supported by an irrevocable, direct pay Letter of Credit (the “Credit Facility”) issued by Bank of America, N. A. The Trustee can draw funds under the Credit Facility to pay the purchase price of tendered bonds that are not remarketed. Barring an event of default, any such draws on the Letter of Credit will be paid under the terms of the Reimbursable Agreement. Under the terms of the Reimbursement Agreement, the City will repay the amount drawn in equal semi-annual installments of principal plus monthly interest, at the Bank Rate, over a 5 year amortization period. However, the entire balance of the amount drawn shall become due immediately if the tendered bonds are remarketed or defeased, or an alternate credit facility is secured, or an event of default occurs. The Credit Facility and Reimbursement Agreement initially expired August 1, 2011, but were subsequently extended to June 22, 2019 at a commitment fee of 0.60%.

\$56,305,000

Annual debt service requirements to maturity for Lease Revenue Bonds are as follows:

Year Ending June 30,	Governmental-Type Activities	
	Principal	Interest
2017	\$1,835,000	\$823,931
2018	1,695,000	797,981
2019	1,860,000	770,700
2020	2,000,000	741,225
2021	2,170,000	709,313
2022-2026	13,990,000	2,960,363
2027-2031	19,140,000	1,691,250
2032-2034	13,615,000	261,356
Total	<u>\$56,305,000</u>	<u>\$8,756,119</u>

Revenue Bonds – Business-Type Activities:

Sewer Enterprise Fund:

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. There was a Partial Refunding of 2006A, in the amount of \$1,800,000, with the Private Placement of the Wastewater Revenue Refunding Bond Series 2015.

14,735,000

Wastewater Revenue Refunding Bond Series 2015; interest payable on November 1 and May 1, commencing May 1, 2016. Principal is payable in annual installments on each November 1, commencing November 1, 2016 and ending November 1, 2024. The Series 2015 Bond shall bear interest at a rate equal to 2.42% per annum; Payment of principal and interest on the Series 2015 Bond is secured by a pledge of Net Revenues; The Series 2015 Bond constitutes “Parity Debt” under the Indenture.

On October 30, 2015, the City issued the Series 2015 Bond, as a Parity Debt to fully refund the 2005A and partially refund the 2006A Wastewater Revenue Bonds. The proceeds were used to: 1) Refund the Wastewater Revenue Refunding Bonds, Series 2005A, which refinanced the acquisition and construction of improvements to the City's wastewater enterprise, 2) refund a portion of the Wastewater Revenue Bonds, Series 2006A, and 3) pay cost of issuance in connection with the financing. The Series 2005A Bonds have been fully redeemed and the 2023 and 2024 maturities of Series 2006A Bonds were redeemed. As of June 30, 2016, \$19,460,000 of the Series 2005A and \$1,800,000 of the Series 2006A Wastewater Revenue Bonds were defeased. The City will realize significant savings from the refunding of the 2005A and 2006A Bonds, bearing an interest rate of 2.42%. Total gross savings will be approximately \$4.6 million with a net present value savings of \$2.2 million or 10.6%. Annual cash flow savings will approximate \$611,000 per year. Incorporated into this saving is Cost of Issuance totaling \$137,500.

The current refunding of the Series 2015 Bond resulted in the aggregate difference in debt service between the 2005A and 2006A Wastewater Revenue Bonds in the amount of \$146,461, due to Cost of Issuance. As a result of the refunding, there was a deferred loss in the amount of \$599,834. As of June 30, 2016, the City has amortized \$44,432 and has a balance of \$555,402.

	19,429,913
<hr/>	
Total Principal Balances – Business-Type Activities	34,164,913
Less: Unamortized Bond Discount – 2006 Bonds	(219,397)
<hr/>	
Total Business-Type Activities Revenue Bonds	<u>\$ 33,945,516</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. On October 30, 2015, the Wastewater Revenue Bonds, Series 2005A were Fully Refunded and the 2006A were Partially Refunded with the Private Placement of the Wastewater Revenue Refunding Bond Series 2015, in the amount of \$19,429,913. The Sewer Fund's total principal and interest remaining to be paid on the bonds is \$46,789,125. The Sewer Fund's principal and interest paid for the current year and total customer net revenues were \$4,570,286 and \$24,789,419, respectively.

Annual debt service requirements to maturity for Revenue Bonds are as follows:

Year Ending June 30,	Business-Type Activities	
	Principal	Interest
2017	\$2,350,027	\$1,067,527
2018	2,394,504	1,010,118
2019	2,459,096	951,389
2020	2,521,327	891,124
2021	2,577,644	829,428
2022-2026	8,087,315	3,368,029
2027-2031	5,475,000	2,734,984
2032-2036	6,765,000	1,621,588
2037-2039	1,535,000	150,025
Total	\$34,164,913	\$12,624,212

Notes Payable – Governmental Activities:

<p>On March 26, 2015, the City received notice of a public offering to refinance the existing note, with an outstanding balance of \$2,568,000. The City agreed to refinance the note, as it reduced the interest on the HUD Section 108 Loan, a net savings of approximately \$502,908. The public offering date was May 28, 2015. The terms of the new promissory note include semi-annual payments on August and February through the maturity date of August 1, 2024. The interest rates range from 0.28% through 2.85%. No new security provisions were required, as the Contract for Fixed Rate Note incorporates the previous additional security provisions.</p>	<p>\$2,568,000</p>
<p>Total Notes Payable \$2,568,000</p>	

Annual debt service requirements to maturity for this Notes Payable are as follows:

Year Ending June 30,	Governmental-Type Activities	
	Principal	Interest
2017	\$233,000	\$50,951
2018	245,000	48,845
2019	256,000	46,003
2020	269,000	41,773
2021	283,000	36,442
2022-2024	1,282,000	72,328
Total	\$2,568,000	\$296,342

Reimbursement Agreement - Business-Type Activities:

Water Enterprise Fund:

In 1992, the City entered into a treatment and delivery agreement with the Modesto Irrigation District (MID) and the Del Este Water Company (Del Este). The City assumed Del Este’s interest and obligations under the agreement when it acquired Del Este in July 1995. Under the agreement, MID built and operates a surface water treatment plant on the Tuolumne River for the purpose of providing a long-term source of domestic treated water for the City. MID is the sole owner of the project, and has all management and operations responsibility. In exchange for the treated water, the City has agreed to pay: all debt service on bonds issued by MID for the construction of the project; a raw water charge as set forth in the agreement; project operation, administration, and maintenance costs; and insurance on the project. Gross revenues of the City’s Water Fund are irrevocably pledged for the punctual payment of the MID debt service and all obligations of the City under any parity debt. Current parity debt of the City consists of the 2008 Water Revenue Certificates of Participation and the California Safe Drinking Water Act loan (as described previously). The treatment plant completed all tests and began commercial operations on May 15, 1995, at which time the City began paying for raw water and operations.

The City and MID have agreed upon an expansion of the initial Domestic Water Project facilities beyond the existing design capacity of 36 million gallons per day (“mgd”) to a design capacity of 72 mgd. In June 2007, the MID issued \$93,190,000 Domestic Water Project revenue bonds pursuant to the terms of the existing treatment and delivery agreement. On August 14, 2013, Modesto Irrigation District Financing Authority refunded the 1998 D Bonds, with 2013 G Bonds. As of June 30, 2016, the total outstanding on the MID bonds is: \$35,190,000 for the 2013 G Bonds and \$93,190,000 for the 2007 F Bonds, for a total of \$128,380,000. For the 2007F Bonds, the annual principal payments begin on September 1, 2023 and mature on September 1, 2037 in amounts from \$4,275,000 to \$11,870,000, with variable interest rates fluctuating according to market conditions. For the 2013 G Bonds, the annual principal payments began on September 1, 2014 and mature on September 1, 2022, in amounts from \$3,970,000 to

\$5,795,000, with variable interest rates fluctuating from 2% to 5%. The City has entered into interest-rate swap agreements to synthetically fix the rates that the City pays at 4.38% and 4.44%. Refer to the Interest Rate Swap agreement section below with more information about the debt schedule.

Annual debt service payments to maturity for the Reimbursement Agreement are as follows:

Year Ending June 30,	Business-Type Activities	
	Principal	Interest
2017	\$4,320,000	\$2,386,501
2018	4,535,000	2,165,127
2019	4,760,000	1,932,751
2020	5,005,000	1,688,627
2021	5,260,000	1,432,002
2022-2026	24,690,000	3,978,235
2027-2031	26,740,000	2,432,788
2032-2036	33,535,000	1,173,947
2037-2038	19,535,000	56,089
Total	<u>\$128,380,000</u>	<u>\$17,246,067</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 (COPs). The swap agreement allows the City to create a synthetic fixed-rate on the COPs, protecting it against increases in short-term interest rates.

During fiscal year 2008, the City entered into an interest swap agreement in connection with the 1998 and 2007 Lease Revenue Bonds. The swap agreement allows the City to create a synthetic fixed rate on the Lease Revenue Bonds, protecting it against increases in short-term interest rates. The terms, fair value and credit risk of these swap agreements are disclosed below.

Additionally, in May 2007, the City approved the issuance of revenue bonds by the Modesto Irrigation District Financing Authority related to the financing of Phase 2 of the Domestic Water Treatment and Delivery System of the Modesto Irrigation District. The MID Water Refunding Bonds were issued with an interest swap feature with Bear Sterns, which was subsequently acquired by JP Morgan. Under the agreement between MID and JP Morgan, the City must post collateral when our negative position exceeds the Pledgor’s Threshold of \$20 million. This negative position represents the present value of declining interest rates to date from issuance of bonds. In June 2010, the City Council authorized the City to post collateral up to \$18 million, which would support a negative position of \$38 million. In July 2010, the City Council increased the City’s authorization to post collateral from \$18 million to up to \$20 million. At the end of fiscal year 2016, the City had posted a cumulative total of \$20 million of collateral posting, which is reported in the Water Enterprise Fund cash with fiscal agent.

Terms – The terms, including the counterparty credit rating of the outstanding swaps, as of June 30, 2016 are shown in the table below. The swap agreements contain scheduled reductions to the outstanding notional amounts that are expected to follow scheduled principal reductions in the associated debt issues.

<u>Related Debt Issue</u>	<u>Current Notional Amount</u>	<u>Effective Date</u>	<u>Counterparty</u>	<u>Credit Rating (S&P)</u>	<u>Fixed Rate Paid</u>	<u>Variable Rate Received</u>	<u>Termination Date</u>
2008 Water Refunding Revenue COPs	\$45,180,000	5/30/2008	Bank of America	A	3.47%	63.7% of USD-LIBOR, plus .154%	10/1/2036
2008 Lease Revenue Refunding and Capital Improvement	56,305,000	8/28/2008	Bank of America	A	3.61%	63.7% of USD-LIBOR, plus .154%	9/1/2033
2007 MID Domestic Water Revenue Bonds Series 2007F	23,370,000	6/26/2007	JP Morgan Chase Bank	A+	4.38%	67% of 3 Month LIBOR + 0.58%	9/1/2027
2007 MID Domestic Water Revenue Bonds Series 2007F	69,820,000	6/26/2007	JP Morgan Chase Bank	A+	4.44%	67% of 3 Month LIBOR + 0.63%	9/1/2037

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

GASB Statement 53 (GASB 53) addresses the recognition measurement and disclosure of information regarding derivative instruments entered into by state and local governments. All derivatives are to be reported on the statement of net position at fair value and all hedges must be tested for effectiveness to qualify for hedge accounting. The tests are outlined in GASB 53. Depending on the test results, the changes in fair value are either reported on the statement of net position as a deferral or in the statement of activities as investment revenue or loss.

Fair value – Fair value takes into consideration the prevailing interest rate environment, the specific terms and conditions of each transaction and any upfront payments that may have been received. Fair value was estimated using the zero-coupon discounting method, which calculates the future payments required by the swap, assuming that the current forward rates implied by the LIBOR swap yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement on the swaps.

As of June 30, 2016, the fair value of the swaps was in favor of the counterparty as shown in the following table:

<u>Bond Issue</u>	<u>Fair Value</u>
2008 Water Refunding Rev. Certificates of Participation	(\$12,630,581)
2008 Lease Revenue Bonds	(\$13,411,625)
2007 MID Domestic Water Revenue Bonds	(\$32,592,092)

Credit risk – As of June 30, 2016, 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, 2016, debt service requirements of the 2008 Water Refunding Revenue Certificates of Participation, the 2008 Lease Revenue Refunding Bonds, and the 2007 MID Domestic Water Revenue 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. The bond interest payments and net swap payments will vary as interest rates vary.

Year Ending	Variable-Rate Bonds		Net Swap	Total
	Principal	Interest	Payments and Remarketing Fees	
June 30,				
2017	\$2,200,000	\$2,236,801	\$6,555,678	\$10,992,479
2018	2,060,000	2,205,377	6,759,463	11,024,840
2019	2,255,000	2,172,282	6,681,353	11,108,635
2020	2,395,000	2,136,883	6,600,490	11,132,373
2021	2,565,000	2,099,046	6,508,252	11,172,298
2022-2026	35,470,000	9,390,323	30,002,350	74,862,673
2027-2031	59,990,000	6,218,150	21,006,036	87,214,186
2032-2036	64,335,000	2,346,647	9,654,991	76,336,638
2037	23,405,000	74,877	970,931	24,450,808
Total	<u>\$194,675,000</u>	<u>\$28,880,386</u>	<u>\$94,739,544</u>	<u>\$318,294,930</u>

Changes in Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2016, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Loans Payable	\$498,362	\$-	\$-	\$498,362	\$-
Lease Revenue Bonds:	57,970,000	-	1,665,000	56,305,000	1,835,000
Notes Payable	2,789,000	-	221,000	2,568,000	233,000
Obligations under Capital Leases	1,070,472	330,947	459,362	942,057	467,093
Compensated Absences	6,429,778	4,754,128	4,437,177	6,746,729	2,650,580
Claims liability	22,530,631	10,798,772	9,732,872	23,596,531	5,033,143
Total governmental activities	<u>\$91,288,243</u>	<u>\$15,883,847</u>	<u>\$16,515,411</u>	<u>\$90,656,679</u>	<u>\$10,218,816</u>

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-type activities:					
Loans Payable	\$117,690,257	\$8,251,298	\$154,213	\$125,787,342	\$4,880,924
Compensated Absences	2,516,303	870,700	1,343,782	2,043,221	802,718
Certificates of participation:	49,105,000	-	665,000	48,440,000	705,000
Unamortized Discounts	(115,444)	-	(5,497)	(109,947)	-
Reimbursement Agreement:					
MID Bonds	132,490,000	-	4,110,000	128,380,000	4,320,000
Unamortized Premium	4,565,810	-	570,726	3,995,084	-
Sewer Bonds:	38,265,000	19,429,913	23,530,000	34,164,913	2,350,027
Unamortized Premium	1,022,405	-	1,022,405	-	-
Unamortized Discount	(229,844)	-	(10,447)	(219,397)	-
Developer advances	1,331,561	-	93,112	1,238,449	93,112
Business-type activities	\$346,641,048	\$28,551,911	\$31,473,294	\$343,719,665	\$13,151,781

Principal balances are reported on the government-wide and enterprise funds statements of net position, net of unamortized issuance discounts and premiums. Deferred losses on refundings are reported as deferred outflows of resources. Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for the internal service funds are included as part of the above totals for governmental activities. At year-end, internal service funds obligations were zero under notes payable, and zero in capital leases. 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. The predominant contributors for these internal service funds include the General Fund, Water Fund, and Sewer Fund.

D. OBLIGATIONS UNDER CAPITAL LEASES

Governmental Activities

The City entered into a capital lease agreement with Pierce Manufacturing Inc. for the purchase of two Pierce Velocity 1500 GPM Pumpers, valued at \$1,070,472, less \$48,551 accumulated depreciation. The City also entered into a capital lease agreement with Pierce Manufacturing Inc. for the purchase of one 4x4 Freightliner Wildland Pumper valued at \$330,947, less \$24,866 accumulated depreciation.

The following is a schedule of the future minimum lease payments, as of June 30, 2016:

Year Ending June 30,	
2017	\$ 482,977
2018	482,977
Total minimum lease payments	965,954
Less: amount representing interest	(23,897)
Present value of minimum lease payments	<u>\$942,057</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, 2016, the total

outstanding balance due under the agreements is \$1,238,449. The total annual payments fluctuate depending on the ending date of each agreement. At June 30, 2016, the amount of \$93,112 due during fiscal year 2017 has been reported as "current portion-developer advances" on the Water Enterprise Fund statement of net position. The remaining \$1,145,337 of outstanding principal has been reported under noncurrent liabilities, as "developer advances."

F. INTERFUND BALANCES

Interfund balances as of June 30, 2016 consist of the following:

Due to General Fund from:

Other governmental funds	\$4,935,597
Other enterprise funds	<u>342,380</u>

Total Due to General Fund 5,277,977

Total Due to/Due From: \$ 5,277,977

Advances from General Fund to:

Other governmental funds	\$1,143,157
Other enterprise funds	<u>1,324,704</u>

Advances from General Fund 2,467,861

Advances from Water Fund to:

General Fund	150,000
Other governmental funds	<u>21,660</u>

Advances from Water Fund 171,660

Advances from Sewer Fund to other enterprise funds 923,400

Advance from internal service funds to General Fund 781,738

Total Advances from/Advances to \$4,344,659

All balances reported as "due to/due from" are short-term loans to cover temporary fund cash shortages as of June 30, 2016, and were repaid early in fiscal year 2017. Balances reported as "advance to/advance from" were for capital projects expenditures and are either in the process of being repaid or have scheduled repayments in future years.

G. Fund Balance

Detailed classifications of the City's Fund Balances, as of June 30, 2016, are provided below:

	General Fund	Housing and Community Development	Other Governmental	Total Governmental Funds
Nonspendable				
Advances to other funds	\$ 2,467,861	\$ -	\$ -	\$ 2,467,861
Prepaid Items	179,831	1,546	84,696	266,073
Total Nonspendable Fund Balance	2,647,692	1,546	84,696	2,733,934
Restricted				
Capital Facility Fees	-	-	26,591,390	26,591,390
Cash with Fiscal Agent	-	-	5,556,724	5,556,724
Community Facilities District	-	-	17,013,152	17,013,152
Grants and Donations	-	1,563,231	1,087,908	2,651,139
Notes Receivable	-	23,968,456	2,281,179	26,249,635
Deposits	2,092,126	-	-	2,092,126
Traffic Fines	-	-	2,501,534	2,501,534
Total Restricted Fund Balance	2,092,126	25,531,687	55,031,887	82,655,700
Committed				
General Fund Set-Aside	3,000,000	-	-	3,000,000
Total Committed Fund Balance	3,000,000	-	-	3,000,000
Assigned				
Encumbrances - Vendor Contracts	2,167,175	-	-	2,167,175
FY 16-17 Budget Carryover	4,336,594	-	-	4,336,594
Downtown Improvement District	-	-	57,661	57,661
Successor Redevelopment Housing Agency	-	-	443,437	443,437
Gas Tax Funding	-	-	8,555,524	8,555,524
Special Capital Outlay Projects	-	-	18,875	18,875
Strategic Planning and Development	-	-	987,561	987,561
Total Assigned Fund Balance	6,503,769	-	10,063,058	16,566,827
Unassigned - General Fund	12,822,134	-	-	12,822,134
Unassigned - Special Revenue Funds	-	-	(191,497)	(191,497)
Unassigned - Debt Service Funds	-	-	(40,337)	(40,337)
Unassigned - Capital Project Funds	-	-	(493,007)	(493,007)
Total Unassigned Fund Balance	12,822,134	-	(724,841)	12,097,293
Total Fund Balance	\$ 27,065,721	\$ 25,533,233	\$ 64,454,800	\$ 117,053,754

H. DEFICIT FUND EQUITY

The Capital Grants fund has a fund balance deficit of \$490,674, which will be recovered through future revenues and local matches covered through the General Fund or other City funds.

The Compost Fund has a net position deficit of \$1,772,155, due to the pollution remediation liability reported for the Carpenter Landfill during this fiscal year. The remediation funding has been incorporated into the utility fees related to garbage rates to cover the anticipated cost.

The Golf Enterprise Fund has a net position deficit of \$1,570,687, due to a change in accounting policy several years ago, as well as revenues not keeping up with expenses. The City originally classified the 1993 Refunding Certificates of Participation as debt of the governmental funds, with construction proceeds transferred to the Golf Enterprise Fund when the certificates were issued. However, since the Golf Fund is paying, and is expected to continue paying, the entire debt service cost, it was decided that the balance of the debt should be recorded in the Golf Fund. The Golf Fund also has struggled due to competition and lagging revenues. Depreciation expense further contributes to the deficit. The City is looking at various options to resolve this funding deficit.

The Employee Benefits Management Internal Service Fund has a net position deficit of \$55,107,015. It exists partially because the total compensated absences and other post-employment benefit balance previously classified as debt of the governmental funds was included in this fund at its inception several years ago, and has never been fully funded. The City is continuing to charge a higher benefit rate to help reduce this deficit. In addition, one-time revenues having to do with employee benefits are deposited to this fund.

The Insurance Fund has a net position deficit of \$5,943,767, 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 based on this methodology being factored into the Internal Service Fund allocation that is distributed to City departments.

I. INTERFUND TRANSFERS

The following is a schedule of interfund transfers.

Transfers (in) to:	Transfers from (out):								Total
	General Fund	Housing & Community Development	Other Governmental	Water	Sewer	Bus	Other Enterprise Funds	Internal Service	
General Fund			\$ 141,380	\$ 65,000	\$ 68,640		\$ 276,972		\$ 551,992
Housing & Community Dev	\$ 41,457								41,457
Other Governmental	4,422,233	\$ 64,406	1,512,405	954			24,618	\$ 342,360	6,366,976
Water	264,500		821						265,321
Sewer	114,000						17,719		131,719
Bus	1,500								1,500
Other Enterprise	1,071,610		1,558,841	700,000		\$ 66,016			3,396,467
Internal Service	307,000		1,072,193	27,481	285,448	913,136	781,846	25,970	3,413,074
Grand Total	\$ 6,222,300	\$ 64,406	\$ 4,285,640	\$ 793,435	\$ 354,088	\$979,152	\$ 1,101,155	\$ 368,330	\$14,168,506

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

J. SUCCESSOR AGENCY TRUST FOR ASSETS OF FORMER REDEVELOPMENT AGENCY

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

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

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

The Bill directs the State Controller to review the propriety of any transfers of assets between redevelopment agencies and other public bodies that occurred after January 1, 2011. If the public body that received such transfers is

not contractually committed to a third party for the expenditure or encumbrance of those assets, the State Controller is required to order the available assets to be transferred to the public body designated as the successor agency by the Bill.

Management believes, in consultation with legal counsel, that the obligations of the former RDA due to the City are valid enforceable obligations payable by the Successor Agency trust under the requirements of the Bill.

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

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

As of June 30, 2016, one of the obligations under the Successor Agency trust is associated with the 10th Street Place Project:

Reimbursement agreement with the City totaling \$19,566,862. The original loan is from the City's 1998 Lease Revenue Bonds and the 2007 Lease Revenue Bonds that pertain to the Successor Agency. On August 28, 2008, the City refinanced the entire outstanding balance of the City's 1998 Lease Revenue Bonds and the 2007 Lease Revenue Bonds with variable rate 2008 Lease Revenue Bonds. The new balance has been provided as of June 30, 2016 that pertains to the Successor Agency. Additional information related to the 2008 Lease Revenue bonds is provided in Note II-C under the Lease Revenue Bonds – Governmental Activities section.

\$16,328,450

Annual debt service requirements to maturity are as follows:

Year Ending June 30,	Principal	Interest	Total
2017	\$532,150	\$839,935	\$1,372,085
2018	491,550	812,745	1,304,295
2019	539,400	787,147	1,326,547
2020	580,000	760,238	1,340,238
2021	629,300	731,626	1,360,926
2022-2026	4,057,100	3,123,625	7,180,725
2027-2031	5,550,600	1,948,446	7,499,046
2032-2035	3,948,350	487,064	4,435,414
Total	<u>\$16,328,450</u>	<u>\$9,490,826</u>	<u>\$25,819,276</u>

The reserves for the Reimbursement Agreement are recorded in the Public Financing Authority debt service fund for the City.

No-interest loan payable to the Stanislaus County Economic Development Bank loan program, for the purpose of funding the Kansas Avenue Business Park Project's Master Plan costs. The Agency has no obligation to begin repayment until the Project is completed and revenues begin; final payment is due in 2016 if not repaid sooner.

Future debt service requirements to maturity for loans payable, as of June 30, 2016, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	<u>\$ 405,000</u>	<u>\$ 0</u>	<u>\$ 405,000</u>
Total	<u>\$ 405,000</u>	<u>\$ 0</u>	<u>\$ 405,000</u>

As of June 30, 2016, the Successor Agency was obligated for the following long-term debt in conjunction with the Community Center Project:

1993 Refunding Certificates of Participation; serial certificates with annual maturities on November 1 in amounts ranging from \$800,000 to \$1,040,000; interest rates from 5.3% to 5.6%; and in the amount of \$12,235,000 at 5.0% maturing November 1, 2023, with annual payment of \$1,090,000 to \$1,610,000 beginning in 2011. \$10,895,000

Future debt service requirements to maturity for the Certificates of Participation, as of June 30, 2016, are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$1,135,000	\$516,375	\$1,651,375
2018	1,195,000	458,125	1,653,125
2019	1,260,000	396,750	1,656,750
2020	1,320,000	332,250	1,652,250
2021	1,385,000	264,625	1,649,625
2022-2024	4,600,000	352,750	4,952,750
Total	<u>\$10,895,000</u>	<u>\$2,320,875</u>	<u>\$13,215,875</u>

The former RDA also has a few outstanding obligations related to reimbursements for parking expenses with Westland Development Company and payments to the Tenth Street Joint Power Agency for maintenance for common areas in the Tenth Street Place. These amounts are all reported in the Successor Agency in the Fiduciary financial statements under the Private-Purpose Trust Fund.

K. NOTES AND LOANS RECEIVABLE

The notes receivable in the Housing and Community Development and Other Governmental Funds of \$54,679,074 net of \$201,943 allowance for doubtful accounts, consist of loans made for low-income housing rehabilitation, first-time homebuyers, property improvement and small business origination. The loans are collateralized by deeds of trust on the improved properties or business assets, and are generally bearing annual interest at 3 or 5 percent. Some direct loans may be subject to forgiveness, some are interest free and require no repayment of principal until the loans reach maturity, and some are subject to residual receipt payment agreements. Loan terms range from 5 to 55 years.

L. APPROVED LOANS PAYABLE

The approved loans payable in the Housing and Community Development Special Revenue Fund of \$1,998,464 consist of amounts being held for rehabilitation of properties using funds provided by federal grants. This liability is expected to be liquidated in less than a year.

The approved loans payable in the Governmental Activities related to the Successor Redevelopment Housing Agency of \$575,000 consists of amounts being held for affordable housing for the Palms Valley and Village One Town Center. The liability is expected to be liquidated within a long-term period.

M. POLLUTION REMEDIATION LIABILITY

The City reported a liability in the Water and Sewer Enterprise funds, which represents the recoveries the City has collected less any remediation and 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. As of June 30, 2016, the City reported a pollution remediation liability from the Water and Sewer funds in the amount of \$8,998,408 and \$10,210,999, respectively.

In addition, in the Compost Fund, a liability was reported related to the Carpenter Road Landfill which is a 39-acre City owned landfill, located on both the east and west sides of Carpenter Road between Kenneth and Robertson Roads and the Tuolumne River, which was in operation from 1956 to 1968. This landfill precedes Subtitle-D and had no liner or leachate collection or removal system. In 1993, six methane gas monitoring wells were installed. In December 2005, there was a spike in the methane gas level at the landfill's Northern boundary. The State required the City to determine the cause and develop a mitigation and monitoring plan to ensure the landfill remained in compliance with the state statutes. In November of 2010, a Corrective Action Plan was proposed for the landfill involving hydrogen releasing compound injection. In October 2014, a revised Corrective Action Plan and post closure maintenance plan was submitted to the Central Valley Regional Water Quality Control Board (CVRWQCB). In March 2015, a Cleanup and Abatement Order was issued to the City of Modesto for the Carpenter Road Landfill by the California Regional Water Quality Control Board to complete the clean closure correction action plan by January 15, 2017. As of June 30, 2016, the City reported a pollution remediation liability from Compost Fund in the amount of \$2,600,000.

N. DEFERRED INFLOWS/OUTFLOWS OF RESOURCES

Pursuant to GASB Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position", the City recognized deferred outflows and inflows of resources in the entitywide and governmental fund statements. These items are an acquisition of net position by the City that is applicable to a future reporting period. On the governmental fund statements, the Housing and Community Development Fund reported deferred inflow of resources in the amount of \$28,429,439 for unavailable resources related to note and grant receivables not meeting the period of availability. Previous financial reporting standards do not include guidance for reporting these in the financial statements, which are distinct from assets and liabilities. The items relate to outflows and inflows for net pension liability (Note III-G), swap hedging (Note II-C) and loss on refunding.

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 four excess layers, of \$10,000,000 each and one additional layer of \$5,000,000 above \$45,000,000; for additional total coverage of \$50,000,000 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, 2016 is

\$23,596,531 consisting of \$18,914,425 workers' compensation, \$4,466,977 general liability, \$170,706 dental, and \$44,423 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 3% (general liability) and 3% (workers' compensation). The undiscounted workers' compensation and liability claims totaled \$22,498,536 and \$4,737,467, respectively. The actuarial liability for workers' compensation and general liability were based on December 2015 actuarial reports.

The current portion of the total claims liability is estimated to be \$5,033,143 and the balance of \$18,563,388 is reported as a long-term liability on the statement of net position. Changes in the Insurance Fund claims liability during the fiscal years ended June 30, 2014 through June 30, 2016 were:

	<u>Claims Liability July 1</u>	<u>Current-Year Claims and Changes in Estimates</u>	<u>Current-Year Claim Payments</u>	<u>Claims Liability June 30</u>
2014-15	\$22,284,679	\$5,914,018	\$(5,668,066)	\$22,530,631
2015-16	22,530,631	9,732,872	(8,666,972)	23,596,531

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, 2016, the balance of these districts' outstanding debt was as follows:

<u>Issue</u>	<u>Outstanding Amount</u>
Village One #2 Community Facilities District	\$29,000,000
Fairview Village Community Facilities District	4,245,000

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, 2016, there were two series of conduit revenue bonds outstanding. The aggregate principal amount payable for these multiple-family housing bond issues, issued between 1994 and 2002, was \$7,975,000.

D. COMMITMENTS AND CONTINGENCIES

The City is involved in litigation relating to tort claims, workers' compensation claims and other claims such as contract actions and inverse condemnation actions for which the City is self-insured, as disclosed in Note III-A. The City is a defendant in various matters of litigation.

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 \$12,397,729 for the City's governmental funds as of June 30, 2016 for contracts awarded but not completed and other outstanding purchase requisitions and orders. This amount consists of \$2,167,175 in the General Fund, \$264,782 in the Housing and Community Development, and \$9,965,772 in other governmental funds. Commitments of the governmental funds are recorded in one of the classifications of fund balance based on the various funding restrictions on the balance sheet. As of June 30, 2016, there are major contracts for water (Gateway Pacific Contractors - \$9.9 million and Knife River Construction - \$2.5 million), sewer system improvements (Carollo Engineers - \$4.7 million and Monterey Mechanical - \$2.6 million), bus and vehicle purchases (vendors varies - \$4.9 million), and Pelandale interchange reconstruction (Teichert - \$32.6 million and Mendoza and Associates - \$4.2 million).

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 \$108,462 for the fiscal year ended June 30, 2016. As of June 30, 2016 the City's investment in this joint venture was \$789,981, and is included in governmental activities on the statement of net position. Financial statements for TRRP are prepared by the City of Modesto Finance Department.

Stanislaus Drug Enforcement Agency

Stanislaus County (County) and the cities of Modesto, Oakdale, Ceres, Patterson, Turlock, Riverbank, Hughson, Waterford and Newman are the participants in the Stanislaus Drug Enforcement Agency (SDEA). The purpose of the SDEA is to maintain a specially trained police unit to assist each of the participating agencies in the enforcement of drug control laws, and to study, plan, and set priorities for effective enforcement of such laws throughout Stanislaus County. The governing board consists of the sheriff of Stanislaus County and the chief of police of each participating city. All participants contribute to the funding of the SDEA budgeted expenditures, based on population and assessed property value. The City's cash contribution to the SDEA for the fiscal year ended June 30, 2016 was \$167,454. The City's investment in this joint venture was estimated to be \$285,975 as of June 30, 2016, based on the most recent available information. This amount is reported in governmental activities in the statement of net position. Financial statements of the SDEA are prepared by the City of Modesto Finance Department.

City-County Capital Improvements and Financing Agency

The City and Stanislaus County formed the City-County Capital Improvements and Financing Agency (Agency) to provide for the design, construction, ownership, operation, management and financing of a City-County administration center located in Modesto's downtown redevelopment area. The governing body is a commission consisting of 2 members of the City Council, 2 members of the County Board of Supervisors, the County Chief Executive Officer, and the City Manager. The commission is responsible for developing an annual budget and determining the annual contribution rates, subject to approval by both the City and the County. The Stanislaus County Auditor Controller was the fiscal administrator during the construction phase, which was final at the end of June 2003. Starting in July 1, 2010 the County Auditor Controller became the fiscal administrator. For the fiscal year ended June 30, 2016, the City's payments to the Agency were \$798,017 for operations and capital reserve. The City's equity interest in the Agency is \$9,130,070, equal to its capital asset contributions to date net of depreciation, and is reported in governmental activities as investments in joint ventures in the statement of net position. Financial statements of the Agency are prepared by the Stanislaus County Auditor Controller office.

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, 2016, the City has no equity interest. Stanislaus County Treasurer's office prepares the Agency's financial statements.

Consolidated Emergency Dispatch Agency

The Modesto/Stanslaus Consolidated Emergency Dispatch Agency (the MSCEDA) was created on September 1, 1999, pursuant to a joint exercise of powers agreement between the City of Modesto and the County of Stanislaus. The MSCEDA is administered by a seven-member commission consisting of one member of the City Council, one member of the County Board of Supervisors, the County Chief Executive Officer, the City Manager, two members from the Dispatch Advisory Board, and one member from the City of Ceres' City Council or one member selected by the City Council of another participating City. The purpose of the MSCEDA is to consolidate the public safety communications system. The responsibilities of the agency include approval of annual budget, claims, liabilities, and the use of MSCEDA property as collateral. Each participant will contribute sufficient funds to pay for all costs and expenses associated with providing Emergency Dispatch Services. Upon termination of the agreement, assets will be distributed equally to the City and County, unless otherwise approved. The financial statements may be obtained by writing to the Modesto/Stanslaus Consolidated Emergency Dispatch, Office Manager, 3705 Oakdale Road, Modesto, California 95357.

North County Corridor Transportation Expressway Authority

On April 1, 2008, the City Council approved the establishment of a Joint Powers Authority between the County and the cities of Modesto, Oakdale and Riverbank to create the North County Corridor Transportation Expressway Authority (NCCTEA). The purpose of the Authority is to prepare, identify, and adopt a precise alignment, and prepare and certify environmental documents for a route to improve east/west traffic circulation in the County.

The intent of the NCCTEA is to provide a high capacity high speed east-west roadway to accommodate anticipated traffic growth, alleviate traffic on parallel roads, and to accommodate multi-modal travel. Under the terms of the agreement, the County will incur 40% of the costs of the project while each of the participating cities will be contributing 20%. The preliminary project development costs will be funded by State Transportation Program and Public Facility Fees. The NCCTEA Board of Directors will be comprised of two directors appointed by the County, and one director from each participating city. The board acts autonomously from the respective member agencies. The County of Stanislaus Public Works Director is designated as the NCCTEA's manager. Upon completion of the agreement, all assets will be distributed to the respective parties of the agreement as determined by the Board of Directors of the Authority. Financial statements may be obtained by writing to the County of Stanislaus, Public Works Department, 1716 Morgan Road, Modesto, CA 95358.

Stanislaus Animal Services Agency

The Stanislaus Animal Services Agency (SASA) was created October 27, 2009, pursuant to a joint powers agreement among the cities of Ceres, Hughson, Modesto, Patterson, Waterford, and the County of Stanislaus. SASA is administered by a six-member board comprised of the City Manager of each partner agency, and the Chief Executive Officer of the County. The purpose of SASA is to operate a regional agency providing animal services to their respective communities. The SASA Executive Director is responsible for the annual budget which must be approved by the SASA Board of Directors. Each partner agency will contribute sufficient funds to pay for all costs approved in the budget to provide animal services. Upon termination of the agreement, assets will be distributed in accordance with the joint powers agreement. The financial statements may be obtained by writing to the Stanislaus Animal Services Agency, Executive Director, 3647 Cornucopia Way, Modesto, CA 95358.

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.

Stanislaus Regional Water Authority

The City participates in the Stanislaus Regional Water Authority, which was established between the City of Ceres, Modesto and Turlock on September 27, 2011. The purpose of the authority is direct the future of the proposed Regional Surface Water Supply Project (RSWSP). The authority would purchase water from the Turlock Irrigation District, would treat such water, and make treated water available “at cost” to the participating agencies. As of November 30, 2015, the City of Modesto withdrew from this Authority and no longer participates as a partner in this Authority. As of the withdrawn date of November 30, 2015, the City’s payments to the Agency were \$7,259. The City has no equity interest.

North Valley Regional Recycled Water Program (NVRWP)

The City participates in the NVRWP, which was established by the City of Modesto and Del Puerto Water District in November 2014. The purpose of this agreement is to develop, construct, operate and maintain water supply facilities and service. Through this agreement all partner agencies will cooperate and collaborate to use their best efforts regarding the submission of grants, loans and other funding resources to cover future cost related to the design and construction on future projects. At the end of the fiscal year June 30, 2016, the City has no equity interest.

F. POST-RETIREMENT HEALTH CARE DEFINED BENEFIT PLAN

Plan Description

In addition to the pension benefits described below in Note III-G, the City participates in an agent multiple-employer plan which provides health care benefits to employees who retire from the City based on certain criteria related to their hired and retirement date, under contractual agreements with all employee groups. All full-time employees hired before January 1, 2011, except firefighters who receive a cash payout, are eligible to set aside a percentage of accumulated sick leaves upon retirement to be used for payment of future health care premiums to a choice of insurance plans (sick leave conversion). The City has no obligation to pay the health insurance allowance for retirees with no accumulated sick leave. All employees hired on or after January 1, 2011 will not be eligible to participate in the sick leave conversion. As of June 30, 2016, there were 339 retirees receiving these health care benefits or a buy-out contribution to a retirement health savings account. If an employee elects to receive a buy-out contribution, they will be removed from the City’s medical plan and will no longer be allowed to return to the City’s medical plan.

The OPEB Plan provisions and benefits in effect at June 30, 2016, are summarized as follows:

	<u>Police (including Management)</u>	<u>General Employees</u>	<u>Management</u>	<u>Fire</u>	<u>Fire Management</u>
Benefit Types Provided	Medical, dental and vision	Medical, dental and vision	Medical, dental and vision	Medical, dental and vision	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*	\$621.00 for single; \$1,100.00 with dependents	\$621.00 for single; \$1,100.00 with dependents	\$621.00 for single; \$1,100.00 with dependents	\$122.00	\$621.00 for single; \$1,100.00 with dependents
City Health Allowance per month**	N/A	\$621.00 for single; \$858 with spouse; \$1,214 with dependents	N/A	N/A	N/A
City Health Allowance per month***	N/A	N/A	N/A	N/A	N/A

*Employees hired before January 1, 2011 and retired on or after October 23, 2012 through December 31, 2014 have had their sick leave conversion frozen with the health allowance.

**Employees hired before January 1, 2011 and retire after January 31, 2015 through December 31, 2015.

***Employees hired before January 1, 2011 and retire after December 31, 2015 (after January 31, 2015 for General Employees, after July 1, 2014 for Modesto Police Officers Association, and after August 26, 2014 for Modesto Police Management Association) will be subject to the City's new retirement program. The new retirement program will provide a City contribution to a Retirement Health Savings (RHS) account based on allowance. More information about the new retirement program is available under the City of Modesto Human Resources Department website under Compensation and Labor Agreements.

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

Funding Policy and Actuarial Assumptions

The City's funding policy for the Plan is to fund benefits on a pay-as-you-go basis. The annual required contribution was determined as part of the January 1, 2015 actuarial valuation using the entry age normal actuarial cost method. This is a projected benefit cost method, which takes into account those benefits that are expected to be earned in the future as well as those already accrued. The actuarial assumptions included (a) 4% investment rate of return, (b) 7% graded down to ultimate 5% rate over 8 years Medical cost trend rate; 5% Dental/Vision cost trend rate (c) Projected salary increases are based on California Public Employee Retirement System (CalPERS) experience study released in 2014 for miscellaneous, police and fire (refer to chart below).

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contribution of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The actuarial methods and assumptions used include techniques that are designed to reduce the short-term volatility in actuarial accrued liabilities and actuarial value of asset. 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.

Projections of benefits for financial purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employer and the plan members to that point. 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.

The remaining amortization period at June 30, 2016 was 20 years.

Projected Salary Increases
(CalPERS experience study released in 2014)

Service	Miscellaneous	Police	Fire
0	11.60%	14.70%	19.80%
3	8.10%	7.80%	9.40%
5	6.00%	5.80%	6.40%
10	4.30%	4.30%	4.60%
15	4.00%	4.30%	4.20%
20	3.80%	4.30%	3.90%
25	3.60%	4.30%	3.70%
30	3.40%	4.30%	3.60%

The City has set aside \$9,401,469 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 annual required contribution and the pay-as-you-go contributions.

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, so long as it is calculated in a manner consistent with GASB Statement 27, which employed methodologies consistent with those now required under GASB 45.

The Plan annual required contributions and actual contributions for the fiscal year ended June 30, 2016 and the prior two years is set forth below:

Fiscal Year	Annual Required Contribution (ARC)	Interest on Net OPEB Obligations	ARC Adjustments	Annual OPEB Cost	Actual Contribution	Net OPEB Obligation	Percentage of Annual OPEB Cost Contributed
6/30/2014	\$ 8,564,803	\$ 2,470,678	\$ (4,544,921)	\$ 6,490,560	\$ 4,818,434	\$ 59,569,740	74.24%
6/30/2015	3,189,054	2,382,790	(4,383,246)	1,188,598	3,806,476	56,951,862	320.25%
6/30/2016	3,189,054	2,382,790	(4,383,246)	1,188,598	1,949,129	56,191,331	163.99%

The Schedule of Funding Progress is based on the most recent actuarial valuation as of January 1, 2015.

Actuarial Valuation Date	Actuarial Value of Assets (A)	Entry Age Actuarial Accrued Liability (B)	(Underfunded) Actuarial Accrued Liability (A-B)	Funded Ratio (A/B)	Covered Payroll (C)	(Underfunded) Actuarial Liability as Percentage of Covered Payroll [(A-B)/C]
01/01/2015	\$0	\$31,691,066	(\$31,691,066)	0.00%	\$46,576,754	-68.04%

The schedule of funding progress, presented as RSI following the notes to the basic financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability of benefits.

G. PENSION PLANS

I. General Information about the Pension Plans

Plan Descriptions

All City of Modesto qualified employees are eligible to participate in the City of Modesto separate Safety (police and fire) and Miscellaneous (all other) Plans, agent multi-employer defined benefit pension plans administered by the California Public Employees' Retirement System (CalPERS), which acts as a common investment and administrative agent for its participating member employers. Benefit provisions under the Plans are established by the State statute and City resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website. This report is available online at www.calpers.ca.gov.

The California Legislature passed and the Governor signed the "Public Employees' Pension Reform Act of 2013" (PEPRA) on September 12, 2012. PEPRA contained a number of provisions intended to reduce future pension obligations. PEPRA primarily affects new pension plan members who are enrolled for the first time after December 2012. Benefit provisions and other requirements are established by State statute.

Benefits Provided

The benefits for the Plans are based on members' years of service, age, final compensation, and benefit formula. Benefits are provided for disability, death, and survivors of eligible members or beneficiaries. Members become fully vested in their retirement benefits earned to date after five years of credited service.

The Plans' provisions and benefits in effect at June 30, 2016 are summarized as follows:

Miscellaneous Plan:

	Prior to January 17, 2012	January 17, 2012 to December 31, 2012	On or after January 1, 2013
Hire date			
Benefit formula	2% @ 55	2% @ 60	2% @ 62
Benefit vesting schedule	5 years service	5 years service	5 years service
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	50 to 67	50 to 67	52 to 67
Monthly benefits, as a % of eligible compensation	1.426 to 2.418%	1.092 to 2.418%	1.0 to 2.5%

Safety Plan:

	Prior to September 11, 2012	September 11, 2012 through December 31, 2012	On or after January 1, 2013
Hire date			
Benefit formula	3% @ 50	3% @ 55	2.7% @ 57
Benefit vesting schedule	5 years service	5 years service	5 years service
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	50 to 55	50 to 55	50 to 57
Monthly benefits, as a % of eligible compensation	3.0%	2.4 to 3.0%	2.0 to 2.7%

Contributions

Section 20814(c) of the California Public Employees Retirement Law (PERL) requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through the CalPERS' annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The City is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

For the measurement period ended June 30, 2015 (the measurement date) for the Plans, the average active employee contribution rate was 6.933% of annual pay for Miscellaneous and 9.101% for Safety and the employer's contribution rate is 13.539% of annual payroll for Miscellaneous and 34.304% for Safety. The employee and employer contributions made in for fiscal year June 30, 2016 was \$10.0 million for the Miscellaneous plan and \$13.9 million for the Safety plan. Employer contribution rates may change if plan contracts are amended.

II. Net Pension Liability

The City's net pension liability for each Plan is measured as the total pension liability, less the pension plan's fiduciary net position. The net pension liability of each of the Plans is measured as of June 30, 2015, using an annual actuarial valuation as of June 30, 2014 rolled forward to June 30, 2015 using standard update procedures.

A summary of principal assumptions and methods used to determine the net pension liability is shown below:

Actuarial Cost Method	Miscellaneous Plan	Safety Plan
Actuarial Assumptions:	Entry-Age Normal	Entry-Age Normal
Discount Rate	7.65%	7.65%
Inflation	2.75%	2.75%
Salary Increases	Varies by Entry Age and Service	Varies by Entry Age and Service
Investment Rate of Return	7.5% ⁽¹⁾	7.5% ⁽¹⁾
Mortality Rate Table ⁽²⁾	CalPERS Membership Data	CalPERS Membership Data
Post Retirement Benefit Increase	Up to 2.75%	Up to 2.75%

⁽¹⁾ Net of Pension Plan Investment and Administrative Expenses; includes inflation

⁽²⁾ The mortality table used was developed based on CalPERS specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 2014 experience study report.

All other actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study report can be obtained at CalPERS website under Forms and Publications.

Discount Rate

The discount rate used to measure the total pension liability was 7.65 percent. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.65 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long-term expected discount rate of 7.65 percent is applied to all plans in the Public Employees Retirement Fund. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained at CalPERS' website under the GASB 68 section.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one-quarter of one percent.

The table below reflects long-term expected real rate of return by asset class as of the target allocation for the June 30, 2015 measurement date. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These geometric rates of return are net of administrative expenses.

Asset Class	New Strategic Allocation	Real Return Years 1 – 10 ⁽¹⁾	Real Return Years 11+ ⁽²⁾
Global Equity	51.0%	5.25%	5.71%
Global Fixed Income	19.0	0.99	2.43
Inflation Sensitive	6.0	0.45	3.36
Private Equity	10.0	6.83	6.95
Real Estate	10.0	4.50	5.13
Infrastructure and Forestland	2.0	4.50	5.09
Liquidity	2.0	(0.55)	(1.05)

(1) An expected inflation of 2.5% used for this period
(2) An expected inflation of 3.0% used for this period

III. Changes in the Net Pension Liability

The changes in the Net Pension Liability for each Plan follows:

Miscellaneous Plan:

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability/(Asset) (c) = (a) - (b)
Balance at June 30, 2014 ⁽¹⁾	\$ 394,909,831	\$ 320,571,374	\$ 74,338,457
Changes Recognized for the Measurement Period:			
Service Cost	5,768,082	-	5,768,082
Interest on the Total Pension Liability	28,873,755	-	28,873,755
Changes of Assumptions	(6,709,358)	-	(6,709,358)
Differences between Expected and Actual Experience	(3,177,191)	-	(3,177,191)
Plan to Plan Resource Movement	-	(188)	188
Contributions - Employer	-	5,632,179	(5,632,179)
Contributions - Employees	-	3,061,157	(3,061,157)
Net Investment Income	-	7,093,159	(7,093,159)
Benefit Payments, including Refunds of Employee	(20,945,229)	(20,945,229)	-
Administrative Expense	-	(355,544)	355,544
Net Change during 2014-15	3,810,059	(5,514,466)	9,324,525
Balance at June 30, 2015 ⁽¹⁾	\$ 398,719,890	\$ 315,056,908	\$ 83,662,982

Safety Plan:

	Increase (Decrease)		
	Total Pension	Plan Fiduciary Net	Net Pension
Balance at June 30, 2014 ⁽¹⁾	\$ 498,449,004	\$ 372,472,672	\$ 125,976,332
Changes Recognized for the Measurement Period:			
Service Cost	8,633,865	-	8,633,865
Interest on the Total Pension Liability	36,721,112	-	36,721,112
Changes of Assumptions	(9,188,394)	-	(9,188,394)
Differences between Expected and Actual Experience	(849,707)	-	(849,707)
Plan to Plan Resource Movement	-	211	(211)
Contributions - Employer	-	10,210,101	(10,210,101)
Contributions - Employees	-	2,800,626	(2,800,626)
Net Investment Income	-	8,215,387	(8,215,387)
Benefit Payments, including Refunds of Employee	(25,426,619)	(25,426,619)	-
Administrative Expense	-	(414,089)	414,089
Net Change during 2014-15	9,890,257	(4,614,383)	14,504,640
Balance at June 30, 2015 ⁽¹⁾	\$ 508,339,261	\$ 367,858,289	\$ 140,480,972

(1) The fiduciary net position includes receivables for employee service buybacks, deficiency reserves, fiduciary self-insurance and OPEB expense. This may differ from the plan assets reported in the funding actuarial valuation report.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the Plan as of the measurement date, calculated using the discount rate of 7.65 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.65 percent) or 1 percentage-point higher (8.65 percent) than the current rate:

Miscellaneous Plan:

	Discount Rate - 1% (6.65%)	Current Discount Rate (7.65%)	Discount Rate + 1% (8.65%)
Plan's Net Pension Liability/ (Asset)	\$ 133,899,156	\$ 83,662,982	\$ 41,898,828

Safety Plan:

	Discount Rate - 1% (6.65%)	Current Discount Rate (7.65%)	Discount Rate + 1% (8.65%)
Plan's Net Pension Liability/ (Asset)	\$ 210,106,259	\$ 140,480,972	\$ 83,429,793

IV. Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions

As of the start of the measurement period (July 1, 2014), the net pension liability was \$74,338,457 for the Miscellaneous Plan and \$125,976,332 for the Safety Plan.

For the measurement period ended June 30, 2015 (the measurement date), the City incurred a pension expense of \$3,006,639 for the Miscellaneous Plan and \$10,198,508 for the Safety Plan.

As of June 30, 2016, the City has deferred outflows and deferred inflows of resources related to pensions as follows:

Miscellaneous Plan:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Change of Assumptions	\$ -	\$ (4,845,647)
Differences between Expected and Actual Experiences	-	(2,294,638)
Net Difference between Projected and Actual Earnings on Pension Plan Investments	-	(3,222,232)
Contributions subsequent to the measurement date	6,919,036	-
Total	\$ 6,919,036	\$ (10,362,517)

Safety Plan:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Change of Assumptions	\$ -	\$ (7,051,558)
Differences between Expected and Actual Experiences	-	(652,101)
Net Difference between Projected and Actual Earnings on Pension Plan Investments	-	(3,623,913)
Contributions subsequent to the measurement date	12,158,068	-
Total	\$ 12,158,068	\$ (11,327,572)

The amounts above are net of outflows and inflows recognized in the 2014-2015 measurement period expense. The amounts above reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2017.

Other amounts reported as deferred inflows of resources related to pensions will be recognized in future pension expense as follows:

Fiscal Year Ended June 30	Miscellaneous Plan	Safety Plan
2017	(4,946,358)	(4,855,658)
2018	(4,946,358)	(4,855,658)
2019	(3,847,853)	(4,855,659)
2020	3,378,052	3,239,403
Total	\$ (10,362,517)	\$ (11,327,572)

H. PRIOR YEAR ADJUSTMENTS

Governmental Activities

A prior year adjustment was reported in the Housing and Community Development Fund to increase the fund balance in the amount of \$1,183,700 to account for loan payable disbursements not reported in the prior fiscal year. In other governmental funds, a grant accrual was reported incorrectly related to project expenditures not covered through the grant in the Capital Facility Fees fund which generated a reduction in fund balance by \$190,305. The total amount for the prior year adjustment to increase fund balance for all governmental funds is \$993,395.

Additionally, there were some corrections to various governmental capital assets that were identified as part of the annual inventory review, which generated an increase in net position in the amount of \$256,569. The total amount reported for the Governmental Activities is a decrease in net position in the amount of \$1,249,964.

Business-type Activities

For the Water Fund, capitalized interest was calculated for the 2008 Water Refunding Revenue bonds incorrectly. The change in net position included a reduction for the Water Fund in the amount of \$4,086,842. The total amount reported for the business-type activities is a decrease in net position in the amount of \$4,086,842.

I. DEFICIENCY OF EXPENDITURES OVER APPROPRIATIONS

For the fiscal year ended June 30, 2016, expenditures exceeded appropriations as follows:

General Fund

<u>Expenditures</u>	<u>Amount</u>
Public Works Administration	\$109,113
Interest Expenditures	8,307

Other Governmental Funds

<u>Expenditures</u>	<u>Amount</u>
Operating Grants – Parks and Recreation	\$34,016

J. SUBSEQUENT EVENTS

On August 3, 2016, the City Council approved amending the budget for the North Valley Regional Recycled Water Program Project which will be funded by a new financing agreement in the amount of \$56.9 million with the State Water Resources Control Board to fund the design and construction activities for this project. Part of this agreement is related to a \$15 million grant and the remaining amount will be reported as a loan that will be repaid once construction is completed.

REQUIRED SUPPLEMENTARY
INFORMATION
DIVIDER

REQUIRED SUPPLEMENTARY
INFORMATION
DIVIDER

REQUIRED SUPPLEMENTARY INFORMATION

City of Modesto
Schedule of Changes in the Net Pension Liability and Related Ratios
For the Year Ended June 30th

Miscellaneous Plan

Measurement Period	2014-2015	2013-2014
TOTAL PENSION LIABILITY		
Service Cost	\$ 5,768,082	\$ 6,400,912
Interest on Total Pension Liability	28,873,755	28,037,915
Changes of Benefit Terms	-	-
Changes of Assumptions	(6,709,358)	-
Difference Between Expected and Actual Experience	(3,177,191)	-
Benefit Payments, Including Refunds of Employee Contributions	(20,945,229)	(20,334,821)
Net Change in Total Pension Liability	3,810,059	14,104,006
Total Pension Liability – Beginning	394,909,831	380,805,825
Total Pension Liability – Ending (a)	<u>\$ 398,719,890</u>	<u>\$ 394,909,831</u>
 PLAN FIDUCIARY NET POSITION		
Contributions – Employer	\$ 5,632,179	\$ 4,654,055
Contributions – Employee	3,061,157	2,853,492
Net Investment Income	7,093,159	48,702,803
Other Miscellaneous Income	-	-
Benefit Payments, Including Refunds of Employee Contributions	(20,945,229)	(20,334,821)
Plan to Plan Resource Movement	(188)	-
Administrative Expense	(355,544)	-
Net Change in Fiduciary Net Position	(5,514,466)	35,875,529
Plan Fiduciary Net Position – Beginning	320,571,374	284,695,845
Plan Fiduciary Net Position – Ending (b)	<u>\$ 315,056,908</u>	<u>\$ 320,571,374</u>
Plan Net Pension Liability – Ending (a) - (b)	<u>\$ 83,662,982</u>	<u>\$ 74,338,457</u>
 Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	79.02%	81.18%
 Covered-Employee Payroll (1)	\$ 41,562,776	\$ 44,125,963
 Plan Net Pension Liability as a Percentage of Covered-Employee Payroll	201.29%	168.47%

(1) Covered-Employee payroll presented above is based on pensionable earnings provided by the employer. However, GASB 68 defines covered-employee payroll as the total payroll of employees that are provided pensions through the pension plan.

Benefit Changes: The figures above do not include any liability impact that may have resulted from plan changes, which occurred after June 30, 2014 as they have minimal cost impact. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit (a.k.a. Golden Handshakes).

Changes of Assumptions: The discount rate was changed from 7.5 percent (net of administrative expenses) to 7.65 percent.

City of Modesto
Schedule of Changes in the Net Pension Liability and Related Ratios
For the Year Ended June 30th

Safety Plan

Measurement Period	2014-2015	2013-2014
TOTAL PENSION LIABILITY		
Service Cost	\$ 8,633,865	\$ 8,970,868
Interest on Total Pension Liability	36,721,112	35,310,732
Changes of Benefit Terms	-	-
Changes of Assumptions	(9,188,394)	-
Difference Between Expected and Actual Experience	(849,707)	-
Benefit Payments, Including Refunds of Employee Contributions	(25,426,619)	(24,313,823)
Net Change in Total Pension Liability	<u>9,890,257</u>	<u>19,967,777</u>
Total Pension Liability – Beginning	498,449,004	478,481,227
Total Pension Liability – Ending (a)	<u>\$ 508,339,261</u>	<u>\$ 498,449,004</u>
PLAN FIDUCIARY NET POSITION		
Contributions – Employer	\$ 10,210,101	\$ 8,963,542
Contributions – Employee	2,800,626	2,939,117
Net Investment Income	8,215,387	56,385,743
Other Miscellaneous Income	-	-
Benefit Payments, Including Refunds of Employee Contributions	(25,426,619)	(24,313,823)
Plan to Plan Resource Movement	211	-
Administrative Expense	(414,089)	-
Net Change in Fiduciary Net Position	<u>(4,614,383)</u>	<u>43,974,579</u>
Plan Fiduciary Net Position – Beginning	372,472,672	328,498,093
Plan Fiduciary Net Position – Ending (b)	<u>\$ 367,858,289</u>	<u>\$ 372,472,672</u>
Plan Net Pension Liability – Ending (a) - (b)	<u>\$ 140,480,972</u>	<u>\$ 125,976,332</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	72.36%	74.73%
Covered-Employee Payroll (1)	\$ 31,202,983	\$ 31,090,551
Plan Net Pension Liability as a Percentage of Covered-Employee Payroll	450.22%	405.19%

(1) Covered-Employee payroll presented above is based on pensionable earnings provided by the employer. However, GASB 68 defines covered-employee payroll as the total payroll of employees that are provided pensions through the pension plan.

Benefit Changes: The figures above do not include any liability impact that may have resulted from plan changes, which occurred after June 30, 2014 as they have minimal cost impact. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit (a.k.a. Golden Handshakes).

Changes of Assumptions: The discount rate was changed from 7.5 percent (net of administrative expenses) to 7.65 percent.

City of Modesto
Schedule of Plan Contributions (1)

Miscellaneous Plan

Fiscal Year	2015-2016	2014-2015	2013-2014
Actuarially Determined Contribution (2)	\$ 6,919,036	\$ 5,632,179	\$ 4,654,055
Contributions in Relation to the Actuarially Determined Contribution (2)	(6,919,036)	(5,632,179)	(4,654,055)
Contribution Deficiency (Excess)	-	-	-
Covered-Employee Payroll (3)(4)	\$ 46,586,921	\$ 41,562,776	\$ 44,125,963
Contributions as a Percentage of Covered-Employee Payroll (3)	14.85%	13.55%	10.55%

Safety Plan

Fiscal Year	2015-2016	2014-2015	2013-2014
Actuarially Determined Contribution (2)	\$ 12,158,068	\$ 10,210,101	\$ 8,963,542
Contributions in Relation to the Actuarially Determined Contribution (2)	(12,158,068)	(10,210,101)	(8,963,542)
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -
Covered-Employee Payroll (3)(4)	\$ 32,027,013	\$ 31,202,983	\$ 31,090,551
Contributions as a Percentage of Covered-Employee Payroll (3)	37.96%	32.72%	28.83%

(1) Historical information is required only for fiscal year for which GASB 68 is applicable. As prescribed in GASB 68, paragraph 46, the information presented in the Schedule of Plan Contributions should also be determined as of the employer's most recent fiscal year-end. The employer is responsible for determining this information as prescribed by the standard as this data is not available to CalPERS.

(2) Employers are assumed to make contributions equal to the actuarially determined contributions. However, some employers may choose to make additional contributions towards their unfunded liability. Employer contributions for such plans exceed the actuarially determined contributions.

(3) Covered-Employee Payroll presented above is based on pensionable earnings provided by the employer. However, GASB 68 defines covered-employee payroll as the total payroll of employees that are provided pensions through the pension plan.

(4) Payroll from prior year was \$30,294,158 for the Safety plan and \$40,352,210 for the Miscellaneous plan was assumed to increase by 3.00% payroll growth assumption.

Notes to schedule:

The actuarial methods and assumptions used to set the actuarially determined contributions for Fiscal Year 2014-15 were as follows for June 30, 2012 actuarial valuations.

Actuarial Cost Method	Entry Age Normal
Amortization Method/Period	For details, see June 30, 2012 Funding Valuation Report.
Asset Valuation Method	Actuarial Value of Assets
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Payroll Growth	3.00%
Investment Rate of Return	7.50% Net of Pension Plan Investment and Administrative Expenses; includes Inflation.
Retirement Age	The probabilities of Retirement are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007.
Mortality	The probabilities of mortality are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007. Pre-retirement and Post-retirement mortality rates include 5 years of projected mortality improvement using Scale AA published by the Society of Actuaries.

SCHEDULE OF FUNDING PROGRESS FOR OPEB

Actuarial Valuation Date**	Actuarial Value of Assets (A)	Entry Age Actuarial Accrued Liability (B)	(Underfunded) Actuarial Accrued Liability (A-B)	Funded Ratio (A/B)	Covered Payroll (C)	(Underfunded) Actuarial Liability as Percentage of Covered Payroll [(A-B)/C]
6/30/2010	\$0	\$104,399,231	(\$104,399,231)	0.00%	\$81,027,934	(128.84%)
1/1/2013	0	78,245,964	(78,245,964)	0.00%	77,058,743	(101.54%)
1/1/2015	0	31,691,066	(31,691,066)	0.00%	46,576,754 ⁽¹⁾	(68.04%)

(1) Payroll decreased because it is limited to active participants with a liability.

CITY OF MODESTO
SCHEDULE OF REVENUES - BUDGET (GAAP BASIS) AND ACTUAL - GENERAL FUND
FISCAL YEAR ENDED JUNE 30, 2016

	Budget		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
<u>TAXES</u>				
Utility users tax	\$ 20,056,157	\$ 20,056,157	\$ 19,564,921	\$ (491,236)
Property tax	13,679,210	13,987,241	14,552,304	565,063
Transient occupancy tax	1,868,500	2,043,500	2,523,087	479,587
Franchise tax	4,206,884	4,071,884	5,058,542	986,658
Business license tax	11,256,000	11,256,000	11,944,291	688,291
Total taxes	51,066,751	51,414,782	53,643,145	2,228,363
<u>LICENSES AND PERMITS</u>	80,901	80,901	100,924	20,023
<u>INTERGOVERNMENTAL</u>				
Sales tax	26,408,416	26,408,416	24,601,474	(1,806,942)
In-lieu sales tax	3,638,916	3,638,916	5,277,341	1,638,425
Motor vehicle license fees	14,226,984	14,311,387	14,548,427	237,040
State	620,000	623,654	856,996	233,342
County	265,263	325,528	211,677	(113,851)
Federal	-	-	2,812	2,812
Other intergovernmental	1,344,500	1,583,206	2,606,482	1,023,276
Total intergovernmental	46,504,079	46,891,107	48,105,209	1,214,102
<u>CHARGES FOR SERVICES</u>				
General government	2,001,034	2,041,034	3,027,225	986,191
Community development	2,881,532	2,631,532	2,413,118	(218,414)
Public works	2,188,767	2,188,767	1,081,480	(1,107,287)
Parks and recreation	821,731	821,731	457,806	(363,925)
Public safety	1,936,794	2,208,404	2,694,944	486,540
Indirect cost recovery	3,458,225	3,458,225	3,458,221	(4)
Total charges for services	13,288,083	13,349,693	13,132,794	(216,899)
<u>INTEREST AND RENT</u>	335,360	600,360	707,767	107,407
<u>NET INCREASE IN FAIR VALUE OF INVESTMENTS</u>				
	-	-	30,505	30,505
<u>FINES AND FORFEITS</u>	752,610	872,610	452,235	(420,375)
<u>MISCELLANEOUS</u>				
Mandated cost recovery	109,900	109,900	526,701	416,801
Other	570,292	633,837	1,205,972	572,135
Total miscellaneous	680,192	743,737	1,732,673	988,936
Total revenues	\$ 112,707,976	\$ 113,953,190	\$ 117,905,252	\$ 3,952,062

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
FISCAL YEAR ENDED JUNE 30, 2016

	Budget		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
General government:				
City council	\$ 409,215	\$ 413,216	\$ 407,593	\$ 5,623
Human resources	1,455,292	1,470,096	1,394,079	76,017
City manager	1,954,077	1,892,258	1,849,865	42,393
City attorney	2,273,726	2,202,312	2,110,222	92,090
City clerk/auditor	972,323	1,185,974	1,175,359	10,615
Finance	5,109,214	5,295,457	4,707,880	587,577
Other	616,000	661,780	518,868	142,912
Total general government	<u>12,789,847</u>	<u>13,121,093</u>	<u>12,163,866</u>	<u>957,227</u>
Community development:	<u>6,374,174</u>	<u>6,800,951</u>	<u>6,041,659</u>	<u>759,292</u>
Public works:				
Administration	455,618	458,819	567,932	(109,113)
Operations Service and maintenance	4,927,601	4,894,820	4,690,854	203,966
Facilities	948,740	1,481,702	1,015,312	466,390
Total public works	<u>6,331,959</u>	<u>6,835,341</u>	<u>6,274,098</u>	<u>561,243</u>
Parks and recreation:				
Administration	783,004	872,151	734,169	137,982
Culture	517,848	466,255	450,202	16,053
Recreation division	2,077,209	2,144,213	1,934,887	209,326
Total parks and recreation	<u>3,378,061</u>	<u>3,482,619</u>	<u>3,119,258</u>	<u>363,361</u>
Public safety:				
Fire protection	26,714,925	28,020,964	27,850,954	170,010
Police protection	57,330,017	57,860,187	54,490,220	3,369,967
Total public safety	<u>84,044,942</u>	<u>85,881,151</u>	<u>82,341,174</u>	<u>3,539,977</u>
Debt service:				
Principal retirement	466,770	466,770	459,362	7,408
Interest expenditures	15,308	15,308	23,615	(8,307)
Total debt service	<u>482,078</u>	<u>482,078</u>	<u>482,977</u>	<u>(899)</u>
Total expenditures	<u>\$ 113,401,061</u>	<u>\$ 116,603,233</u>	<u>\$ 110,423,032</u>	<u>\$ 6,180,201</u>

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

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

CITY OF MODESTO
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL - HOUSING
AND COMMUNITY DEVELOPMENT SPECIAL REVENUE FUND
FISCAL YEAR ENDED JUNE 30, 2016

	Budget		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Intergovernmental - federal grants	\$ 5,585,022	\$ 5,372,852	\$ 4,980,896	\$ (391,956)
Charges for services	98,749	105,395	-	(105,395)
Interest and rent - interest	-	-	217	217
Net increase in fair value of investments	-	-	36	36
Miscellaneous	-	-	2,000	2,000
Total revenues	<u>5,683,771</u>	<u>5,478,247</u>	<u>4,983,149</u>	<u>(495,098)</u>
EXPENDITURES				
Community development	1,948,617	5,016,291	2,329,657	2,686,634
Debt service:				
Principal retirement	221,000	221,000	221,000	-
Interest	155,085	155,085	115,657	39,428
Total expenditures	<u>2,324,702</u>	<u>5,392,376</u>	<u>2,666,314</u>	<u>2,726,062</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>3,359,069</u>	<u>85,870</u>	<u>2,316,835</u>	<u>2,230,965</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	-	41,456	41,457	1
Transfers out	-	-	(64,406)	(64,406)
Sales of assets	-	-	3,220	3,220
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>41,456</u>	<u>(19,729)</u>	<u>(61,185)</u>
CHANGES IN FUND BALANCE	3,359,069	127,326	2,297,106	2,169,780
FUND BALANCE, JULY 1	22,052,427	22,052,427	22,052,427	-
PRIOR PERIOD ADJUSTMENT	-	-	1,183,700	1,183,700
FUND BALANCE, JUNE 30	<u>\$ 25,411,496</u>	<u>\$ 22,179,753</u>	<u>\$ 25,533,233</u>	<u>\$ 3,353,480</u>

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

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

CITY OF MODESTO
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FISCAL YEAR ENDED JUNE 30, 2016

BUDGETARY INFORMATION - The City follows these procedures annually in establishing the budgetary data reflected in the budgetary comparison schedules for operating, non-capital multi-year, and capital budgets:

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 for operating, non-capital multi-year and capital projects.
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 all proposed budgets to obtain comments from interested persons.
3. Prior to July 1, the budget is legally adopted through passage of an ordinance. This budget is reported as the Original Budget in the budgetary comparison schedules.
4. During the fiscal year, changes to the Adopted Budget may be authorized, as follows:
 - a. Authority to approve any adjustment in the amount of \$25,000 or less is delegated to the Director of Finance.
 - b. Authority to approve any adjustment in an amount between \$25,000 and \$50,000 is delegated to the City Manager.
 - c. Authority for any budget adjustment more than \$50,000 is delegated to the parties described below:
 - a. Items requiring City Council Action – appropriation of undesignated reserves; appropriation of new revenues; transfers of appropriations between funds (inter-fund transfers); creation of inter-fund loans; creation of, or increase in, any multi-year appropriation.
 - b. Items delegated to the City Manager – transfer appropriations between departments within a fund; changing any capital equipment appropriation; appropriation of reserves for litigation on a case-by-case basis; appropriation of developer payments not previously budgeted.
 - c. Items delegated to the Director of Finance – appropriation of grant interest; revise the allocation of Internal Service Fund charges between departments provided that the total allocated amount does not increase; changing any capital improvement budget line item appropriation; make technical budget corrections to implement the intent of Council approved actions and resolutions.
 - d. Items delegated to Department Directors – transfer appropriations within a department, within a single fund.
5. Formal budgetary accounting is employed as a management tool for all funds. Annual budgets are legally adopted and amended as required for the general, special revenue, enterprise and internal service funds. Project length budgets are adopted for the capital projects funds. All budgets are prepared on a basis consistent with generally accepted accounting principles (GAAP), and budgetary comparisons for the general and major special revenue funds are presented on this basis in the required supplementary information. A debt service payment schedule for the debt service funds is also approved as part of the budget process.
6. Budget amounts are reflected after all authorized amendments and revisions. This budget is reported as the Final Budget in the budgetary comparison schedules.

CITY OF MODESTO
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (CONT)
FISCAL YEAR ENDED JUNE 30, 2016

7. For each legally adopted operating budget, expenditures may not exceed budgeted appropriations at the appropriation unit level. The legal appropriation basis is at the level called "department". A "department" for legal appropriation purposes may be a single organization (e.g., City Attorney), or an entire department having multiple organizations within the same fund (e.g., Operations and Maintenance), or an entire fund (e.g., Downtown Improvement District). All departments and funds complete the year within their legally authorized expenditures except the Local Transportation Fund due to a budget error. Encumbrance accounting, under which purchase orders, contracts and other commitments are recorded to reserve the applicable appropriations, is employed in the governmental funds.

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

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**COMBINING AND INDIVIDUAL FUND
STATEMENTS AND SCHEDULES**

Nonmajor Governmental Funds

Nonmajor Special Revenue Funds

Special Revenue Funds include funds which are restricted as to use by the Federal or State governments, and special purpose funds established by authority of the City Council. Nonmajor Special Revenue Funds include:

OPERATING GRANTS FUND – To account for a variety of governmental fund operating grants, including law enforcement grants.

LOCAL TRANSPORTATION FUND – To account for revenues and expenditures of Local Transportation Fund allocations for streets, urban trails, and non-motorized facilities. Allocations for the City bus system are reported directly in the Bus Enterprise Fund.

TRAFFIC SAFETY FUND – To account for receipts and expenditures of traffic safety fines.

DOWNTOWN IMPROVEMENT DISTRICT FUND – To account for the fiscal activities of Business Improvement Area A of the City of Modesto.

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

SPECIAL GAS TAX STREET IMPROVEMENT FUND – To account for state-collected, locally-shared gas tax monies. This fund may be used for all street and traffic purposes including construction, purchase of rights-of-way, and maintenance.

Nonmajor Capital Projects Funds

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

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

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

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

CAPITAL GRANTS – To account for receipts and disbursements of a variety of Governmental Fund capital grants.

COMMUNITY FACILITIES DISTRICTS FUND – To account for the construction of public improvements deemed to benefit properties against which special taxes are levied.

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

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

Nonmajor Debt Service Fund

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 Fund includes:

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

CITY OF MODESTO
COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2016

	Special Revenue					
	Operating Grants	Local Transportation	Traffic Safety	Downtown Improvement District	Strategic Planning and Development	Special Gas Tax Street Improvement
ASSETS						
Cash and cash equivalents	\$ 685,771	\$ 1,103,486	\$ 109,697	\$ 61,229	\$ 1,065,452	\$ 8,706,250
Receivables:						
Accounts, net	41,598	-	-	-	-	45,467
Interest	1,983	2,718	-	131	2,170	20,278
Taxes	17,382	-	-	28,760	-	283,457
Due from governments	844,662	110,277	-	-	-	72,690
Prepaid expenditures	57,682	-	-	-	-	1,033
Restricted assets:						
Cash and cash equivalents	-	220,892	2,501,534	-	-	-
Cash and cash equivalents with fiscal agent	689,923	-	-	-	-	-
Notes receivable, net	70,179	-	-	-	-	-
Total assets	\$ 2,409,180	\$ 1,437,373	\$ 2,611,231	\$ 90,120	\$ 1,067,622	\$ 9,129,175
LIABILITIES AND AND FUND BALANCES						
Liabilities:						
Accounts payable	\$ 90,862	-	\$ 106,652	\$ 32,459	\$ 80,061	\$ 388,155
Accrued salaries and benefits	87,755	-	3,045	-	-	95,455
Interest payable	-	-	-	-	-	-
Due to other funds	-	-	-	-	-	-
Unearned revenue	1,582,616	1,216,481	-	-	-	89,008
Refundable deposits	-	-	-	-	-	-
Advances from other funds	21,660	-	-	-	-	-
Total liabilities	1,782,893	1,216,481	109,697	32,459	80,061	572,618
Fund balances:						
Nonspendable	57,682	-	-	-	-	1,033
Restricted	760,102	220,892	2,501,534	-	-	-
Assigned	-	-	-	57,661	987,561	8,555,524
Unassigned	(191,497)	-	-	-	-	-
Total fund balances	626,287	220,892	2,501,534	57,661	987,561	8,556,557
Total liabilities and fund balances	\$ 2,409,180	\$ 1,437,373	\$ 2,611,231	\$ 90,120	\$ 1,067,622	\$ 9,129,175

Capital Projects						
Special Fund for Capital Outlays	Parks	Securities for Future Improvements	Capital Grants	Community Facilities Districts	Successor Redevelopment Housing Agency	Capital Facility Fees
\$ 216,249	\$ 1,646	\$ -	\$ 42,067	\$ 83,923	\$ -	\$ 204,989
-	-	-	-	-	-	2,258
-	1,763	-	-	36,729	-	58,746
-	-	-	-	14,506	-	-
-	-	-	5,309,019	7,954	1,192,004	738,966
-	-	-	2,333	-	-	-
-	800,619	66,397	-	17,013,152	-	26,591,390
-	-	-	-	-	-	-
-	-	-	-	-	2,211,000	-
<u>\$ 216,249</u>	<u>\$ 804,028</u>	<u>\$ 66,397</u>	<u>\$ 5,353,419</u>	<u>\$ 17,156,264</u>	<u>\$ 3,403,004</u>	<u>\$ 27,596,349</u>
\$ 195,724	\$ 2,784	\$ -	\$ 1,458,954	\$ 120,368	\$ -	\$ 7,529
-	-	-	-	10,288	-	-
1,650	625	-	-	-	1,690	-
-	-	-	4,334,447	-	601,150	-
-	-	-	50,692	-	-	-
-	-	-	-	12,456	-	-
-	-	-	-	-	145,727	997,430
<u>197,374</u>	<u>3,409</u>	<u>-</u>	<u>5,844,093</u>	<u>143,112</u>	<u>748,567</u>	<u>1,004,959</u>
-	-	-	2,333	-	-	-
-	800,619	66,397	-	17,013,152	2,211,000	26,591,390
18,875	-	-	-	-	443,437	-
-	-	-	(493,007)	-	-	-
<u>18,875</u>	<u>800,619</u>	<u>66,397</u>	<u>(490,674)</u>	<u>17,013,152</u>	<u>2,654,437</u>	<u>26,591,390</u>
<u>\$ 216,249</u>	<u>\$ 804,028</u>	<u>\$ 66,397</u>	<u>\$ 5,353,419</u>	<u>\$ 17,156,264</u>	<u>\$ 3,403,004</u>	<u>\$ 27,596,349</u>

CITY OF MODESTO
COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2016

	Debt Service		Total
	Public		
	Financing		
	Authority		
<u>ASSETS</u>			
Cash and cash equivalents	\$ 179,597	\$	12,460,356
Receivables:			
Accounts, net	-		89,323
Interest	-		124,518
Taxes	-		344,105
Due from governments	-		8,275,572
Prepaid expenditures	23,648		84,696
Restricted assets:			
Cash and cash equivalents	-		47,193,984
Cash and cash equivalents with fiscal agent	4,866,801		5,556,724
Notes receivable, net	-		2,281,179
Total assets	\$ 5,070,046	\$	76,410,457
<u>LIABILITIES AND FUND</u>			
<u>BALANCES</u>			
Liabilities:			
Accounts payable	\$ 219,934	\$	2,703,482
Accrued salaries and benefits	-		196,543
Interest payable	-		3,965
Due to other funds	-		4,935,597
Unearned revenue	-		2,938,797
Refundable deposits	-		12,456
Advances from other funds	-		1,164,817
Total liabilities	219,934		11,955,657
Fund balances:			
Nonspendable	23,648		84,696
Restricted	4,866,801		55,031,887
Assigned	-		10,063,058
Unassigned	(40,337)		(724,841)
Total fund balances	4,850,112		64,454,800
Total liabilities and fund balances	\$ 5,070,046	\$	76,410,457

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CITY OF MODESTO
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
FISCAL YEAR ENDED JUNE 30, 2016

	Special Revenue					
	Operating Grants	Local Transportation	Traffic Safety	Downtown Improvement District	Strategic Planning and Development	Special Gas Tax Street Improvement
REVENUES:						
Taxes	\$ -	\$ -	\$ -	\$ 186,123	\$ -	\$ 1,136,191
Licenses and permits	71,295	-	-	-	-	14,405
Intergovernmental	1,799,427	569,859	-	-	-	4,533,572
Charges for services	4,095,077	-	168,216	-	13,813	856,082
Special assessments levied	72,116	-	-	663,002	-	-
Interest and rent	8,305	11,176	-	488	50,534	93,675
Net increase (decrease) in fair value of investments	1,119	2,112	-	64	1,249	13,511
Fines and forfeits	-	-	452,567	-	-	-
Miscellaneous	150,385	-	17,859	-	3,275	350,608
Total revenues	<u>6,197,724</u>	<u>583,147</u>	<u>638,642</u>	<u>849,677</u>	<u>68,871</u>	<u>6,998,044</u>
EXPENDITURES:						
Current:						
General government	251,116	-	-	-	-	-
Community development	744,464	-	-	832,962	153,508	-
Highways and streets	-	29,308	-	-	-	8,412,398
Public works	4,182,493	-	-	-	-	-
Parks and recreation	223,577	-	-	-	-	-
Public safety	933,154	-	174,843	-	-	-
Capital outlay:						
Community development	-	-	-	-	7,612	-
Highways and streets	-	5,000	-	-	-	2,664,891
Public works	-	-	-	-	-	-
Parks and recreation	-	-	-	-	-	-
Public safety	193,759	-	97,984	-	-	-
Debt service:						
Principal retirement	-	-	-	-	-	-
Interest	-	-	-	-	-	-
Other	-	-	-	-	-	-
Total expenditures	<u>6,528,563</u>	<u>34,308</u>	<u>272,827</u>	<u>832,962</u>	<u>161,120</u>	<u>11,077,289</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(330,839)</u>	<u>548,839</u>	<u>365,815</u>	<u>16,715</u>	<u>(92,249)</u>	<u>(4,079,245)</u>
OTHER FINANCING SOURCES (USES):						
Transfers in	171,410	-	-	-	100,000	460,996
Transfers out	<u>(2,025,236)</u>	<u>(746,681)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,373,574)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(1,853,826)</u>	<u>(746,681)</u>	<u>-</u>	<u>-</u>	<u>100,000</u>	<u>(912,578)</u>
CHANGES IN FUND BALANCES	(2,184,665)	(197,842)	365,815	16,715	7,751	(4,991,823)
FUND BALANCES, JULY 1	2,810,952	418,734	2,135,719	40,946	979,810	13,548,380
PRIOR PERIOD ADJUSTMENTS	-	-	-	-	-	-
FUND BALANCES, JUNE 30	<u>\$ 626,287</u>	<u>\$ 220,892</u>	<u>\$ 2,501,534</u>	<u>\$ 57,661</u>	<u>\$ 987,561</u>	<u>\$ 8,556,557</u>

Capital Projects

Special Fund for Capital Outlays	Parks	Securities for Future Improvements	Capital Grants	Community Facilities Districts	Successor Redevelopment Housing Agency	Capital Facility Fees
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-
-	1,165	-	14,895,639	3,829	50,731	112,726
-	-	-	-	376,723	-	1,785,990
-	-	-	-	2,433,142	-	-
(8,087)	6,895	-	-	171,462	1,036	241,172
(488)	927	-	-	20,632	(995)	33,750
-	-	-	-	-	-	-
-	29,797	-	-	-	-	-
<u>(8,575)</u>	<u>38,784</u>		<u>14,895,639</u>	<u>3,005,788</u>	<u>50,772</u>	<u>2,173,638</u>
-	-	-	-	-	-	-
-	-	-	67,799	2,255,246	-	29,398
-	-	-	55,947	-	-	1,130
-	-	-	-	-	-	-
-	11,439	-	45,726	-	-	-
1,209,971	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	301,070	159,432	-	25,958
-	-	-	12,983,897	-	-	2,392,010
-	-	-	-	-	-	-
-	27,634	-	6,321	-	-	4,795
231,237	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>1,441,208</u>	<u>39,073</u>		<u>13,460,760</u>	<u>2,414,678</u>		<u>2,453,291</u>
<u>(1,449,783)</u>	<u>(289)</u>		<u>1,434,879</u>	<u>591,110</u>	<u>50,772</u>	<u>(279,653)</u>
1,465,681	200,000	-	947,768	954	-	32,191
-	(5,795)	-	-	-	-	(134,354)
<u>1,465,681</u>	<u>194,205</u>		<u>947,768</u>	<u>954</u>		<u>(102,163)</u>
15,898	193,916	-	2,382,647	592,064	50,772	(381,816)
2,977	606,703	66,397	(2,873,321)	16,421,088	2,603,665	27,163,511
-	-	-	-	-	-	(190,305)
<u>\$ 18,875</u>	<u>\$ 800,619</u>	<u>\$ 66,397</u>	<u>\$ (490,674)</u>	<u>\$ 17,013,152</u>	<u>\$ 2,654,437</u>	<u>\$ 26,591,390</u>

CITY OF MODESTO
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
FISCAL YEAR ENDED JUNE 30, 2016

	<u>Debt Service</u> Public Financing Authority	<u>Total</u>
REVENUES:		
Taxes	\$ -	\$ 1,322,314
Licenses and permits	-	85,700
Intergovernmental	1,265,341	23,231,124
Charges for services	-	7,297,066
Special assessments levied	-	3,168,260
Interest and rent	13,094	589,750
Net increase (decrease) in fair value of investments	-	71,881
Fines and forfeits	-	452,567
Miscellaneous	-	551,924
Total revenues	<u>1,278,435</u>	<u>36,770,586</u>
EXPENDITURES:		
Current:		
General government	-	251,116
Community development	-	4,083,377
Highways and streets	-	8,498,783
Public works	-	4,182,493
Parks and recreation	-	280,742
Public safety	-	2,317,968
Capital outlay:		
Community development	-	494,072
Highways and streets	-	18,045,798
Public works	-	-
Parks and recreation	-	38,750
Public safety	-	522,980
Debt service:		
Principal retirement	1,665,000	1,665,000
Interest	1,904,006	1,904,006
Other	697,405	697,405
Total expenditures	<u>4,266,411</u>	<u>42,982,490</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(2,987,976)</u>	<u>(6,211,904)</u>
OTHER FINANCING SOURCES (USES):		
Transfers in	2,987,976	6,366,976
Transfers out	-	(4,285,640)
TOTAL OTHER FINANCING SOURCES (USES)	<u>2,987,976</u>	<u>2,081,336</u>
CHANGES IN FUND BALANCES	-	(4,130,568)
FUND BALANCES, JULY 1	4,850,112	68,775,673
PRIOR PERIOD ADJUSTMENTS	-	(190,305)
FUND BALANCES, JUNE 30	<u>\$ 4,850,112</u>	<u>\$ 64,454,800</u>

CITY OF MODESTO
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET (GAAP BASIS) AND ACTUAL - OPERATING GRANTS SPECIAL REVENUE FUND
FISCAL YEAR ENDED JUNE 30, 2016

	Budget		Actual	Variance with
	Original	Final		Final Budget - Positive (Negative)
REVENUES:				
Licenses and permits	\$ 70,000	\$ 70,000	\$ 71,295	\$ 1,295
Intergovernmental	2,331,257	3,290,140	1,799,427	(1,490,713)
Charges for services	4,495,027	3,921,250	4,095,077	173,827
Special assessments	68,239	68,239	72,116	3,877
Interest and rent - interest	82	538	8,305	7,767
Net increase in fair value of investments	-	-	1,119	1,119
Miscellaneous	195,282	248,718	150,385	(98,333)
Total revenues	<u>7,159,887</u>	<u>7,598,885</u>	<u>6,197,724</u>	<u>(1,401,161)</u>
EXPENDITURES:				
General government	284,720	284,945	251,116	33,829
Community development	900,112	902,460	744,464	157,996
Public works	5,034,926	4,632,294	4,182,493	449,801
Parks and recreation	141,125	189,561	223,577	(34,016)
Public safety	2,388,125	3,357,795	1,126,913	2,230,882
Total expenditures	<u>8,749,008</u>	<u>9,367,055</u>	<u>6,528,563</u>	<u>2,838,492</u>
(DEFICIENCY) OF REVENUES (UNDER) EXPENDITURES	<u>(1,589,121)</u>	<u>(1,768,170)</u>	<u>(330,839)</u>	<u>1,437,331</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	144,989	292,680	171,410	(121,270)
Transfers out	-	(18,694)	(2,025,236)	(2,006,542)
TOTAL OTHER FINANCING SOURCES (USES)	<u>144,989</u>	<u>273,986</u>	<u>(1,853,826)</u>	<u>(2,127,812)</u>
CHANGES IN FUND BALANCE	(1,444,132)	(1,494,184)	(2,184,665)	(690,481)
FUND BALANCE, JULY 1	2,810,952	2,810,952	2,810,952	-
FUND BALANCE (DEFICIT), JUNE 30	<u>\$ 1,366,820</u>	<u>\$ 1,316,768</u>	<u>\$ 626,287</u>	<u>\$ (690,481)</u>

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

CITY OF MODESTO
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET (GAAP BASIS) AND ACTUAL - LOCAL TRANSPORTATION SPECIAL REVENUE FUND
FISCAL YEAR ENDED JUNE 30, 2016

	Budget		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Intergovernmental	\$ 1,739,188	\$ 1,739,188	\$ 569,859	\$ (1,169,329)
Interest and rent - interest	-	-	11,176	11,176
Net increase in fair value of investments	-	-	2,112	2,112
Total revenues	<u>1,739,188</u>	<u>1,739,188</u>	<u>583,147</u>	<u>(1,156,041)</u>
EXPENDITURES:				
Highways and streets	<u>2,001,048</u>	<u>2,001,048</u>	<u>34,308</u>	<u>1,966,740</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(261,860)</u>	<u>(261,860)</u>	<u>548,839</u>	<u>810,699</u>
OTHER FINANCING SOURCES (USES):				
Transfers out	<u>(830,060)</u>	<u>(830,060)</u>	<u>(746,681)</u>	<u>83,379</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(830,060)</u>	<u>(830,060)</u>	<u>(746,681)</u>	<u>83,379</u>
CHANGES IN FUND BALANCE	(1,091,920)	(1,091,920)	(197,842)	894,078
FUND BALANCE, JULY 1	<u>418,734</u>	<u>418,734</u>	<u>418,734</u>	<u>-</u>
FUND BALANCE (DEFICIT), JUNE 30	<u>\$ (673,186)</u>	<u>\$ (673,186)</u>	<u>\$ 220,892</u>	<u>\$ 894,078</u>

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

CITY OF MODESTO
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET (GAAP BASIS) AND ACTUAL - TRAFFIC SAFETY SPECIAL REVENUE FUND
FISCAL YEAR ENDED JUNE 30, 2016

	Budget		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Charges for services	\$ 182,000	\$ 182,000	\$ 168,216	\$ (13,784)
Motor vehicle fines	643,500	643,500	452,567	(190,933)
Miscellaneous	-	-	17,859	17,859
Total revenues	<u>825,500</u>	<u>825,500</u>	<u>638,642</u>	<u>(186,858)</u>
EXPENDITURES:				
Public safety	<u>991,890</u>	<u>681,072</u>	<u>272,827</u>	<u>408,245</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(166,390)	144,428	365,815	221,387
OTHER FINANCING USES:				
Transfers out	<u>(500,000)</u>	<u>(500,000)</u>	<u>-</u>	<u>500,000</u>
CHANGES IN FUND BALANCE	(666,390)	(355,572)	365,815	721,387
FUND BALANCE, JULY 1	<u>2,135,719</u>	<u>2,135,719</u>	<u>2,135,719</u>	<u>-</u>
FUND BALANCE, JUNE 30	<u>\$ 1,469,329</u>	<u>\$ 1,780,147</u>	<u>\$ 2,501,534</u>	<u>\$ 721,387</u>

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

CITY OF MODESTO
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCE - BUDGET (GAAP BASIS) AND ACTUAL - DOWNTOWN
IMPROVEMENT DISTRICT SPECIAL REVENUE FUND
FISCAL YEAR ENDED JUNE 30, 2016

	Budget		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Taxes - business license tax	\$ 176,010	\$ 176,010	\$ 186,123	\$ 10,113
Special assessments levied	-	700,000	663,002	(36,998)
Interest and rent - interest	-	-	488	488
Net increase in fair value of investments	-	-	64	64
Total revenues	<u>176,010</u>	<u>876,010</u>	<u>849,677</u>	<u>(26,333)</u>
EXPENDITURES:				
Community development	<u>173,395</u>	<u>873,395</u>	<u>832,962</u>	<u>40,433</u>
CHANGES IN FUND BALANCE	2,615	2,615	16,715	14,100
FUND BALANCE, JULY 1	<u>40,946</u>	<u>40,946</u>	<u>40,946</u>	<u>-</u>
FUND BALANCE, JUNE 30	<u><u>\$ 43,561</u></u>	<u><u>\$ 43,561</u></u>	<u><u>\$ 57,661</u></u>	<u><u>\$ 14,100</u></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
FISCAL YEAR ENDED JUNE 30, 2016

	Budget		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Charges for services	\$ 90,560	\$ 90,560	\$ 13,813	\$ (76,747)
Intergovernmental	100,000	100,000	-	(100,000)
Interest and rent - interest	149,954	149,954	50,534	(99,420)
Net increase in fair value of investments	-	-	1,249	1,249
Miscellaneous	-	-	3,275	3,275
Total revenues	<u>340,514</u>	<u>340,514</u>	<u>68,871</u>	<u>(271,643)</u>
EXPENDITURES:				
Community development	<u>801,164</u>	<u>901,164</u>	<u>161,120</u>	<u>740,044</u>
(DEFICIENCY) OF REVENUES (UNDER) EXPENDITURES	(460,650)	(560,650)	(92,249)	468,401
OTHER FINANCING SOURCES:				
Transfers in	<u>500,000</u>	<u>600,000</u>	<u>100,000</u>	<u>(500,000)</u>
CHANGES IN FUND BALANCE	39,350.00	39,350	7,751	(31,599)
FUND BALANCE, JULY 1	<u>979,810</u>	<u>979,810</u>	<u>979,810</u>	<u>-</u>
FUND BALANCE, JUNE 30	<u>\$ 1,019,160</u>	<u>\$ 1,019,160</u>	<u>\$ 987,561</u>	<u>\$ (31,599)</u>

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

CITY OF MODESTO
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL - SPECIAL
GAS TAX STREET IMPROVEMENT SPECIAL REVENUE FUND
FISCAL YEAR ENDED JUNE 30, 2016

	Budget		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Intergovernmental:				
Federal grants	\$ 4,456,923	\$ 4,456,923	\$ 4,533,572	\$ 76,649
Taxes	935,000	935,000	1,136,191	201,191
Licenses and permits	-	-	14,405	14,405
Charges for services	682,753	682,753	856,082	173,329
Interest and rent	15,000	15,000	93,675	78,675
Net decrease in fair value of investments	-	-	13,511	13,511
Miscellaneous	60,750	15,000	350,608	335,608
Total revenues	<u>6,150,426</u>	<u>6,104,676</u>	<u>6,998,044</u>	<u>893,368</u>
EXPENDITURES:				
Highway and streets	<u>17,658,224</u>	<u>16,338,168</u>	<u>11,077,289</u>	<u>5,260,879</u>
(DEFICIENCY) OF REVENUES (UNDER) EXPENDITURES	<u>(11,507,798)</u>	<u>(10,233,492)</u>	<u>(4,079,245)</u>	<u>6,154,247</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	125,000	844,845	460,996	(383,849)
Transfers out	-	(1,524,130)	(1,373,574)	150,556
TOTAL OTHER FINANCING SOURCES (USES)	<u>125,000</u>	<u>(679,285)</u>	<u>(912,578)</u>	<u>(233,293)</u>
CHANGES IN FUND BALANCE	(11,382,798)	(10,912,777)	(4,991,823)	5,920,954
FUND BALANCE, JULY 1	<u>13,548,380</u>	<u>13,548,380</u>	<u>13,548,380</u>	<u>-</u>
FUND BALANCE, JUNE 30	<u>\$ 2,165,582</u>	<u>\$ 2,635,603</u>	<u>\$ 8,556,557</u>	<u>\$ 5,920,954</u>

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

Nonmajor Enterprise Funds

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

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

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

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

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

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

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

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

CITY OF MODESTO
COMBINING STATEMENT OF NET POSITION - NONMAJOR ENTERPRISE FUNDS
JUNE 30, 2016

	Parking	Storm Drain	Compost
<u>ASSETS</u>			
Current assets:			
Cash and cash equivalents	\$ 543,659	\$ 10,247,016	\$ 4,218,222
Receivables:			
Accounts	20	4,638	810,380
Interest	1,050	22,721	11,775
Utilities, net	-	516,634	260,140
Prepaid expenses	-	2,505	654
Due from governments	-	13,614	140,816
Inventories	-	-	-
	<u>544,729</u>	<u>10,807,128</u>	<u>5,441,987</u>
Total current assets			
Noncurrent assets:			
Restricted cash and cash equivalents with fiscal agent	-	-	-
Land and construction in progress	3,131,804	1,778,943	1,140,000
Other capital assets, net of accumulated depreciation	5,408,141	13,235,174	1,486,099
Total noncurrent assets	<u>8,539,945</u>	<u>15,014,117</u>	<u>2,626,099</u>
Total assets	9,084,674	25,821,245	8,068,086
<u>DEFERRED OUTFLOWS OF RESOURCES</u>			
Deferred pensions	42,395	73,326	411,463
Total assets and deferred outflows of resources	<u>\$ 9,127,069</u>	<u>\$ 25,894,571</u>	<u>\$ 8,479,549</u>
<u>LIABILITIES</u>			
Current liabilities:			
Accounts payable	\$ 28,950	\$ 365,928	\$ 1,072,402
Accrued salaries and benefits	10,206	17,353	107,178
Interest payable	-	-	-
Due to other funds	-	-	-
Unearned revenue	-	-	-
Current portion - long-term debt	-	-	-
Total current liabilities	<u>39,156</u>	<u>383,281</u>	<u>1,179,580</u>
Noncurrent liabilities:			
Pollution remediation liability	-	-	2,600,000
Certificates of participation	-	-	-
Advances from other funds	-	1,324,704	923,400
Net pension liability	510,073	876,010	4,961,690
Total liabilities	<u>549,229</u>	<u>2,583,995</u>	<u>9,664,670</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>			
Deferred pensions	<u>57,972</u>	<u>87,011</u>	<u>587,034</u>
<u>NET POSITION</u>			
Net investment in capital assets	8,539,945	15,014,117	2,626,099
Unrestricted	<u>(20,077)</u>	<u>8,209,448</u>	<u>(4,398,254)</u>
Total net position	<u>8,519,868</u>	<u>23,223,565</u>	<u>(1,772,155)</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 9,127,069</u>	<u>\$ 25,894,571</u>	<u>\$ 8,479,549</u>

Airport	Golf	Community Center	Abatement and Public Nuisance Fund	Total
\$ 1,410,897	\$ -	\$ 44,214	\$ 583,528	\$ 17,047,536
25,791	345,742	77,066	20,004	1,283,641
2,838	3,281	-	1,235	42,900
-	-	-	-	776,774
-	60,890	229	-	64,278
1,207,005	-	-	-	1,361,435
-	36,325	-	-	36,325
<u>2,646,531</u>	<u>446,238</u>	<u>121,509</u>	<u>604,767</u>	<u>20,612,889</u>
-	627,142	-	-	627,142
3,162,178	275,741	3,667,020	-	13,155,686
8,026,667	1,215,007	4,253,000	-	33,624,088
<u>11,188,845</u>	<u>2,117,890</u>	<u>7,920,020</u>	<u>-</u>	<u>47,406,916</u>
13,835,376	2,564,128	8,041,529	604,767	68,019,805
41,734	-	39,035	-	607,953
<u>\$ 13,877,110</u>	<u>\$ 2,564,128</u>	<u>\$ 8,080,564</u>	<u>\$ 604,767</u>	<u>\$ 68,627,758</u>
\$ 1,334,449	\$ 78,507	\$ 53,345	\$ 19,978	\$ 2,953,559
9,711	5,311	11,559	-	161,318
-	27,167	-	-	27,167
-	342,380	-	-	342,380
-	421,450	-	-	421,450
-	340,000	-	-	340,000
<u>1,344,160</u>	<u>1,214,815</u>	<u>64,904</u>	<u>19,978</u>	<u>4,245,874</u>
-	-	-	-	2,600,000
-	2,920,000	-	-	2,920,000
-	-	-	-	2,248,104
493,170	-	474,407	-	7,315,350
<u>1,837,330</u>	<u>4,134,815</u>	<u>539,311</u>	<u>19,978</u>	<u>19,329,328</u>
37,916	-	63,644	-	833,577
11,188,845	(1,142,110)	7,920,020	-	44,146,916
813,019	(428,577)	(442,411)	584,789	4,317,937
<u>12,001,864</u>	<u>(1,570,687)</u>	<u>7,477,609</u>	<u>584,789</u>	<u>48,464,853</u>
<u>\$ 13,877,110</u>	<u>\$ 2,564,128</u>	<u>\$ 8,080,564</u>	<u>\$ 604,767</u>	<u>\$ 68,627,758</u>

CITY OF MODESTO
COMBINING STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET POSITION - NONMAJOR ENTERPRISE FUNDS
FISCAL YEAR ENDED JUNE 30, 2016

	<u>Parking</u>	<u>Storm Drain</u>	<u>Compost</u>
OPERATING REVENUES:			
Charges for services	\$ 1,289,211	\$ 5,588,169	\$ 7,301,312
Miscellaneous	-	-	51,455
Total operating revenues	<u>1,289,211</u>	<u>5,588,169</u>	<u>7,352,767</u>
OPERATING EXPENSES:			
Salaries and wages	370,459	622,339	3,470,638
Contractual services	296,546	555,676	4,510,273
Utilities	157,301	26,097	25,781
Maintenance and supplies	67,626	1,701,744	1,633,179
Insurance	71,973	8,273	152,632
Employee benefits	106,881	155,534	1,007,627
Administration services	28,164	1,529,278	685,695
Allocated indirect administrative costs	33,058	129,190	159,297
Depreciation	440,097	569,787	170,181
Total operating expenses	<u>1,572,105</u>	<u>5,297,918</u>	<u>11,815,303</u>
OPERATING INCOME (LOSS)	<u>(282,894)</u>	<u>290,251</u>	<u>(4,462,536)</u>
NONOPERATING REVENUES (EXPENSES):			
Gain (loss) on disposition of capital assets	(10,675)	80,070	19,775
Operating grants	-	-	288,944
Tax revenue	-	-	-
Tax expense	(13,073)	-	-
Interest income	3,604	75,079	49,203
Net increase in fair value of investments	467	13,115	7,590
Rental income	-	-	-
Interest expense	-	-	-
Trustee fees	-	-	-
Total nonoperating revenues (expenses)	<u>(19,677)</u>	<u>168,264</u>	<u>365,512</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	<u>(302,571)</u>	<u>458,515</u>	<u>(4,097,024)</u>
Capital contributions	-	-	-
Transfers in	96,485	700,000	1,558,841
Transfers out	-	-	(1,079,552)
CHANGES IN NET POSITION	<u>(206,086)</u>	<u>1,158,515</u>	<u>(3,617,735)</u>
NET POSITION (DEFICIT), JULY 1	<u>8,725,954</u>	<u>22,065,050</u>	<u>1,845,580</u>
NET POSITION (DEFICIT), JUNE 30	<u>\$ 8,519,868</u>	<u>\$ 23,223,565</u>	<u>\$ (1,772,155)</u>

Airport	Golf	Community Center	Abatement and Public Nuisance Fund	Total
\$ 621,856	\$ 2,426,630	\$ 316,381	\$ 166,641	\$ 17,710,200
527	5,274	10,458	-	67,714
622,383	2,431,904	326,839	166,641	17,777,914
375,568	-	439,539	-	5,278,543
280,078	2,313,684	135,617	82,272	8,174,146
101,908	63,148	228,009	-	602,244
67,317	285,191	213,318	189	3,968,564
29,842	77,547	58,627	-	398,894
128,219	-	94,176	-	1,492,437
31,561	62,920	25,540	16,500	2,379,658
41,135	51,305	-	-	413,985
694,568	51,424	749,245	-	2,675,302
1,750,196	2,905,219	1,944,071	98,961	25,383,773
(1,127,813)	(473,315)	(1,617,232)	67,680	(7,605,859)
(278)	-	-	-	88,892
191,879	-	-	-	480,823
206,854	-	-	-	206,854
(483)	-	-	-	(13,556)
11,016	(20,055)	(2,000)	4,725	121,572
1,564	1,436	-	665	24,837
128,432	94,582	446,097	-	669,111
-	(168,417)	-	-	(168,417)
-	(1,279)	-	-	(1,279)
538,984	(93,733)	444,097	5,390	1,408,837
(588,829)	(567,048)	(1,173,135)	73,070	(6,197,022)
1,633,739	-	-	-	1,633,739
-	550,159	490,982	-	3,396,467
(21,603)	-	-	-	(1,101,155)
1,023,307	(16,889)	(682,153)	73,070	(2,267,971)
10,978,557	(1,553,798)	8,159,762	511,719	50,732,824
\$ 12,001,864	\$ (1,570,687)	\$ 7,477,609	\$ 584,789	\$ 48,464,853

CITY OF MODESTO
COMBINING STATEMENT OF CASH FLOWS - NONMAJOR ENTERPRISE FUNDS
FISCAL YEAR ENDED JUNE 30, 2016

	<u>Parking</u>	<u>Storm Drain</u>	<u>Compost</u>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers and users	\$ 1,300,668	\$ 5,414,473	\$ 7,188,366
Receipts from interfund services provided	-	75,029	-
Payments to suppliers	(393,912)	(832,881)	(945,294)
Payments to employees	(507,177)	(827,930)	(4,750,969)
Payments for interfund services used	(272,743)	(2,981,138)	(2,654,712)
Net cash provided (used) by operating activities	<u>126,836</u>	<u>847,553</u>	<u>(1,162,609)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Operating grants received	-	-	288,944
Taxes received	-	-	-
Transfers in	96,485	700,000	1,558,841
Transfers out	-	-	(1,079,552)
Payments on advances from other funds	-	-	(34,200)
Net cash provided (used) by noncapital financing activities	<u>96,485</u>	<u>700,000</u>	<u>734,033</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Acquisition and construction of capital assets	-	(1,419,764)	(100,041)
Proceeds from sale of capital assets	-	80,070	19,775
Principal repayments	-	-	-
Interest paid	-	-	-
Trustee fees	-	-	-
Capital contributions	-	-	-
Net cash provided (used) by capital and related financing activities	<u>-</u>	<u>(1,339,694)</u>	<u>(80,266)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest received (paid)	3,146	70,830	47,577
Net increase in the fair value of investments	467	13,115	7,590
Rental income received	-	-	-
Net cash provided (used) by investing activities	<u>3,613</u>	<u>83,945</u>	<u>55,167</u>
Net increase (decrease) in cash and cash equivalents	226,934	291,804	(453,675)
CASH AND CASH EQUIVALENTS, JULY 1	316,725	9,955,212	4,671,897
CASH AND CASH EQUIVALENTS, JUNE 30	<u>\$ 543,659</u>	<u>\$ 10,247,016</u>	<u>\$ 4,218,222</u>
RECONCILIATION TO STATEMENT OF NET POSITION:			
Cash and cash equivalents	\$ 543,659	\$ 10,247,016	\$ 4,218,222
Restricted cash and cash equivalents with fiscal agent	-	-	-
TOTAL CASH AND CASH EQUIVALENTS	<u>\$ 543,659</u>	<u>\$ 10,247,016</u>	<u>\$ 4,218,222</u>

Airport	Golf	Community Center	Abatement and Public Nuisance Fund	Total
\$ 972,112	\$ 2,811,392	\$ 314,152	\$ 145,787	\$ 18,146,950
-	-	-	-	75,029
(301,997)	(2,660,053)	(459,998)	(89,550)	(5,683,685)
(538,304)	2,780	(562,881)	-	(7,184,481)
(250,327)	(256,841)	(179,468)	-	(6,595,229)
<u>(118,516)</u>	<u>(102,722)</u>	<u>(888,195)</u>	<u>56,237</u>	<u>(1,241,416)</u>
191,879	-	-	-	480,823
206,854	-	-	-	206,854
-	550,159	490,982	-	3,396,467
(21,603)	-	-	-	(1,101,155)
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(34,200)</u>
<u>377,130</u>	<u>550,159</u>	<u>490,982</u>	<u>-</u>	<u>2,948,789</u>
(1,935,711)	-	(39,271)	-	(3,494,787)
-	-	-	-	99,845
-	(325,000)	-	-	(325,000)
-	(141,250)	-	-	(141,250)
-	(1,279)	-	-	(1,279)
<u>1,633,739</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,633,739</u>
<u>(301,972)</u>	<u>(467,529)</u>	<u>(39,271)</u>	<u>-</u>	<u>(2,228,732)</u>
11,360	(53,546)	(2,952)	4,483	80,898
1,564	1,436	-	665	24,837
128,432	94,582	446,097	-	669,111
<u>141,356</u>	<u>42,472</u>	<u>443,145</u>	<u>5,148</u>	<u>774,846</u>
97,998	22,380	6,661	61,385	253,487
<u>1,312,899</u>	<u>604,762</u>	<u>37,553</u>	<u>522,143</u>	<u>17,421,191</u>
<u>\$ 1,410,897</u>	<u>\$ 627,142</u>	<u>\$ 44,214</u>	<u>\$ 583,528</u>	<u>\$ 17,674,678</u>
\$ 1,410,897	\$ -	\$ 44,214	\$ 583,528	\$ 17,047,536
-	627,142	-	-	627,142
<u>\$ 1,410,897</u>	<u>\$ 627,142</u>	<u>\$ 44,214</u>	<u>\$ 583,528</u>	<u>\$ 17,674,678</u>

(continued)

CITY OF MODESTO
COMBINING STATEMENT OF CASH FLOWS - NONMAJOR ENTERPRISE FUNDS (Continued)
FISCAL YEAR ENDED JUNE 30, 2016

	Parking	Storm Drain	Compost
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
Operating income (loss)	\$ (282,894)	\$ 290,251	\$ (4,462,536)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	440,097	569,787	170,181
Taxes paid	(13,073)	-	-
Change in assets, liabilities, and deferred resources:			
(Increase) decrease in accounts receivable	11,457	(4,638)	15,255
Increase in utilities receivable	-	(84,953)	(124,648)
Increase in due from other governments	-	(9,076)	(55,008)
Increase (decrease) in accounts payable	(1,574)	138,187	966,638
Increase in inventories	-	-	-
(Increase) decrease in prepaid expenses	2,660	(1,948)	213
Increase (decrease) in accrued salaries and benefits	(4,476)	(3,153)	(32,158)
Increase in net pension liability and deferred resources	(25,361)	(46,904)	(240,546)
Increase pollution remediation	-	-	2,600,000
Increase in due to other funds	-	-	-
Increase (decrease) in unearned revenue	-	-	-
Total adjustments	409,730	557,302	3,299,927
Net cash provided (used) by operating activities	\$ 126,836	\$ 847,553	\$ (1,162,609)

<u>Airport</u>	<u>Golf</u>	<u>Community Center</u>	<u>Abatement and Public Nuisance Fund</u>	<u>Total</u>
\$ (1,127,813)	\$ (473,315)	\$ (1,617,232)	\$ 67,680	\$ (7,605,859)
694,568	51,424	749,245	-	2,675,302
(483)	-	-	-	(13,556)
(15,668)	41,102	(12,687)	148,542	183,363
-	-	-	-	(209,601)
(428,494)	-	-	-	(492,578)
782,956	845	21,691	9,411	1,918,154
-	(4,933)	-	-	(4,933)
11,210	(59,011)	(46)	-	(46,922)
(5,160)	2,780	(8,170)	-	(50,337)
(29,357)	-	(20,996)	-	(363,164)
-	-	-	-	2,600,000
-	324,594	-	-	324,594
(275)	13,792	-	(169,396)	(155,879)
<u>1,009,297</u>	<u>370,593</u>	<u>729,037</u>	<u>(11,443)</u>	<u>6,364,443</u>
\$ <u>(118,516)</u>	\$ <u>(102,722)</u>	\$ <u>(888,195)</u>	\$ <u>56,237</u>	\$ <u>(1,241,416)</u>

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 POSITION - INTERNAL SERVICE FUNDS
JUNE 30, 2016

	Fleet Management	Central Services	Information & Technology Services
<u>ASSETS</u>			
Current assets:			
Cash and cash equivalents	\$ 11,299,203	\$ 1,622,074	\$ 6,190,460
Receivables:			
Accounts	8,437	-	-
Interest	19,074	3,395	13,745
Prepaid expenses	8,404	3,429	266,343
Due from governments	-	-	-
Inventories	-	333,239	-
Total current assets	11,335,118	1,962,137	6,470,548
Noncurrent assets:			
Advances to other funds	-	-	-
Restricted assets - cash and cash equivalents	-	-	-
Restricted assets - cash from fiscal agent	-	-	-
Land and construction in progress	2,097,162	-	110,713
Other capital assets, net of accumulated depreciation	11,433,368	59,921	4,731,394
Total noncurrent assets	13,530,530	59,921	4,842,107
Total assets	24,865,648	2,022,058	11,312,655
<u>DEFERRED OUTFLOWS OF RESOURCES</u>			
Deferred pensions	204,778	31,348	336,583
Total assets and deferred outflows of resources	\$ 25,070,426	\$ 2,053,406	\$ 11,649,238
<u>LIABILITIES</u>			
Current liabilities:			
Accounts payable	\$ 742,181	\$ 294,975	\$ 653,642
Accrued salaries and benefits	39,576	6,077	67,582
Unearned revenue	-	-	-
Current portion - compensated absences	-	-	-
Current portion - claims liability	-	-	-
Total current liabilities	781,757	301,052	721,224
Noncurrent liabilities:			
Compensated absences	-	-	-
Claims liability	-	-	-
Net OPEB obligation	-	-	-
Net pension liability	2,480,395	382,534	4,101,488
Total liabilities	3,262,152	683,586	4,822,712
<u>DEFERRED INFLOWS OF RESOURCES</u>			
Deferred pensions	315,883	54,408	571,995
<u>NET POSITION</u>			
Net investment in capital assets	13,530,530	59,921	4,842,107
Restricted	-	-	-
Unrestricted	7,961,861	1,255,491	1,412,424
Total net position	21,492,391	1,315,412	6,254,531
Total liabilities, deferred inflows of resources, and net position	\$ 25,070,426	\$ 2,053,406	\$ 11,649,238

Insurance	Employee Benefits Management	Building Services	Total
\$ 18,102,701	\$ -	\$ 890,083	\$ 38,104,521
1,441,394	33,750	-	1,483,581
89,683	19,735	2,008	147,640
4,212	-	116	282,504
-	-	18,843	18,843
-	-	-	333,239
<u>19,637,990</u>	<u>53,485</u>	<u>911,050</u>	<u>40,370,328</u>
-	781,738	-	781,738
-	9,401,469	-	9,401,469
5,070	-	-	5,070
-	-	-	2,207,875
-	-	84,162	16,308,845
<u>5,070</u>	<u>10,183,207</u>	<u>84,162</u>	<u>28,704,997</u>
19,643,060	10,236,692	995,212	69,075,325
<u>38,007</u>	<u>24,098</u>	<u>43,876</u>	<u>678,690</u>
<u>\$ 19,681,067</u>	<u>\$ 10,260,790</u>	<u>\$ 1,039,088</u>	<u>\$ 69,754,015</u>
\$ 1,429,007	\$ 42,099	\$ 110,075	\$ 3,271,979
8,606	17,403	11,201	150,445
57,118	-	-	57,118
-	3,453,298	-	3,453,298
<u>5,033,143</u>	<u>-</u>	<u>-</u>	<u>5,033,143</u>
6,527,874	3,512,800	121,276	11,965,983
-	5,336,652	-	5,336,652
18,563,388	-	-	18,563,388
-	56,191,331	-	56,191,331
<u>464,987</u>	<u>291,255</u>	<u>523,054</u>	<u>8,243,713</u>
<u>25,556,249</u>	<u>65,332,038</u>	<u>644,330</u>	<u>100,301,067</u>
<u>68,585</u>	<u>35,767</u>	<u>49,620</u>	<u>1,096,258</u>
-	-	84,162	18,516,720
-	9,401,469	-	9,401,469
<u>(5,943,767)</u>	<u>(64,508,484)</u>	<u>260,976</u>	<u>(59,561,499)</u>
<u>(5,943,767)</u>	<u>(55,107,015)</u>	<u>345,138</u>	<u>(31,643,310)</u>
<u>\$ 19,681,067</u>	<u>\$ 10,260,790</u>	<u>\$ 1,039,088</u>	<u>\$ 69,754,015</u>

CITY OF MODESTO
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET POSITION - INTERNAL SERVICE FUNDS
FISCAL YEAR ENDED JUNE 30, 2016

	<u>Fleet Management</u>	<u>Central Services</u>
OPERATING REVENUES:		
Charges for services	\$ 6,901,951	\$ 28,221
Sales	-	4,620,700
Total operating revenues	<u>6,901,951</u>	<u>4,648,921</u>
OPERATING EXPENSES:		
Salaries and wages	1,213,665	207,056
Cost of sales	-	3,966,108
Contractual services	2,270,814	90,273
Utilities	9,082	646
Maintenance and supplies	1,493,603	137,522
Insurance	69,030	4,246
Claims	-	-
Employee benefits	423,964	72,339
Administration services	256,470	44,031
Allocated indirect administrative costs	297,137	-
Depreciation	2,412,230	11,945
Total operating expenses	<u>8,445,995</u>	<u>4,534,166</u>
OPERATING INCOME (LOSS)	<u>(1,544,044)</u>	<u>114,755</u>
NONOPERATING REVENUES (EXPENSES):		
Operating grant	-	-
Gain (loss) on disposition of capital assets	(3,863)	3,161
Interest income	76,991	15,328
Net increase in fair value of investments	10,231	2,248
Total nonoperating revenues (expenses)	<u>83,359</u>	<u>20,737</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	(1,460,685)	135,492
Capital contributions	48,833	-
Transfers in	3,411,528	-
Transfers out	-	(25,970)
CHANGES IN NET POSITION	1,999,676	109,522
NET POSITION (DEFICIT), JULY 1	<u>19,492,715</u>	<u>1,205,890</u>
NET POSITION (DEFICIT), JUNE 30	<u>\$ 21,492,391</u>	<u>\$ 1,315,412</u>

Information & Technology Services	Insurance	Employee Benefits Management	Building Services	Total
\$ 5,817,156	\$ 24,034,436	\$ 2,738,432	\$ 2,369,974	\$ 41,890,170
-	-	-	-	4,620,700
<u>5,817,156</u>	<u>24,034,436</u>	<u>2,738,432</u>	<u>2,369,974</u>	<u>46,510,870</u>
2,101,717	254,326	159,282	359,139	4,295,185
-	-	-	-	3,966,108
766,834	468,476	295,900	1,550,379	5,442,676
97,923	217	-	144,945	252,813
977,678	9,171	17,388	53,710	2,689,072
28,779	16,779,388	2,143	9,311	16,892,897
-	9,732,872	-	-	9,732,872
582,632	83,762	2,767,892	103,406	4,033,995
903	59,783	46,655	124,235	532,077
-	-	-	-	297,137
653,254	-	-	3,119	3,080,548
<u>5,209,720</u>	<u>27,387,995</u>	<u>3,289,260</u>	<u>2,348,244</u>	<u>51,215,380</u>
607,436	(3,353,559)	(550,828)	21,730	(4,704,510)
78,932	-	-	-	78,932
(4,296)	-	-	-	(4,998)
57,014	367,517	86,583	8,289	611,722
<u>7,478</u>	<u>48,916</u>	<u>12,915</u>	<u>1,235</u>	<u>83,023</u>
<u>139,128</u>	<u>416,433</u>	<u>99,498</u>	<u>9,524</u>	<u>768,679</u>
746,564	(2,937,126)	(451,330)	31,254	(3,935,831)
-	-	-	-	48,833
1,546	-	-	-	3,413,074
<u>(142,360)</u>	<u>-</u>	<u>-</u>	<u>(200,000)</u>	<u>(368,330)</u>
605,750	(2,937,126)	(451,330)	(168,746)	(842,254)
<u>5,648,781</u>	<u>(3,006,641)</u>	<u>(54,655,685)</u>	<u>513,884</u>	<u>(30,801,056)</u>
<u>\$ 6,254,531</u>	<u>\$ (5,943,767)</u>	<u>\$ (55,107,015)</u>	<u>\$ 345,138</u>	<u>\$ (31,643,310)</u>

CITY OF MODESTO
COMBINING STATEMENT OF CASH FLOWS - INTERNAL SERVICE FUNDS
FISCAL YEAR ENDED JUNE 30, 2016

	Fleet Management	Central Services	Information & Technology Services
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers and users	\$ 221,884	\$ -	\$ 9,193
Receipts from interfund services provided	6,672,154	4,648,921	5,807,963
Payments to suppliers	(2,779,388)	(3,890,772)	(1,557,250)
Payment of insurance claims	-	-	-
Payments to employees	(1,763,728)	(296,728)	(2,872,155)
Payments for interfund services used	(1,191,653)	(152,507)	(83,707)
Net cash provided (used) by operating activities	1,159,269	308,914	1,304,044
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Receipts on advances to other funds	-	-	-
Transfers in	3,411,528	-	1,546
Transfers out	-	(25,970)	(142,360)
Operating grants received	-	-	78,932
Net cash provided (used) by noncapital financing activities	3,411,528	(25,970)	(61,882)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Acquisition and construction of capital assets	(2,602,415)	-	(430,078)
Proceeds from sale of capital assets	67,329	3,161	-
Net cash provided (used) by capital and related financing activities	(2,535,086)	3,161	(430,078)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest received	71,494	15,184	53,157
Net increase in the fair value of investments	10,231	2,248	7,478
Net cash provided by investing activities	81,725	17,432	60,635
Net increase (decrease) in cash and cash equivalents	2,117,436	303,537	872,719
CASH AND CASH EQUIVALENTS, JULY 1	9,181,767	1,318,537	5,317,741
CASH AND CASH EQUIVALENTS, JUNE 30	\$ 11,299,203	\$ 1,622,074	\$ 6,190,460
RECONCILIATION TO STATEMENT OF NET POSITION:			
Cash and cash equivalents	\$ 11,299,203	\$ 1,622,074	\$ 6,190,460
Restricted cash and cash equivalents	-	-	-
Restricted cash and cash equivalents with fiscal agent	-	-	-
TOTAL CASH AND CASH EQUIVALENTS	\$ 11,299,203	\$ 1,622,074	\$ 6,190,460

	Insurance	Employee Benefits Management	Building Services	Total
\$	-	\$ -	\$ 317,354	\$ 548,431
	24,506,972	2,738,432	2,082,933	46,457,375
	(17,145,130)	(1,119,237)	(1,675,836)	(28,167,613)
	(8,666,972)	-	-	(8,666,972)
	(356,032)	(3,848,420)	(494,050)	(9,631,113)
	(95,594)	(78,642)	(279,306)	(1,881,409)
	<u>(1,756,756)</u>	<u>(2,307,867)</u>	<u>(48,905)</u>	<u>(1,341,301)</u>
	-	75,000	-	75,000
	-	-	-	3,413,074
	-	-	(200,000)	(368,330)
	-	-	-	78,932
		<u>75,000</u>	<u>(200,000)</u>	<u>3,198,676</u>
	-	-	-	(3,032,493)
	-	-	-	70,490
	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,962,003)</u>
	323,503	87,392	8,369	559,099
	48,916	12,915	1,235	83,023
	<u>372,419</u>	<u>100,307</u>	<u>9,604</u>	<u>642,122</u>
	(1,384,337)	(2,132,560)	(239,301)	(462,506)
	19,492,108	11,534,029	1,129,384	47,973,566
\$	<u>18,107,771</u>	<u>9,401,469</u>	<u>890,083</u>	<u>47,511,060</u>
\$	18,102,701	\$ -	\$ 890,083	\$ 38,104,521
	-	9,401,469	-	9,401,469
	5,070	-	-	5,070
\$	<u>18,107,771</u>	<u>9,401,469</u>	<u>890,083</u>	<u>47,511,060</u>

CITY OF MODESTO
COMBINING STATEMENT OF CASH FLOWS - INTERNAL SERVICE FUNDS (Continued)
FISCAL YEAR ENDED JUNE 30, 2016

	Fleet Management	Central Services
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating income (loss)	\$ (1,544,044)	\$ 114,755
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	2,412,230	11,945
Change in assets, liabilities, and deferred resources:		
(Increase) decrease in accounts receivable	(7,913)	-
Decrease in due from governments	-	-
(Increase) decrease in prepaid expenses	(7,331)	(2,508)
Decrease in inventories	-	110,213
Increase (decrease) in accounts payable	432,426	91,842
Increase (decrease) in accrued salaries and benefits	(11,825)	(1,227)
Decrease in compensated absences	-	-
Decrease in net OPEB obligation	-	-
Increase in net pension liability and deferred resources	(114,274)	(16,106)
Increase in unearned revenue	-	-
Increase in claims liability	-	-
Total adjustments	2,703,313	194,159
Net cash provided (used) by operating activities	\$ 1,159,269	\$ 308,914
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:		
Capital asset transfers	\$ 117,355	\$ -

Information & Technology Services	Insurance	Employee Benefits Management	Building Services	Total
\$ 607,436	\$ (3,353,559)	\$ (550,828)	\$ 21,730	\$ (4,704,510)
653,254	-	-	3,119	3,080,548
-	415,418	-	-	407,505
-	-	-	30,313	30,313
(259,036)	170,347	-	93	(98,435)
-	-	-	-	110,213
490,196	(94,036)	(835,793)	(72,655)	11,980
(12,088)	983	9,187	(2,876)	(17,846)
-	-	(156,131)	-	(156,131)
-	-	(760,531)	-	(760,531)
(175,718)	(18,927)	(13,771)	(28,629)	(367,425)
-	57,118	-	-	57,118
-	1,065,900	-	-	1,065,900
<u>696,608</u>	<u>1,596,803</u>	<u>(1,757,039)</u>	<u>(70,635)</u>	<u>3,363,209</u>
\$ <u>1,304,044</u>	\$ <u>(1,756,756)</u>	\$ <u>(2,307,867)</u>	\$ <u>(48,905)</u>	\$ <u>(1,341,301)</u>
\$	\$	\$	\$	\$
	-	-	-	117,355

AGENCY FUNDS

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

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

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

STANISLAUS DRUG ENFORCEMENT AGENCY - To account for cash and investments of the Stanislaus Drug Enforcement Agency, a joint powers agency between Stanislaus County and the cities of Modesto, Oakdale, Turlock, Ceres, Hughson, Newman, Patterson, Riverbank, and Waterford. The agency's purpose is to maintain a specially trained police unit to assist each of the participating agencies in the enforcement of drug control laws, and to study, plan, and set priorities for effective enforcement of such laws throughout Stanislaus County. Cash and investments of the Agency are invested in the City's investment pool.

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

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

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

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

CITY OF MODESTO
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES - AGENCY FUNDS
FISCAL YEAR ENDED JUNE 30, 2016

	Balance June 30, 2015	Additions	Deletions	Balance June 30, 2016
<u>Special Districts</u>				
<u>ASSETS</u>				
Cash and cash equivalents	\$ 428,475	\$ 3,507,388	\$ 3,255,406	\$ 680,457
Cash and cash equivalents with fiscal agent	2,943,558	1,977,023	1,984,443	2,936,138
	<u>\$ 3,372,033</u>	<u>\$ 5,484,411</u>	<u>\$ 5,239,849</u>	<u>\$ 3,616,595</u>
<u>LIABILITIES</u>				
Due to special district bondholders	\$ 3,372,033	\$ 5,484,411	\$ 5,239,849	\$ 3,616,595
<u>Tuolumne River Regional Park</u>				
<u>ASSETS</u>				
Cash and cash equivalents	\$ 3,738	\$ 598,008	\$ 579,620	\$ 22,126
<u>LIABILITIES</u>				
Deposits held as agent for others	\$ 3,738	\$ 598,008	\$ 579,620	\$ 22,126
<u>Stanislaus Drug Enforcement Agency</u>				
<u>ASSETS</u>				
Cash and cash equivalents	\$ 3,168,595	\$ 2,077,196	\$ 2,628,959	\$ 2,616,832
<u>LIABILITIES</u>				
Deposits held as agent for others	\$ 3,168,595	\$ 2,077,196	\$ 2,628,959	\$ 2,616,832
<u>Modesto-Ceres Fire Protection Agency</u>				
<u>ASSETS</u>				
Cash and cash equivalents	\$ 210,849	\$ 547,050	\$ 550,806	\$ 207,093
<u>LIABILITIES</u>				
Deposits held as agent for others	\$ 210,849	\$ 547,050	\$ 550,806	\$ 207,093
<u>Stanislaus Regional Water Authority</u>				
<u>ASSETS</u>				
Cash and cash equivalents	\$ -	\$ 54,441	\$ 54,441	\$ -
<u>LIABILITIES</u>				
Deposits held as agent for others	\$ -	\$ 54,441	\$ 54,441	\$ -
<u>Modesto Regional Fire Authority</u>				
<u>ASSETS</u>				
Cash and cash equivalents	\$ 954	\$ -	\$ 954	\$ -
Cash and cash equivalents with fiscal agent	-	-	-	-
	<u>954</u>	<u>-</u>	<u>954</u>	<u>-</u>
<u>LIABILITIES</u>				
Deposits held as agent for others	\$ 954	\$ -	\$ 954	\$ -
<u>City/County Joint Powers Financing Authority</u>				
<u>ASSETS</u>				
Cash and cash equivalents	\$ 16,619	\$ 2,063	\$ 51	\$ 18,631
<u>LIABILITIES</u>				
Deposits held as agent for others	\$ 16,619	\$ 2,063	\$ 51	\$ 18,631
<u>Totals - All Agency Funds</u>				
<u>ASSETS</u>				
Cash and cash equivalents	\$ 3,829,230	\$ 6,786,146	\$ 7,070,237	\$ 3,545,139
Cash and cash equivalents with fiscal agent	2,943,558	1,977,023	1,984,443	2,936,138
	<u>\$ 6,772,788</u>	<u>\$ 8,763,169</u>	<u>\$ 9,054,680</u>	<u>\$ 6,481,277</u>
<u>LIABILITIES</u>				
Due to special district bondholders	\$ 3,372,033	\$ 5,484,411	\$ 5,239,849	\$ 3,616,595
Deposits held as agent for others	3,400,755	3,278,758	3,814,831	2,864,682
	<u>\$ 6,772,788</u>	<u>\$ 8,763,169</u>	<u>\$ 9,054,680</u>	<u>\$ 6,481,277</u>

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STATISTICAL SECTION
DIVIDER

STATISTICAL SECTION
DIVIDER

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

Revenue Capacity

This schedule gives information on the City's most significant local revenue source, the water usage 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 Debt Margin
4. Revenue Bond Coverage, Wastewater 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
3. Principal Property Taxpayers

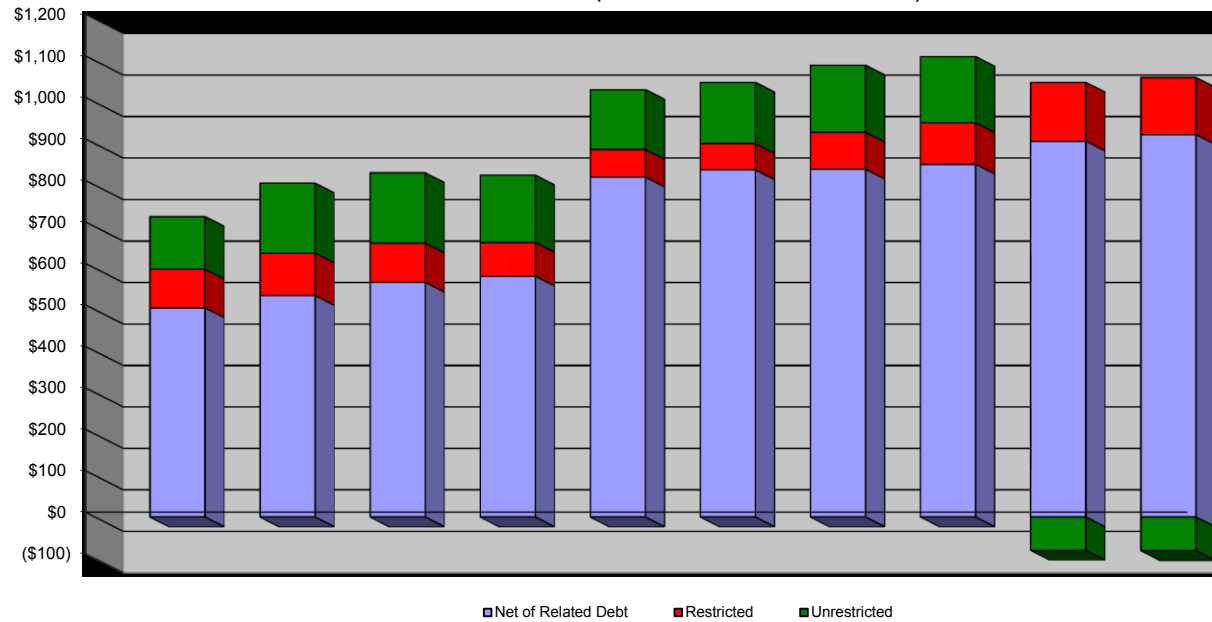
Operating Information

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 City Government Employees by Function
2. Operating Indicators by Function
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.

**CITY OF MODESTO
NET POSITION BY COMPONENT (1)
LAST TEN FISCAL YEARS
(ACCRUAL BASIS OF ACCOUNTING)**



	2007	2008	2009	2010	2011	2012	2013	2014	2015 (2)	2016
Governmental activities										
Net investment in capital assets	\$333,409,532	\$339,396,266	\$347,357,492	\$329,592,169	\$338,010,133	\$362,755,958	\$361,582,237	\$347,647,419	\$378,145,625	\$381,887,289
Restricted	93,168,664	102,602,698	94,819,773	81,528,516	66,570,581	63,498,187	63,381,356	77,564,677	121,105,182	115,619,807
Unrestricted	(12,566,297)	4,627,884	(472,402)	14,399,778	6,540,870	(4,326,456)	(1,102,658)	9,167,253	(179,570,210)	(173,275,294)
Total governmental activities net position	<u>\$414,011,899</u>	<u>\$446,626,848</u>	<u>\$441,704,863</u>	<u>\$425,520,463</u>	<u>\$411,121,584</u>	<u>\$421,927,689</u>	<u>\$423,860,935</u>	<u>\$434,379,349</u>	<u>\$319,680,597</u>	<u>\$324,231,802</u>
Business-type activities										
Net investment in capital assets	\$170,791,021	\$194,435,373	\$218,432,739	\$251,025,494	\$481,186,894	\$473,757,198	\$476,681,835	\$502,684,950	\$527,784,338	\$539,821,175
Restricted	-	-	-	-	-	-	25,571,860	22,398,957	20,622,619	22,052,595
Unrestricted	139,613,374	163,792,245	169,639,845	147,661,517	138,033,147	152,003,655	162,882,299	150,187,831	99,450,370	92,324,550
Total business-type activities net position	<u>\$310,404,395</u>	<u>\$358,227,618</u>	<u>\$388,072,584</u>	<u>\$398,687,011</u>	<u>\$619,220,041</u>	<u>\$625,760,853</u>	<u>\$665,135,994</u>	<u>\$675,271,738</u>	<u>\$647,857,327</u>	<u>\$654,198,320</u>
Primary government										
Net investment in capital assets	\$504,200,553	\$533,831,639	\$565,790,231	\$580,617,663	\$819,197,027	\$836,513,156	\$838,264,072	\$850,332,369	\$905,929,963	\$921,708,464
Restricted	93,168,664	102,602,698	94,819,773	81,528,516	66,570,581	63,498,187	88,953,216	99,963,634	141,727,801	137,672,402
Unrestricted	127,047,077	168,420,129	169,167,443	162,061,295	144,574,017	147,677,199	161,779,641	159,355,084	(80,119,840)	(80,950,744)
Total primary government net position	<u>\$724,416,294</u>	<u>\$804,854,466</u>	<u>\$829,777,447</u>	<u>\$824,207,474</u>	<u>\$1,030,341,625</u>	<u>\$1,047,688,542</u>	<u>\$1,088,996,929</u>	<u>\$1,109,651,087</u>	<u>\$967,537,924</u>	<u>\$978,430,122</u>

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

2) The significant decrease in net position was due to the implementation of GASB 68 related to the City's net pension liability.

CITY OF MODESTO
CHANGES IN NET POSITION
LAST TEN FISCAL YEARS
(ACCRUAL BASIS OF ACCOUNTING)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Expenses										
Governmental activities:										
General government	\$17,227,876	\$15,997,582	\$12,700,264	\$12,093,091	\$12,473,794	\$14,236,573	\$12,041,953	\$11,221,704	\$12,085,051	\$12,838,583
Community development	12,025,105	14,619,525	14,694,997	18,912,766	28,301,160	14,206,876	25,162,533	13,002,466	11,888,475	12,552,115
Highways and streets	26,246,306	26,436,475	23,682,253	23,668,779	24,114,799	21,009,521	20,525,496	21,316,315	21,269,704	20,149,011
Public works	12,557,512	11,471,344	9,151,786	6,759,562	7,393,809	6,780,882	4,064,497	3,241,135	9,810,989	10,749,465
Parks and recreation	14,568,192	14,264,334	15,070,007	13,268,871	10,310,549	11,741,352	13,036,579	11,659,816	4,641,611	3,493,743
Public safety	83,793,361	88,651,249	84,395,987	80,254,834	83,381,310	83,568,633	83,857,207	72,301,682	86,782,741	86,907,876
Interest on long-term debt	7,286,026	4,998,482	6,114,875	5,766,421	3,609,345	3,066,897	3,193,997	2,958,471	3,204,203	2,691,894
Total governmental activities expenses	173,704,378	176,438,991	165,810,169	160,724,324	169,584,766	154,610,734	161,882,262	135,701,589	149,682,774	149,382,687
Business-type activities:										
Water	1,475,340	1,982,066	2,011,386	1,826,401	1,518,955	1,482,640	1,252,660	1,605,829	54,718,239	59,127,625
Sewer	35,540,918	36,713,351	38,190,214	43,619,704	36,305,860	53,730,665	48,656,862	63,498,896	30,281,361	33,093,921
Bus	24,156,577	23,974,989	22,416,713	28,055,056	28,497,430	29,366,025	24,155,935	31,895,568	18,614,175	19,709,745
Parking	6,924,335	6,349,113	6,140,963	5,201,741	7,619,939	6,674,100	4,239,567	6,372,418	1,513,185	1,625,943
Storm drain	1,225,462	1,312,511	1,130,816	1,480,068	4,112,837	4,426,031	4,350,079	4,951,441	3,913,204	5,312,896
Compost	2,039,988	1,444,667	1,682,644	1,918,113	2,157,180	1,640,733	1,534,242	2,291,222	7,841,048	11,998,345
Airport	13,758,421	14,834,612	15,210,224	15,671,731	16,064,104	16,944,803	18,025,010	19,618,547	2,025,146	1,787,081
Golf	2,479,447	2,497,161	2,440,599	2,473,968	2,366,052	2,279,650	2,197,368	2,845,109	2,998,505	3,130,536
Community center	2,543,121	2,465,825	2,303,256	2,346,175	2,284,082	2,352,173	1,864,996	2,031,928	1,852,585	1,981,307
Abatement and public nuisance	-	-	-	-	-	34,609	42,879	31,877	93,067	84,152
Total business-type activities expenses	90,143,609	91,574,295	91,526,815	102,592,957	100,926,439	118,931,429	106,319,598	135,142,835	123,850,515	137,851,551
Total primary government expenses	\$263,847,987	\$268,013,286	\$257,336,984	\$263,317,281	\$270,511,205	\$273,542,163	\$268,201,860	\$270,844,424	\$273,533,289	\$287,234,238
Program revenues										
Governmental activities:										
Charges for services:										
General government	\$3,775,368	\$6,726,893	\$6,987,127	\$6,323,865	\$6,804,398	\$6,799,202	\$6,262,963	\$5,825,407	\$5,912,157	\$6,539,908
Community development	10,873,541	7,869,742	4,788,324	2,941,932	4,730,263	4,430,690	4,123,811	4,537,984	3,385,050	6,885,850
Highway and streets	10,719,009	5,804,342	8,222,178	2,801,213	3,179,788	4,178,567	761,394	873,566	1,744,505	1,154,290
Public works	1,757,648	5,110,428	1,349,956	3,344,967	2,909,677	2,936,299	3,565,048	4,146,641	6,621,704	5,469,419
Parks and recreation	4,437,320	5,590,196	4,006,123	6,038,468	3,105,490	3,221,072	3,623,647	3,004,001	1,344,923	771,733
Public safety	8,414,456	4,868,612	4,625,935	4,325,231	4,977,440	3,338,783	3,668,302	3,123,758	4,218,000	3,868,346
Operating grants and contributions	12,701,177	14,221,390	11,424,548	14,559,357	19,861,492	10,270,642	16,477,474	5,868,684	5,862,566	3,630,185
Capital grants and contributions	4,207,389	17,930,957	6,595,213	10,876,018	7,334,967	9,509,584	9,046,762	8,206,154	5,878,550	1,708,602
Total governmental activities program revenues	\$56,885,908	\$68,122,560	\$47,999,404	\$51,211,051	\$52,903,515	\$44,684,839	\$47,529,401	\$35,586,195	\$34,967,455	\$30,028,333
Business-type activities:										
Charges for services:										
Water	\$1,128,755	\$1,297,484	\$1,256,360	\$1,239,995	\$1,274,482	\$1,291,401	\$1,169,293	\$1,092,347	\$59,800,535	\$55,992,533
Sewer	49,305,033	51,679,042	53,218,692	54,670,041	55,345,414	57,534,190	61,474,235	60,254,110	46,193,997	47,859,680
Bus	24,833,019	29,340,615	35,854,857	37,310,731	39,142,045	41,825,928	43,414,773	46,046,304	3,424,662	3,352,615
Parking	5,403,474	5,338,838	5,301,150	5,428,291	6,152,211	5,783,694	5,780,644	5,831,133	1,239,439	1,289,211
Storm drain	1,254,137	1,075,032	1,397,708	1,706,189	4,490,110	4,672,517	8,012,611	4,853,133	5,874,349	5,588,169
Compost	604,214	593,349	661,524	675,565	1,019,177	619,689	619,904	634,530	7,191,145	7,352,767
Airport	2,545,790	3,182,762	2,944,108	2,769,814	2,877,492	2,892,539	2,946,937	2,989,504	551,373	622,383
Golf	2,189,384	2,124,672	1,984,769	1,924,015	1,647,400	1,759,818	1,568,532	2,196,280	2,574,496	2,431,904
Community center	552,878	532,471	492,989	489,562	433,460	420,059	263,581	230,801	257,991	326,839
Abatement and public nuisance	-	-	-	-	-	71,567	302,563	201,825	128,636	166,641
Operating grants and contributions	11,059,129	12,459,707	11,462,346	13,706,512	12,629,219	12,694,058	13,766,061	13,721,179	14,223,954	14,153,568
Capital grants and contributions	7,962,675	9,793,356	4,527,875	2,898,489	4,856,649	12,021,793	4,282,549	4,971,940	13,820,127	4,753,223
Total business-type activities program revenue	106,838,488	117,417,328	119,102,378	122,819,204	129,867,659	141,587,253	143,601,683	143,023,086	155,280,704	143,889,533
Total primary government program revenues	\$163,724,396	\$185,539,888	\$167,101,782	\$174,030,255	\$182,771,174	\$186,272,092	\$191,131,084	\$178,609,281	\$190,248,159	\$173,917,866
Net (Expense)/Revenue										
Governmental activities	(\$116,818,470)	(\$108,316,431)	(\$117,810,765)	(\$109,513,273)	(\$116,681,251)	(\$109,925,895)	(\$114,352,861)	(\$100,115,394)	(\$114,715,319)	(\$119,354,354)
Business-type activities	16,694,879	25,843,033	27,575,563	20,226,247	28,941,220	22,655,824	37,282,085	7,880,251	31,430,189	6,037,982
Total primary government net expense	(\$100,123,591)	(\$82,473,398)	(\$90,235,202)	(\$89,287,026)	(\$87,740,031)	(\$87,270,071)	(\$77,070,776)	(\$92,235,143)	(\$83,285,130)	(\$113,316,372)

City of Modesto
CHANGES IN NET POSITION
LAST TEN FISCAL YEARS
(ACCRUAL BASIS OF ACCOUNTING)

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011 (1)</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015 (5)</u>	<u>2016</u>
General Revenues and Other Changes in Net Position										
Governmental activities:										
Taxes:										
Utility users tax	\$18,319,573	\$ 19,173,295	\$ 19,093,222	\$ 19,117,518	\$ 19,119,037	\$ 19,230,879	\$ 20,399,116	\$ 20,153,653	\$ 19,591,170	\$ 19,564,921
Property taxes, levied for general purposes (2)	16,456,379	16,202,587	13,863,471	12,306,702	12,107,226	11,863,902	11,618,481	12,304,010	13,551,827	14,552,304
Property taxes, generated by and allocated to the airport	5,303,521	5,813,822	6,228,634	6,521,515	5,750,235	2,884,357	-	-	-	-
Transient occupancy tax	2,264,699	2,038,255	1,853,732	1,460,613	1,639,761	1,769,106	1,884,188	1,879,825	2,097,952	2,523,087
Franchise tax	3,823,216	7,735,131	4,779,854	3,962,159	3,940,364	4,236,705	5,785,355	5,003,130	5,768,146	6,194,733
Business license tax, levied for general purposes	10,359,058	9,680,721	9,330,563	9,068,219	9,339,077	9,694,722	10,176,791	10,573,820	11,421,759	11,944,291
Business license tax, levied for downtown improvement district	221,487	202,100	196,253	169,471	172,520	177,026	170,222	181,689	188,247	186,123
Grants and contributions not restricted to specific programs:										
Sales tax (state appropriation)	27,884,852	26,305,982	24,578,230	22,301,060	24,110,596	25,958,263	27,110,911	27,651,939	28,437,594	29,878,815
Motor vehicle license fee	16,233,262	16,856,108	15,255,503	13,945,172	13,419,232	13,072,804	12,038,983	12,494,642	13,871,248	14,548,427
Gas tax funding	-	-	-	-	-	-	-	-	5,924,101	4,533,572
Community facilities district fees	-	-	-	-	-	-	-	-	4,570,403	3,829
Special assessments, levied	-	-	-	-	-	-	-	-	1,924,623	3,168,260
Proceeds from Modesto Regional Fire Authority dissolution	-	-	-	-	-	-	-	-	2,500,721	-
Other	4,169,354	917,347	3,285,651	1,286,466	9,718,308	11,794,261	12,844,926	15,269,250	25,866,105	13,101,149
Unrestricted investment earnings	8,330,079	9,960,367	5,247,506	1,211,702	696,848	(411,571)	52,893	441,383	564,314	582,565
Miscellaneous	3,582,325	3,469,916	5,809,581	2,502,397	1,630,466	1,821,336	1,861,660	5,402,480	2,281,008	2,440,696
Transfers	(1,153,632)	(779,437)	(5,490,881)	402,303	1,503,170	2,838,873	1,055,670	(41,312)	(775,377)	(567,177)
Total governmental activities	<u>115,794,173</u>	<u>117,576,194</u>	<u>104,031,319</u>	<u>94,255,297</u>	<u>103,146,840</u>	<u>104,930,663</u>	<u>104,999,196</u>	<u>111,314,509</u>	<u>137,783,841</u>	<u>122,655,595</u>
Business-type activities:										
Taxes:										
Property taxes, generated by and allocated to the airport	209,722	182,031	202,460	265,587	309,699	253,974	257,687	254,200	237,546	206,854
Business license tax, generated by and allocated to the airport	13,054	19,188	-	-	-	-	-	-	-	-
Unrestricted investment earnings	5,406,639	7,099,765	6,227,615	3,155,954	1,947,417	2,095,947	1,184,422	2,726,148	554,180	2,247,061
Connection fees (3)	-	-	-	-	-	-	1,200,800	524,914	-	-
Miscellaneous	-	-	253,032	-	-	-	-	-	1,214,729	1,368,761
Settlements	1,153,632	779,437	5,490,881	(402,303)	(1,503,170)	(2,838,873)	(1,055,670)	41,317	13,851	-
Transfers, net	-	14,525,389	-	447,102	187,096	222,379	116,711	110,376	775,377	567,177
Special item (4)	(505,498)	(625,620)	(2,211,514)	(1,326,309)	(727,310)	(826,133)	(1,143,257)	(1,356,418)	-	-
Total business-type activities	<u>6,277,549</u>	<u>21,980,190</u>	<u>9,962,474</u>	<u>2,140,031</u>	<u>213,732</u>	<u>(1,092,706)</u>	<u>560,693</u>	<u>2,300,537</u>	<u>2,795,683</u>	<u>4,389,853</u>
Total primary government	<u>\$122,071,722</u>	<u>\$139,556,384</u>	<u>\$113,993,793</u>	<u>\$96,395,328</u>	<u>\$103,360,572</u>	<u>\$103,837,957</u>	<u>\$105,559,889</u>	<u>\$113,615,046</u>	<u>\$140,579,524</u>	<u>\$127,045,448</u>
Change in Net Position										
Governmental activities	(\$1,024,297)	\$9,259,763	(\$13,779,446)	(\$15,257,976)	(\$13,534,411)	(\$4,995,232)	(\$9,353,665)	\$11,199,115	\$23,068,522	\$3,301,241
Business-type activities	22,972,428	47,823,223	37,538,037	22,366,278	29,154,952	21,563,118	37,842,778	10,180,788	34,225,872	10,427,835
Total primary government	<u>\$21,948,131</u>	<u>\$57,082,986</u>	<u>\$23,758,591</u>	<u>\$7,108,302</u>	<u>\$15,620,541</u>	<u>\$16,567,886</u>	<u>\$28,489,113</u>	<u>\$21,379,903</u>	<u>\$57,294,394</u>	<u>\$13,729,076</u>

(1) The amount reported under utility users taxes and property taxes were keyed backwards in 2011. The amounts have been fixed to reflect the correct numbers in these two categories.

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

(3) Starting in 2015, connection fee revenues were reported as part of program revenues for the Water fund.

(4) Starting in 2015, the special item related to pollution remediation has been reported as a liability. Any expenses incurred will be accounted for as a reduction to the liability.

(5) Starting in 2015, general revenues for grants and contributions not restricted to specific programs other related governmental activities were reclassified to provide more specific category revenue types.

**CITY OF MODESTO
FUND BALANCES OF GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
(MODIFIED ACCRUAL BASIS OF ACCOUNTING)**

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011 (b)</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
General Fund										
Reserved	\$ 3,734,973	\$ 3,816,559	\$ 3,568,273	\$ 2,871,715	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved	10,713,910	11,942,168	11,185,485	10,103,645	-	-	-	-	-	-
Nonspendable	-	-	-	-	-	123,061	126,603	102,152	2,770,844	2,647,692
Restricted	-	-	-	-	4,313,287	3,998,539	3,713,640	3,718,682	1,341,972	2,092,126
Committed	-	-	-	-	-	-	-	3,000,000	3,000,000	3,000,000
Assigned	-	-	-	-	458,415	519,051	1,173,377	1,024,149	3,119,753	6,503,769
Unassigned	-	-	-	-	10,215,682	10,806,111	11,758,746	12,069,864	14,586,931	12,822,134
Total General Fund	<u>\$ 14,448,883</u>	<u>\$ 15,758,727</u>	<u>\$ 14,753,758</u>	<u>\$ 12,975,360</u>	<u>\$ 14,987,384</u>	<u>\$ 15,446,762</u>	<u>\$ 16,772,366</u>	<u>\$ 19,914,847</u>	<u>\$ 24,819,500</u>	<u>\$ 27,065,721</u>
All Other Governmental Funds										
Reserved	\$ 40,174,920	\$ 42,799,130	\$ 39,607,945	\$ 39,686,892	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved, reported in:										
Special revenue funds	11,885,910	8,746,111	12,808,809	6,867,750	-	-	-	-	-	-
Capital project funds	72,253,464	71,780,583	58,718,023	54,341,594	-	-	-	-	-	-
Nonspendable	-	-	-	-	-	119	746	3,907	88,057	86,242
Restricted	-	-	-	-	118,919,268	109,145,041	106,724,809	108,672,378	79,643,971	80,563,574
Assigned	-	-	-	-	3,647,941	2,604,281	3,965,851	3,700,733	14,962,522	10,063,058
Unassigned	-	-	-	-	(23,614,308)	(18,852,239)	(32,965,286)	(34,656,617)	(3,866,450)	(724,841)
Total all other governmental funds	<u>\$ 124,314,294</u>	<u>\$ 123,325,824</u>	<u>\$ 111,134,777</u>	<u>\$ 100,896,236</u>	<u>\$ 98,952,901</u>	<u>\$ 92,897,202</u>	<u>\$ 77,726,120</u>	<u>\$ 77,720,401</u>	<u>\$ 90,828,100</u>	<u>\$ 89,988,033</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 ten years of data for this schedule.

(b) The City implemented the provisions of GASB Statement 54 in fiscal year 2011.

**CITY OF MODESTO
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
(MODIFIED ACCRUAL BASIS OF ACCOUNTING)**

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Revenues										
Taxes	\$56,748,017	\$57,142,392	\$55,345,729	\$52,606,197	\$52,068,220	\$49,856,697	\$50,034,153	\$50,096,127	\$52,619,101	\$54,965,459
Licenses and permits	187,289	153,545	132,459	138,811	139,073	131,302	175,720	174,734	149,888	186,624
Intergovernmental	66,129,862	71,179,504	63,606,634	61,551,617	74,242,596	68,682,778	75,737,161	67,426,885	88,906,770	76,317,229
Charges for services	36,979,023	33,319,642	27,051,151	23,509,170	22,638,801	19,897,159	19,800,718	19,457,298	22,337,357	20,429,860
Special assessments levied	51,634	35,294	37,299	38,520	1,852,529	1,860,905	1,781,896	2,063,784	1,924,623	3,168,260
Interest and rent	4,837,419	5,236,476	2,909,155	1,322,005	838,178	1,145,251	835,994	1,019,357	957,846	1,297,734
Net increase (decrease) in fair value of investments	1,168,857	1,404,913	860,820	399,322	(89,608)	(452,987)	(584,090)	(423,827)	(320,398)	102,422
Fines and forfeits	2,699,445	2,614,523	2,443,506	2,253,014	2,929,182	2,169,482	2,004,133	1,844,607	1,171,076	904,802
Contribution from property owners	-	-	-	-	-	-	-	-	-	-
Miscellaneous	2,814,421	3,469,916	5,809,581	2,502,397	1,630,467	1,821,336	2,081,776	4,653,746	2,784,295	2,286,597
Total Revenues	171,615,967	174,556,205	158,196,334	144,321,053	156,249,438	145,111,923	151,867,461	146,312,711	170,530,558	159,658,987
Expenditures										
Current:										
General government	15,517,544	15,107,461	13,715,577	11,482,240	10,879,751	12,411,413	11,169,669	11,643,579	11,334,202	12,414,982
Community development	11,789,640	13,820,295	14,137,095	18,536,120	26,077,905	12,831,734	23,673,373	12,589,817	11,511,154	12,453,678
Highways and streets	12,553,681	12,549,018	9,721,445	8,102,327	11,530,856	8,434,681	8,560,717	8,744,899	9,672,790	8,498,783
Public works	11,307,307	9,719,098	7,667,125	6,124,685	6,035,524	5,283,123	2,993,702	3,088,701	9,228,780	10,393,169
Parks and recreation	13,348,613	12,605,651	13,307,764	12,138,077	8,722,311	9,756,888	11,299,979	11,947,862	4,212,301	3,385,484
Public safety	80,988,650	82,707,285	78,103,260	75,081,791	73,207,608	72,131,852	74,094,399	74,595,533	81,353,131	84,022,670
Capital outlay	30,194,778	22,745,308	27,663,037	16,655,242	11,219,489	20,839,517	26,616,638	12,901,002	30,339,677	19,817,025
Debt service:										
Principal retirement	2,008,538	2,265,000	1,093,000	2,045,000	2,234,000	2,397,000	1,451,000	1,596,000	1,789,335	2,345,362
Interest	4,413,300	3,473,369	3,033,829	4,032,612	3,620,851	3,229,440	2,330,962	2,159,672	2,417,840	2,043,278
Advance refunding escrow	822,228	-	-	-	-	-	-	-	-	-
Other	1,333,129	1,337,611	1,395,211	1,408,771	57,557	48,738	932,460	872,350	783,264	697,405
Total Expenditures	184,277,408	176,330,096	169,837,343	155,606,865	153,585,852	147,364,386	163,122,899	140,139,415	162,642,474	156,071,836
Excess of revenues over (under) expenditures	(12,661,441)	(1,773,891)	(11,641,009)	(11,285,812)	2,663,586	(2,252,463)	(11,255,438)	6,173,296	7,888,084	3,587,151
Other Financing Sources (Uses)										
Transfers in	23,985,863	24,429,880	19,237,526	12,346,246	10,557,218	11,384,460	18,230,774	7,962,817	8,157,278	6,960,425
Transfers out	(26,399,280)	(22,579,265)	(18,149,564)	(12,402,937)	(13,069,195)	(14,223,663)	(18,417,413)	(11,164,994)	(10,682,539)	(10,572,346)
Proceeds of loan payable	-	244,650	209,575	-	-	-	-	-	-	-
Proceeds of notes payable	44,138	-	-	-	-	-	-	-	-	-
Proceeds of lease revenue bonds	62,275,000	-	65,170,000	-	-	-	-	-	-	-
Refunding of lease revenue bonds	-	-	(65,210,000)	-	-	-	-	-	-	-
Capital leases	-	-	-	-	-	-	-	-	1,070,472	330,947
Sale of assets	767,904	-	34,900	-	-	-	72,489	200,838	94,489	106,582
Payments to refunded debt escrow agent	(58,911,124)	-	(2,431,247)	-	-	-	-	-	-	-
Total other financing sources (uses)	1,762,501	2,095,265	(1,138,810)	(56,691)	(2,511,977)	(2,839,203)	(114,150)	(3,001,339)	(1,360,300)	(3,174,392)
Extraordinary Items:										
RDA dissolution transactions	-	-	-	-	-	(403,850)	-	-	-	-
RDA advance receivable elimination	-	-	-	-	-	(966,127)	-	-	-	-
Total extraordinary items	-	-	-	-	-	(1,369,977)	-	-	-	-
Change in fund balances	(10,898,940)	321,374	(12,779,819)	(11,342,503)	151,609	(6,461,643)	(11,369,588)	3,171,957	6,527,784	412,759
FUND BALANCES, July 1	149,662,117	138,763,177	139,084,551	125,888,535	113,871,596	113,940,285	108,343,964	94,498,486	97,635,248	115,647,600
PRIOR PERIOD ADJUSTMENTS	-	-	(416,197)	(674,436)	(82,920)	865,322	(2,475,890)	(35,195)	11,484,568	993,395
FUND BALANCES, June 30	\$138,763,177	\$139,084,551	\$125,888,535	\$113,871,596	\$113,940,285	\$108,343,964	\$94,498,486	\$97,635,248	\$115,647,600	\$117,053,754
Debt service as a percentage of noncapital expenditures	0.04979	0.03917	0.03020	0.04623	0.04291	0.04656	0.02870	0.03063	0.03305	0.03346

The debt service percentage was revised to only include principal and interest.

CITY OF MODESTO
REVENUE CAPACITY - MOST SIGNIFICANT LOCAL REVENUE SOURCE
WATER UTILITY SYSTEM
(YEAR ENDED JUNE 30, 2016)

Ten Largest Customers of Water Utility System, Year Ended 06/30/2016

<u>Customer</u>	<u>Usage (ccf) (1)</u>	<u>% of Total Usage</u>	<u>Water Sales Revenue (\$)</u>	<u>% of Total Water Sales Revenue</u>
1) City of Modesto-Stores	217,529	1.07%	\$ 553,798	1.16%
2) Stanislaus Food Products	350,941	1.73%	\$ 521,457	1.10%
3) Modesto City Schools	269,161	1.33%	\$ 517,821	1.09%
4) Seneca Foods	325,950	1.61%	\$ 473,554	1.00%
5) Foster Farms	308,053	1.52%	\$ 439,866	0.92%
6) Modesto Irrigation District	225,365	1.11%	\$ 349,864	0.74%
7) Sunopta	186,039	0.92%	\$ 268,475	0.56%
8) Stanislaus Housing Authority	130,164	0.64%	\$ 262,431	0.55%
9) E & J Gallo	137,179	0.68%	\$ 227,751	0.48%
10) Yosemite Community College	100,876	0.50%	\$ 183,271	0.39%
Total Top Ten	<u>2,251,257</u>	<u>11.11%</u>	<u>\$ 3,798,288</u>	<u>7.99%</u>

Total Flat/Metered Revenues (Water Sales)

\$47,562,579

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

Water Sales Revenue, Year Ended 06/30/2016

Residential - Flat Rates	\$ 7,320,096
Commercial, Industrial and Municipal - Metered Rates	<u>\$ 40,242,483</u>
Total Water Sales	<u>\$ 47,562,579</u>

Water Rates and Charges as of 07/01/2015

The average monthly flat rate service charge for residential customers is: \$ 46.38

Commercial Accounts:

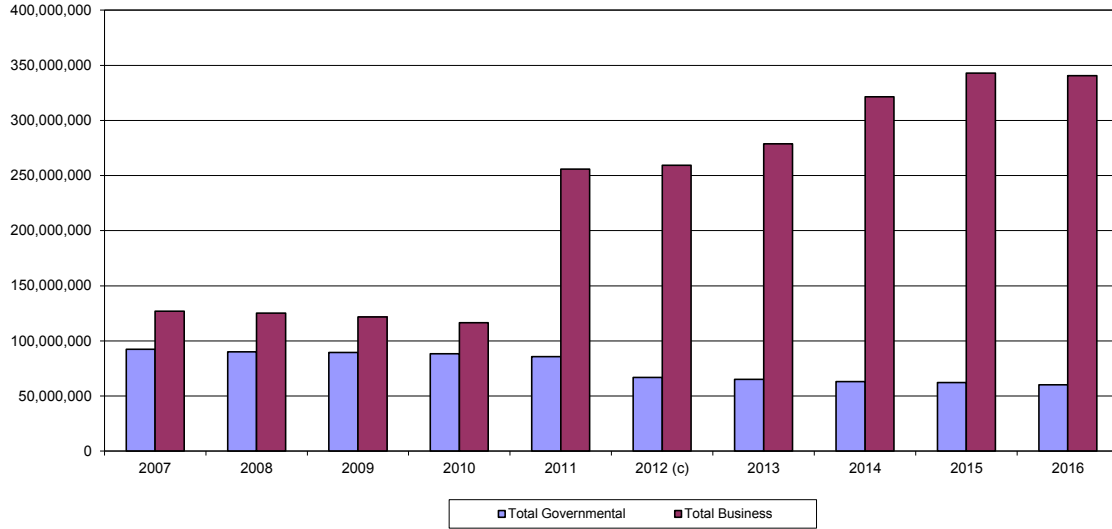
<u>Meter Size</u>	
3/4"	\$ 15.03
1"	\$ 21.33
1 1/2"	\$ 36.90
2"	\$ 55.68
3"	\$ 105.80
4"	\$ 162.13
6"	\$ 318.47
8"	\$ 506.20
10"	\$ 725.26
12"	\$ 1,350.92

In addition to these minimum charges, commercial accounts are charged \$1.40 per 100 cubic feet of water used.

Source:

City of Modesto-Utilities Division

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



Governmental Activities

Fiscal Year	Loans Payable	Certificates of Participation	Lease Revenue Bonds	Notes Payable	Obligations Under Capital Leases	Total
2007	\$ 449,138	\$ 20,820,000	\$ 66,440,000	\$ 4,365,446	\$ 211,354	\$ 92,285,938
2008	693,788	19,935,000	65,210,000	4,187,220	137,392	90,163,400
2009	903,362	19,000,000	65,170,000	3,999,252	454,401	89,527,015
2010	903,362	18,015,000	64,275,000	3,802,436	1,221,553	88,217,351
2011	903,392	16,975,000	63,255,000	3,594,658	975,955	85,704,005
2012 (c)	498,362	-	62,130,000	3,392,000	742,937	66,763,299
2013	498,362	-	60,870,000	3,201,000	502,622	65,071,984
2014	498,362	-	59,475,000	3,000,000	256,945	63,230,307
2015	498,362	-	57,970,000	2,789,000	1,070,472	62,327,834
2016	498,362	-	56,305,000	2,568,000	942,057	60,313,419

Business-Type Activities

Fiscal Year	Loans Payable	Certificates of Participation	Reimbursement Agreement related to MID (e)	Revenue Bonds (b)	Capital Leases	Total (f)	Total Primary Government	Percentage of Personal Income (a) (e)	Per Capita (a) (e)
2007	\$ 1,958,276	\$ 71,595,000	-	\$ 53,130,000	\$ 151,633	\$ 126,834,909	\$ 219,120,847	3.72%	\$ 1,044
2008	1,754,300	71,915,000	-	51,420,000	77,485	125,166,785	215,330,185	3.76%	1,025
2009	1,543,554	70,545,000	-	49,760,000	-	121,848,554	211,375,569	3.78%	999
2010	1,326,174	67,066,213	-	48,050,000	-	116,442,387	204,659,738	3.90%	1,017
2011 (d)	6,522,243	50,757,779	-	198,654,489	-	255,934,511	341,638,516	5.43%	1,693
2012 (d)	16,098,866	50,237,067	-	193,098,177	-	259,434,110	326,197,409	7.14%	1,584
2013	41,921,784	49,681,357	-	187,251,865	-	278,855,006	343,926,990	7.29%	1,663
2014	88,922,403	49,634,062	-	182,792,914	-	321,349,379	384,579,686	8.15%	1,860
2015	117,690,257	48,989,556	137,055,810	39,057,561	-	342,793,184	405,121,018	8.63%	1,937
2016 (g)	125,787,342	48,330,053	132,375,084	33,945,516	-	340,437,995	400,751,414	8.21%	1,891

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

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

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

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

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

(e) In 2015, the Reimbursement agreement with MID was reclassified from revenue bonds payable to reimbursement agreement related to MID since this long-term debt is listed under MID but is the City's liability due to nature of the treatment and delivery agreement.

(f) The total for Business-Type Activities did not include the capital leases in error. The total has been updated to account for this debt.

(g) Starting in 2016, the amounts presented include net of unamortized premiums or discounts.

CITY OF MODESTO
COMPUTATION OF DIRECT AND OVERLAPPING DEBT
JUNE 30, 2016

<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>60,313,419</u>	100%	\$ <u>60,313,419</u>
Overlapping General Obligation debt - school districts:			
Ceres Unified School District	66,483,128	4.82%	3,206,785
Hart-Ransom Union School District	3,782,873	30.76%	1,163,692
Modesto Elementary School District	9,655,360	78.06%	7,537,443
Modesto High School District	38,289,159	67.60%	25,884,724
Paradise Elementary School District	375,000	0.00%	-
Salida Union Elementary District	500,000	29.18%	145,878
Stanislaus Union School District	21,375,000	74.66%	15,958,777
Sylvan School District	32,735,881	77.83%	25,478,812
Yosemite Community College District	<u>288,021,052</u>	25.81%	<u>74,338,125</u>
Total overlapping debt	<u>461,217,453</u>		<u>153,714,236</u>
Total direct and overlapping debt	\$ <u><u>521,530,872</u></u>		\$ <u><u>214,027,655</u></u>

NOTES:

Source of data for School Districts: Stanislaus County Auditor.

- (1) Gross debt outstanding less applicable amounts in debt service funds.
- (2) Determined by ratio of assessed valuation of property subject to taxation in overlapping portion to valuation of all property subject to taxation in the jurisdiction.

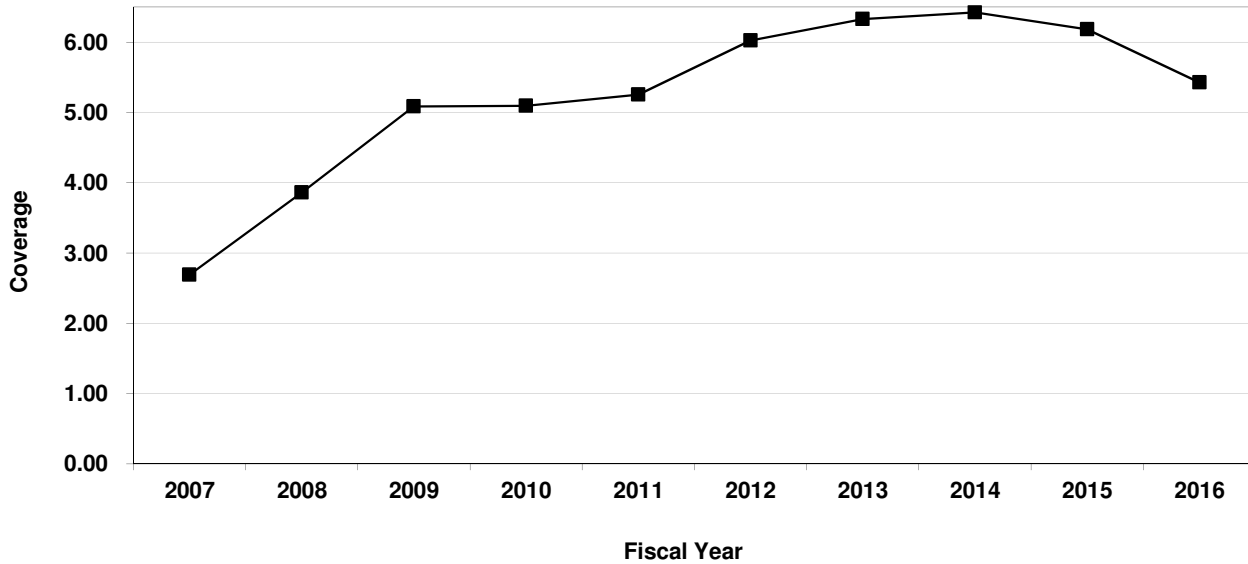
CITY OF MODESTO
COMPUTATION OF LEGAL DEBT MARGIN
JUNE 30, 2016

Net assessed value (1)(3)		\$ 13,930,770,190
Plus homeowners' exemption (1)(3)		<u>203,632,424</u>
Gross assessed value (1)(3)		<u>\$ 14,134,402,614</u>
Debt limit - 15% of gross assessed value (2)		\$ 2,120,160,392
Amount of debt applicable to debt limit:		
Total general bonded debt, including special assessment debt	\$	<u>-</u>
Less: Assets in debt service funds available for payment of principal	\$	<u>-</u>
Other deductions: Special assessment debt		<u>-</u>
Total deductions		<u>-</u>
Total amount of debt applicable to debt limit		<u>-</u>
Legal debt margin		<u>\$ 2,120,160,392</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
2007	\$ 2,160,683,976	\$ -	\$ 2,160,683,976	0%
2008	2,327,946,572	-	2,327,946,572	0%
2009	2,138,574,915	-	2,138,574,915	0%
2010	1,945,371,241	-	1,945,371,241	0%
2011	1,856,710,771	-	1,856,710,771	0%
2012	1,823,551,939	-	1,823,551,939	0%
2013	1,724,049,678	-	1,724,049,678	0%
2014	1,825,518,342	-	1,825,518,342	0%
2015	2,017,621,335	-	2,017,621,335	0%
2016	2,120,160,392	-	2,120,160,392	0%

Note: The City has elected to show ten years worth of data for this schedule.
(1) Source: Stanislaus County Auditor
(2) Section 43605 California Government Code.
(3) Figures are based on Stanislaus County

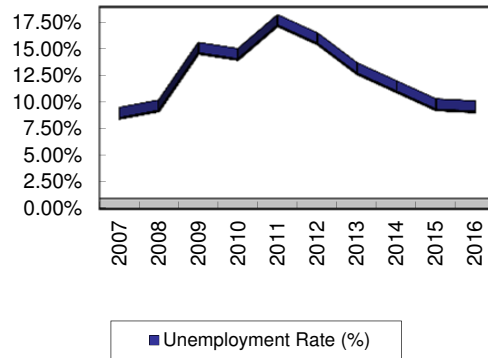
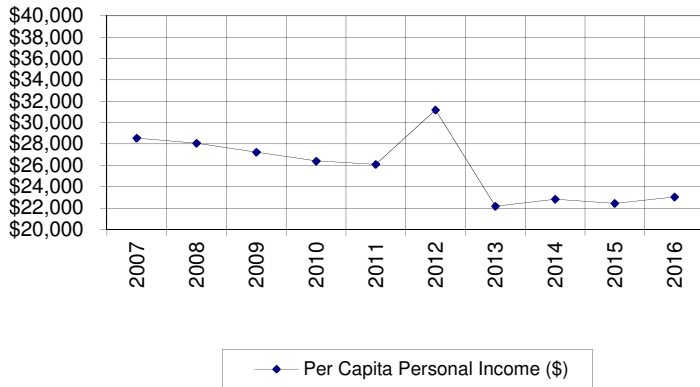
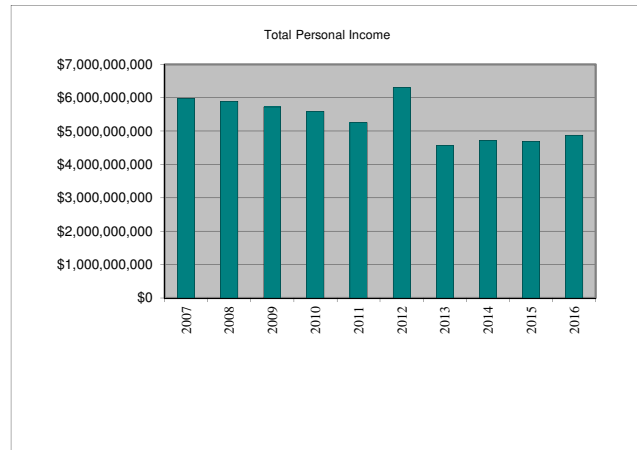
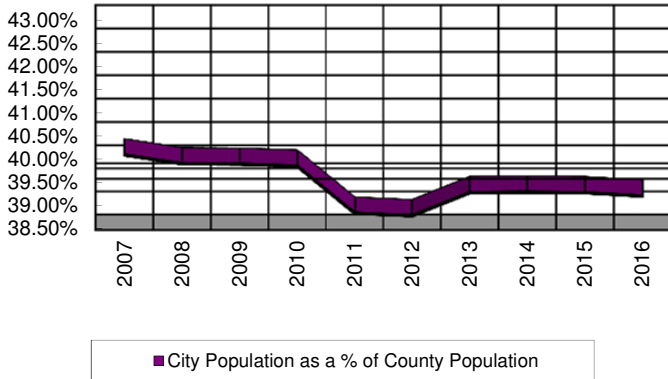
CITY OF MODESTO
REVENUE BOND COVERAGE
WASTEWATER REVENUE BONDS
LAST TEN FISCAL YEARS (4)



<u>Fiscal Year</u>	<u>Gross Revenue (1)</u>	<u>Operating Expenses (2)(4)</u>	<u>Net Revenue Available for Debt Service</u>	<u>Debt Service Requirements(3)</u>	<u>Coverage</u>
2007	\$ 26,367,977	\$ 16,399,785	\$ 9,968,192	\$ 3,705,523	2.69
2008	32,214,071	16,280,914	15,933,157	4,127,837	3.86
2009	37,539,860	17,050,138	20,489,722	4,030,633	5.08
2010	39,086,504	18,161,292	20,925,212	4,110,221	5.09
2011	39,844,523	18,722,729	21,121,794	4,021,108	5.25
2012	43,453,216	19,287,894	24,165,322	4,014,808	6.02
2013	45,018,125	19,586,799	25,431,326	4,019,558	6.33
2014	47,233,028	19,860,430	27,372,598	4,261,980	6.42
2015	46,853,368	21,207,025	25,646,343	4,150,322	6.18
2016	50,207,559	25,418,140	24,789,419	4,570,286	5.42

- 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 2005 A and 2005 B and 2006 Wastewater Revenue Bonds.
 - (4) The amount reported in 2014 was corrected from \$28,203,399 to \$19,860,430. The former amount included \$8.4 million for the State Revolving Fund loan which should not have been included in the calculation.

**CITY OF MODESTO
DEMOGRAPHIC AND ECONOMIC STATISTICS
LAST TEN FISCAL YEARS**



Fiscal Year	City Population	Total Personal Income	Per Capita Personal Income (\$)	Unemployment Rate (%)	Stanislaus County Population	City Population % of County
2007	209,174	\$ 5,970,871,830	\$ 28,545	8.50%	521,497	40.11%
2008	209,936	5,895,212,816	28,081	9.20%	525,903	39.92%
2009	210,088	5,720,906,328	27,231	14.60%	526,383	39.91%
2010	211,536	5,586,877,296	26,411	14.02%	530,584	39.87%
2011	201,165	5,251,613,490	26,106	17.20%	517,685	38.86%
2012	201,761	6,294,337,917	31,197	15.50%	519,940	38.80%
2013	205,987	4,566,113,829	22,167	12.70%	524,124	39.30%
2014	206,785	4,719,247,270	22,822	11.00%	526,042	39.31%
2015	209,186	4,693,924,654	22,439	9.30%	532,297	39.30%
2016	211,903	4,880,973,702	23,034	9.10%	540,214	39.23%

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

**CITY OF MODESTO
PRINCIPAL EMPLOYERS**

Employer	2015/16			2007/08		
	Number of (1) Employees	Rank	Percentage of Total City Employment	Number of (1) Employees	Rank	Percentage of Total City Employment
Modesto City Schools	3,500	1	1.53%	3,200	3	3.10%
E & J Gallo Winery (2)	3,300	2	1.44%	3,345	2	3.30%
Doctors Medical Center	2,600	3	1.13%	2,066	8	2.00%
Memorial Medical Center/Sutter Health	2,300	4	1.00%	2,682	5	2.60%
Del Monte Foods (2)	2,200	5	0.96%	2,600	6	2.5%
Seneca	2,138	6	0.93%			
Stanislaus Food Products	1,645	7	0.72%	2,259	7	2.20%
Modesto Junior College	1,582	8	0.69%			
City of Modesto	900	9	0.39%	1,614	10	1.60%
Med America Billing Systems (2)	900	10	0.39%			
Storer Coachways (2)	900	10	0.39%			
Stanislaus County				4,747	1	4.60%
Signature Fruit Company				2,900	4	2.80%
Foster Farms				1,813	9	1.8%
Subtotal	<u>21,965</u>		<u>9.58%</u>	<u>25,413</u>		<u>24.69%</u>
Total Labor Force	229,200			102,100		
Total City Population	211,903			209,936		

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

(1) The number of employees include both part-time and full time.

(2) Stanislaus Economic Development & Workforce Alliance received no response to their inquiry. Figures are based off of FY 2014/15.

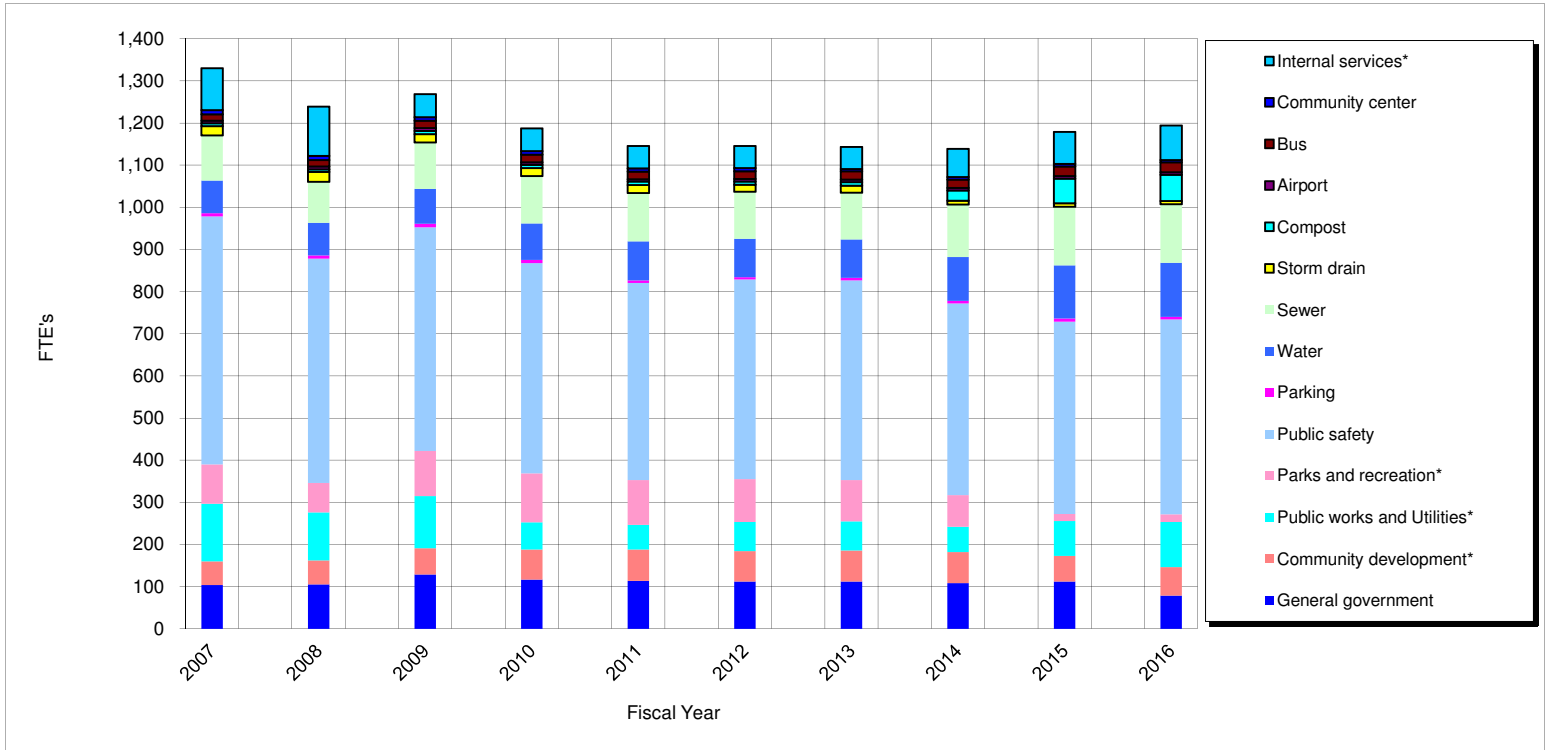
**CITY OF MODESTO
PRINCIPAL PROPERTY TAXPAYERS**

Employer	2015/16			2007/08		
	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value
Pacific Gas & Electric Company	\$ 3,586,670	1	0.79%	\$ 1,608,842	3	0.39%
World International, LLC	3,223,497	2	0.71%			
Gallo Glass Co	3,020,995	3	0.66%	1,378,021	4	0.33%
Gallo E & J Winery	2,703,447	4	0.59%	1,682,328	2	0.41%
Bronco Wine Co	1,601,002	5	0.35%			
Doctors Med Center of Mod Inc	1,428,646	6	0.31%	1,216,776	5	0.30%
Doctors medical Center of Modesto Inc	1,337,617	7	0.29%			
Hunt Wesson Foods Inc	1,311,589	8	0.29%	1,178,915	6	0.29%
W W Grainger, Inc	1,293,241	9	0.28%			
Fresno Farming, LLC	1,225,381	10	0.27%			
E & J Gallo Winery				2,933,771	1	0.71%
Hershey's Chocolate, Inc				1,131,569	7	0.27%
Pacific Bell				1,077,428	8	0.26%
Del Monte Corp				1,071,880	9	0.26%
Foster Dairy Farms				1,026,928	10	0.25%
Subtotal	<u>\$ 20,732,085</u>		<u>4.56%</u>	<u>\$ 14,306,458</u>		<u>3.47%</u>
Total assessed value of \$	\$ 455,100,342			\$ 412,187,245		

Source: Stanislaus County Treasurer-Tax Collector

Note: Information based on entire Stanislaus County

CITY OF MODESTO
FULL-TIME CITY GOVERNMENT EMPLOYEES BY FUNCTION
LAST TEN FISCAL YEARS



	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Function										
General government	104.10	105.00	128.60	116.60	113.60	112.00	112.00	108.00	112.10	79.00
Community development*	56.00	57.00	62.20	71.20	74.20	72.20	74.00	73.80	60.75	67.00
Public works and Utilities*	136.50	114.00	124.00	65.00	59.00	69.00	69.00	60.00	83.00	107.00
Parks and recreation*	93.25	70.00	107.25	116.00	106.23	101.48	97.50	75.38	16.50	18.50
Public safety	588.75	532.00	530.75	499.00	467.75	473.75	474.00	455.00	456.50	462.50
Parking	7.00	8.00	8.00	7.00	6.00	6.00	6.00	6.00	7.00	6.00
Water	78.00	77.00	83.00	87.00	92.00	91.00	91.00	104.00	126.00	128.00
Sewer	107.00	97.00	110.00	112.00	115.00	111.00	111.00	124.00	139.00	139.00
Storm drain	22.00	24.00	20.00	19.00	19.00	17.00	17.00	9.00	9.00	8.00
Compost	7.00	6.00	7.00	8.00	8.00	8.00	8.00	24.80	57.80	61.80
Airport	6.00	7.00	6.75	6.00	6.00	6.00	6.00	6.00	6.00	6.00
Bus	15.00	15.00	18.00	18.00	18.00	18.00	20.00	20.00	23.00	24.00
Community center	9.50	9.50	8.50	8.50	7.25	7.25	5.50	5.50	6.00	5.00
Internal services*	99.60	117.00	54.00	54.00	53.00	53.00	52.00	67.30	76.00	82.00
Total	1,329.70	1,238.50	1,268.05	1,187.30	1,145.03	1,145.68	1,143.00	1,138.78	1,178.65	1,193.80

Source: City of Modesto

**CITY OF MODESTO
OPERATING INDICATORS BY FUNCTION**

Function/Program	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Public safety:										
Fire:										
Fire calls for service(1)	21,526	23,246	22,911	20,888	20,400	20,970	22,846	24,281	24,712	21,135
Primary fire inspections conducted	936	976	1,069	1,012	1,214	1,618	818	989	1,050	764
Police:										
Communication Center calls answered										
Police calls for service	92,971	121,434	116,383	167,576	154,549	168,242	174,113	123,357	122,270	129,439
Law violations:										
Part I and Part II crimes	46,401	60,595	57,844	52,182	49,914	47,175	52,272	53,032	50,729	53,609
Physical arrests (adult and juvenile)	15,374	14,185	12,471	15,105	11,872	11,536	12,418	15,039	18,634	12,303
Traffic violations	27,111	25,739	26,914	30,941	24,278	16,330	14,761	15,477	12,700	11,451
Parking violations	21,600	16,079	21,391	18,041	20,452	15,772	12,150	12,327	5,493	6,139
Public works										
Streets:										
Street resurfacing (lane miles)	10	9	1	7	6	-	6	12	8	4
Potholes repaired (square miles)	31,055	40,411	39,473	39,705	27,724	38,290	13,282	12,573	14,515	24,059
Water utility customer repaired (sq. ft)	-	-	58,737	6,990	58,044	112,136	81,261	29,108	611	-
Crack sealing (lane miles)	-	-	-	16	23	-	20	33	12	37
Airport:										
Number of passengers enplaned (2)	50,782	49,525	28,470	25,640	22,514	19,188	16,532	11,703	-	-
Number of tenant aircraft	202	195	184	190	183	184	184	172	162	173
Number of hangars	109	109	109	118	118	118	118	118	119	119
Number of runways	2	2	2	2	2	2	2	2	2	2
Annual fuel consumption in gallons	1,102,439	1,140,426	672,406	639,971	311,500	645,283	653,153	682,769	582,473	443,272
Bus service:										
Number of buses	51	56	56	56	63	55	65	55	56	60
Number of routes	19	20	20	20	20	20	20	20	21	21
Total route miles	356	362	362	362	362	362	362	362	362	362
Average weekday number of passengers	12,295	12,599	12,599	12,524	10,688	11,553	11,616	12,538	11,598	12,441
Total number of passengers carried	3,629,128	3,699,846	3,699,846	3,478,120	3,145,400	3,413,421	3,434,409	3,666,824	3,416,314	3,664,689
Community development										
Building safety & NPU:										
Permits issued	5,174	4,182	3,242	3,733	3,801	3,288	3,566	3,871	4,511	4,939
Estimated cost of construction	\$ 228,814,464	\$ 157,006,451	\$ 96,127,131	\$ 67,488,906	\$ 73,397,148	\$ 76,362,371	\$ 81,095,370	\$ 58,850,241	\$ 137,453,763	\$ 92,768,634
Building Inspections made	44,542	39,172	32,362	32,846	29,034	25,549	27,816	30,034	31,571	23,187
Traffic electrical:										
Street lights	-	13,595	13,764	13,765	13,765	13,765	13,765	13,761	13,764	13,764
Traffic signals	-	140	146	149	143	143	144	144	147	151
Lighted ped walks*	-	-	28	28	28	30	28	29	28	28
Beacons*	-	-	1	12	5	8	8	11	11	11
Four way flashers*	-	-	9	9	9	9	10	10	10	10
School flashers*	-	-	22	22	22	22	22	22	22	23
CCTV*	-	-	38	38	38	38	41	41	41	41
Hubs*	-	-	5	5	5	5	6	6	6	6
Culture and recreation:										
Recreation class participants	5,175	4,255	3,271	3,171	2,297	2,072	264,670	150,514	151,323	150,091
Solid waste:										
Recyclables processed (tons per year)	74,645	106,664	74,288	47,170	50,789	67,317	37,647	46,936	55,020	56,493
Yard waste	-	38,889	41,235	48,856	60,408	58,650	55,147	39,117	48,832	58,730
Commercial food waste	-	280	597	667	814	735	765	827	817	845
Waste tires	-	7,120	5,214	3,683	2,388	1,247	1,674	4,969	4,152	4,497

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

Source: City of Modesto - Various Departments

(2) The enplanements subsided with the loss of commercial service in FY 2014.

CITY OF MODESTO
CAPITAL ASSET STATISTICS BY FUNCTION/PROGRAM

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Function/Program										
Public safety:										
Fire stations	11	11	11	11	11	11	11	11	11	11
Police stations	1	1	1	1	1	1	1	1	1	1
Police patrol units	102	102	70	100	98	98	105	105	105	105
Public works										
Streets:										
Miles of streets (1)	674	675	675	675	676	684	684	691	691	692
Water:										
Miles of water mains	990	994	1,007	1,008	1,008	1,008	1,009	1,009	914	887
Fire hydrants	7,200	7,301	7,412	7,516	7,536	7,566	7,584	7,596	7,748	7,845
Storage capacity (thousands of gallons)	9,400,000	9,400,000	9,400,000	13,100,000	12,300,000	12,300,000	12,300,000	12,300,000	12,300,000	18,300,000
Wastewater:										
Miles of sanitary sewers	641.0	656.7	642	642	642	642	639	639	639	639
Miles of storm sewers	132.9	133.6	183	183	183	183	183	183	183	183
Number of treatment plants (2)	2	2	2	2	2	2	2	2	2	2
Treatment capacity (millions of gallons)	70	70	72	72	72	72	70	70	70	70
Community services:										
City parks (3)	75	76	76	76	76	76	76	76	76	76
City parks acreage	1,088	1,088	1,088	1,088	1,088	1,088	1,110	1,110	1,110	1,240
Playgrounds	55	55	55	55	55	55	55	55	58	58
City trails	4	4	4	4	4	7	7	7	6	6
City trails miles	11	12	12	12	12	14	14	14	15	15
Regional park acreage	324	324	324	324	324	324	324	324	375	375
Regional park facilities:										
Golf courses (18 holes)	2	2	2	2	2	2	2	2	2	2
Golf courses (9 holes)	1	1	1	1	1	1	1	1	1	1
Clubhouse and banquet facility	8	8	8	8	8	8	8	8	8	8
Historic house (4)	4	4	4	4	4	4	4	4	4	3
Community gardens	2	2	2	2	2	2	2	2	2	2
Community centers	6	6	7	7	6	6	7	7	7	7
Senior centers	1	1	1	1	1	1	1	1	1	1
Sports centers	1	1	1	1	1	1	1	1	1	1
Performing arts centers	1	1	1	1	1	1	1	1	1	1
Swimming pools	16	13	13	13	4	4	4	4	4	4
Tennis courts	37	37	37	37	37	37	37	37	37	37
Baseball/softball diamonds	24	24	24	24	24	24	24	24	24	24
Soccer/football fields	22	22	22	22	22	22	29	29	29	29
Splash play in Existing parks	-	-	-	-	-	10	10	10	10	10

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

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

(3) The number of parks for fiscal years 2013, 2014, 2015 was reported incorrectly as 77. Figures have been corrected to reflect accurately.

(4) The number of historic houses was reduced by one due to the Crismon House burning down. There are no plans to rebuild.

Source: City of Modesto - Various Departments

CONTINUING DISCLOSURE
SECTION
DIVIDER

CONTINUING DISCLOSURE
SECTION
DIVIDER

**CONTINUING DISCLOSURE
SECTION**

CITY OF MODESTO
CONTINUING DISCLOSURE REQUIREMENTS INFORMATION
YEAR ENDED JUNE 30, 2016

Wastewater Revenue Refunding Bonds, Series 2005 A and B,
Wastewater Revenue Bonds, Series 2006 A, and
Wastewater Revenue Refunding Bonds, Series 2015

Connection charge information: The Sewer Enterprise imposes connection fees on an 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: \$ 2,643 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>Number of Accounts</u>	<u>% of Total Accounts</u>	<u>% of Sewer Fee Operating Revenue</u>
Residential	56,724	95.00%	49.82%
Commercial	4,056	5.00%	10.51%
Industrial	41	0.00%	29.95%
Total	<u>60,821</u>	<u>100.00%</u>	<u>90.28%</u>

Ten Largest Users of Sewer Facilities, Year Ended 6/30/16

<u>User</u>	<u>Sewer Fee Revenue</u>	<u>% of Sewer Fee Operating Revenue</u>
1) Stanislaus Food Products	\$ 3,512,133	7.95%
2) Del Monte Food Plant 1	\$ 2,000,576	4.53%
3) E & J Gallo Winery	\$ 1,298,639	2.94%
4) Seneca Foods	\$ 1,187,879	2.69%
5) Frito Lay, Inc.	\$ 951,139	2.15%
6) City of Ceres	\$ 892,548	2.02%
7) Foster Farms	\$ 835,976	1.89%
8) Nestle Food Company	\$ 379,915	0.86%
9) Sunopta	\$ 336,928	0.76%
10) Stan CO Housing Authority	\$ 223,319	0.51%
Total (Top Ten Customers)	<u>\$ 11,619,052</u>	<u>26.30%</u>
Total (All Customers)	<u>\$ 44,180,072</u>	

The average single-family residence monthly sewer charge is: \$31.92

<u>Commercial Group</u>	<u>Charge Per 1,000 Gallons</u>	<u>Fixed Charge</u>
Group 1 (no food, just toilets or working facilities)	\$2.35	\$4.34
Group 2 (commercial laundromats, service stations, hotels without food)	\$2.89	\$4.34
Group 3 (industrial laundromats, hotels with food)	\$3.45	\$4.34
Group 4 (restaurants, bakeries, auto steam, markets)	\$4.11	\$4.34

Industrial users pay a minimum account charge of \$4.34 with additional charges of: \$2,534.00 per million gallons of flow, \$129.00 per 1,000 pounds of excess biochemical oxygen demand (BOD), and \$224.00 per 1,000 pounds of Total Suspended Solids (TSS).

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

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

Statement of Revenues, Expenses and Changes in Fund Net Position	Page 27	
Principal Amount of Bonds and Other Parity Debt	Page 50-51	(Note III-C)
Historical Debt Service Coverage	Page 137	
	(continued)	

CITY OF MODESTO
WASTEWATER COMPARISON INFORMATION
YEAR ENDED JUNE 30, 2016

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

CITY OF MODESTO
WASTEWATER SYSTEM
Ten Year History of Rate Increases

<u>Fiscal Year</u>	<u>Percent Increase</u>
2006-07	0.00
2007-08	30.00
2008-09	30.00
2009-10	0.00
2010-11	3.00
2011-12	8.00
2012-13	6.00
2013-14	6.00
2014-15	2.00
2015-16	3.00

Comparative Monthly Wastewater Service Charges.

The City's residential charges as of July 1, 2015 are set forth below with a comparison to other Central Valley and Northern California cities.

CITY OF MODESTO
WASTEWATER SYSTEM
Monthly Sewer Charge Comparison
Residential Service
As of July 1, 2015

<u>City</u>	<u>Monthly Residential Charge</u>
Fresno	\$25.81
Lodi	\$25.63
Modesto	\$27.58
Stockton	\$41.40
Tracy	\$34.00
Turlock	\$42.95

CITY OF MODESTO
CONTINUING DISCLOSURE REQUIREMENTS
YEAR ENDED JUNE 30, 2016

CITY OF MODESTO
WASTEWATER SYSTEM
Wastewater Connection Fees Comparison
As of July 1, 2015

<u>City</u>	<u>Connection Fee</u>
Fresno (1)	\$3,438.50
Lodi (2)	\$2,932.00
Modesto	\$5,146.00
Stockton	\$635.00
Tracy	\$6,727.00
Turlock	\$2,636.66

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

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

CITY OF MODESTO
CONTINUING DISCLOSURE REQUIREMENTS INFORMATION (continued)
YEAR ENDED JUNE 30, 2016

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

Reserve Account Requirement as of 6/30/16	\$ 4,011,409
Surety Policy Value:	\$ (2,082,512)
Balance in Parity Reserve Account as of 6/30/16	<u>\$ (2,544,685)</u>
Shortfall/(Excess) Reserve Coverage:	<u>\$ (615,788)</u>

Balance in Rate Stabilization Account as of 6/30/16:

Ten Largest Customers of Water Utility System, Year Ended 6/30/16

<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-Stores	Education	217,529	1.07%	\$553,798	1.16%
2) Stanislaus Food Products	Local Government	350,941	1.73%	\$521,457	1.10%
3) Modesto City Schools	Cannery	269,161	1.33%	\$517,821	1.09%
4) Seneca Foods	Cannery	325,950	1.61%	\$473,554	1.00%
5) Foster Farms	Dairy Processor	308,053	1.52%	\$439,866	0.92%
6) Modesto Irrigation District	Power Company	225,365	1.11%	\$349,864	0.74%
7) Sunopta	Housing Authority	186,039	0.92%	\$268,475	0.56%
8) Stanislaus Housing Authority	Education	130,164	0.64%	\$262,431	0.55%
9) E & J Gallo	County Offices	137,179	0.68%	\$227,751	0.48%
10) Yosemite Community College	Cannery	100,876	0.50%	\$183,271	0.39%
Total Top Ten		<u>2,251,257</u>	<u>11.11%</u>	<u>\$3,798,288</u>	<u>7.99%</u>

Total Flat/Metered Revenues (Water Sales)	<u>\$47,562,579</u>
(1) Grover Landscaping maintains City parks	
(2) "ccf" means "hundred cubic feet"	

Water Sales Revenue, Year Ended 6/30/2016

Residential - flat rates	\$ 7,320,096
Commercial, industrial and municipal - metered rates	\$ 40,242,483
Total Water Sales	<u>\$ 47,562,579</u>

The average monthly flat rate service charge for residential customers is:	<u>\$ 46.38</u>
--	-----------------

Current Water Rates as of 07/01/2015- Commercial Accounts

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

In addition to these minimum charges, commercial accounts are charged \$1.33 per 100 cubic feet of water used.

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

(1) Water Fund parity debt obligations, issued by the Modesto Irrigation District Financing Authority, on behalf of the City, and pursuant to the 1992 Treatment and Delivery Agreement between the District and the City. On August 14, 2013 Modesto Irrigation District Financing Authority refunded the 1998 D Bond, with the 2013 G Bond. As of 6/30/2016, the balance of the 2013 G Bond was \$35,190,000 and the balance of the 2007 F Bond was \$93,190,000.

(continued)

**CITY OF MODESTO
CITY WATER- HISTORICAL DEBT SERVICE COVERAGE
CONTINUING DISCLOSURE REQUIREMENTS
LAST TEN FISCAL YEARS**

CITY WATER UTILITY SYSTEM
Historical Debt Service Coverage

	2007	2008	2009	2010	2011	2012	2013 (1)	2014	2015	2016 (10)
Charges for services	\$ 49,258,673	\$ 52,927,134	\$ 52,990,138	\$ 51,572,801	\$ 51,876,505	\$ 53,453,708	\$ 56,906,488	\$ 56,940,812	\$ 54,779,417	\$ 51,489,077
Connection charges	2,289,994	1,943,456	1,113,082	647,579	452,021	516,839	295,632	357,432	1,024,626	935,987
Refunds, damages & recoveries	566,307	232,570	29,033	428,083	460,766	166,522	260,802	215,271	20,988	511,063
Interest and rental income	735,396	1,984,517	2,055,531	1,006,611	588,917	670,046	174,224	235,246	353,305	535,823
Draw from (deposit to) rate stabilization fund	-	-	-	-	-	-	-	-	-	-
Service credits ⁽²⁾	314,930	604,082	501,671	2,170,367	2,562,986	2,966,465	3,201,951	2,678,999	3,033,487	3,026,911
Miscellaneous	-	13,190	32,586	25,782	58,083	118,203	150,949	154,700	365,808	2,979,500
Total gross operating revenues	53,165,300	57,704,949	56,722,041	55,851,223	55,999,278	57,891,783	60,990,046	60,582,460	59,577,631	59,478,361
Operating expenses ⁽³⁾	23,983,380	23,664,217	28,359,392	30,219,002	26,638,348	30,755,822	28,530,554	36,598,298	40,349,338	38,853,650
Operating transfers ⁽⁴⁾⁽⁵⁾	65,000	65,000	482,503	765,000	776,000	1,257,406	838,421	765,000	765,000	765,954
CIP expenses moved to operating ⁽⁶⁾	2,023,261	2,156,833	3,054,407	1,127,185	-	-	-	-	-	-
Total operating expenses⁽⁷⁾	26,071,641	25,886,050	31,896,302	32,111,187	27,414,348	32,013,228	29,368,975	37,363,298	41,114,338	39,619,604
Net operating revenues	27,093,659	31,818,899	\$ 24,825,739	\$ 23,740,036	\$ 28,584,930	\$ 25,878,555	\$ 31,621,071	\$ 23,219,162	\$ 18,463,293	\$ 19,858,757
1997 Refunding Certificate of Participation ⁽⁸⁾	1,794,120	1,791,930	1,792,258	1,794,688	1,797,013	-	-	-	-	-
2006 Revenue Certificates of Participation	1,082,432	1,982,256	-	-	-	-	-	-	-	-
2008 Revenue Certificates of Participation	-	-	2,262,117	2,145,966	2,271,034	2,684,462	2,632,225	2,648,783	2,501,891	2,313,857
MID Treatment & Delivery Agreement ⁽⁹⁾	6,687,444	6,681,894	6,672,406	7,455,918	10,794,041	10,888,790	10,889,760	8,885,208	9,905,923	10,203,352
CDWR Loan	264,719	264,719	263,079	264,719	264,719	255,942	264,719	264,719	264,719	264,719
ARRA Grant	-	-	-	-	-	5,137	36,289	36,103	36,290	36,290
Total debt service \$	9,828,715	\$ 10,720,799	\$ 10,989,860	\$ 11,661,291	\$ 15,126,807	\$ 13,834,331	\$ 13,822,993	\$ 11,834,813	\$ 12,708,823	\$ 12,818,218
Debt service coverage	2.76	2.97	2.26	2.04	1.89	1.87	2.50	1.96	1.45	1.55

(1) In fiscal year 2012-13, the amount reported for Charges for Services was incorrectly reported in the amount of \$59,906,488. The correct amount is \$56,906,488 which is reflected in the table above.

(2) Service Credits are reimbursements from other City funds of costs associated with employee time worked on other projects. In fiscal year 2009-10 Cashiering, Utilities, and Collections division was moved into the Water Fund. This caused a structural change and in return an increase in service credits.

(3) Beginning in fiscal year 2008-09 total operating expenses increased as a result of the initiation of a meter program and increases in costs associated with supplies, maintenance, water treatment litigation and administration.

(4) Operating transfers in fiscal year 2008-09 increased due to an administrative oversight and funds were returned to the correct fund.

(5) Includes operating transfers for building rental fee of \$65,000 annually and commencing in fiscal year 2009-10 \$700,000 annual transfer to the Storm Drain Fund to actively protect the groundwater supply source from contamination. In fiscal year 2011-12 \$668,610 a one time transfer for information technology internal service funds.

(6) In fiscal year 2009-10, the City made a prior period adjustment to reclassify certain operating costs previously recorded as capital improvements. This prior period adjustment has been reflected in this table in the years costs were incurred.

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

(8) 1997 COPS were prepaid in full in fiscal year 2010-11

(9) Debt service payment increased by \$4.1 million in fiscal year 2010-11 due to the expiration of capitalized interest.

(10) The sale of the Waterford-Hickman Water System for \$2.6 million had a significant impact to the Water Fund debt service calculation. Without the sale of this system Water Fund debt service coverage would have been 1.35.

Source: City of Modesto

CITY OF MODESTO
CITY WATER UTILITY SYSTEM
PROJECTED OPERATING RESULTS ⁽¹⁾
CONTINUING DISCLOSURE REQUIREMENTS

The City has prepared the following table of projections of operating results of the Water Utility System for the five fiscal years 2017-21. The projected amounts set forth below are based on certain assumptions made by the City. To the extent that actual future conditions vary from those assumed in preparing the projections, the actual results will vary.

	Fiscal Year Projected 2017	Fiscal Year Projected 2018	Fiscal Year Projected 2019	Fiscal Year Projected 2020	Fiscal Year Projected 2021
Charges for services ⁽²⁾	\$ 59,415,000	\$ 65,950,650	\$ 71,886,209	\$ 78,355,967	\$ 85,408,004
Connection charges	357,432	357,432	357,432	357,432	357,432
Refunds, damages & recoveries	-	-	-	-	-
Interest and rental income	173,564	174,405	175,262	178,767	182,342
Draw from (deposit to) rate stabilization fund	-	-	-	-	-
Service credits	2,725,722	2,752,980	2,780,509	2,808,314	3,026,911
Miscellaneous	17,414	17,762	18,118	18,480	20,000
GF (parks loan) P/I	53,500	53,500	53,500	53,500	53,500
Total gross operating revenues	<u>\$62,742,632</u>	<u>\$69,306,729</u>	<u>\$75,271,030</u>	<u>\$81,772,460</u>	<u>\$89,048,189</u>
Operating expenses ⁽³⁾	41,702,000	42,521,000	43,307,000	44,134,000	44,978,000
Operating transfers	765,000	765,000	765,000	765,000	765,000
Total operating expenses ⁽⁴⁾	<u>\$42,467,000</u>	<u>\$43,286,000</u>	<u>\$44,072,000</u>	<u>\$44,899,000</u>	<u>\$45,743,000</u>
Net operating revenues	<u>20,275,632</u>	<u>26,020,729</u>	<u>31,199,030</u>	<u>36,873,460</u>	<u>43,305,189</u>
2008 Revenue Certificates of Participation	2,835,077	2,835,077	2,835,077	2,835,077	2,835,077
MID Treatment & Delivery Agreement	10,149,792	10,149,792	10,149,792	10,149,792	10,149,792
CDWR Loan	132,359	-	-	-	-
ARRA Grant	36,289	36,289	36,290	36,290	36,290
Total debt service	<u>\$13,153,517</u>	<u>\$13,021,158</u>	<u>\$13,021,159</u>	<u>\$13,021,159</u>	<u>\$13,021,159</u>
Debt service coverage	1.54	2.00	2.40	2.83	3.33

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

(2) Revenues do NOT include a Consumer Price Index (CPI) increase. There were approved water rate increases as follows: FY 2016/17 25.04%, FY 2017/18 11.08%, FY 2018/19 9.00%, FY 2019/20 9.00%, and FY 2020/21 9.00%.

(3) Operating expenses have assumed an inflationary rate of 4% in 2017-21.

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

* Please note that all of the projections have been updated to account for no annual CPI adjustment being used as well as drought impacts to the Water Fund. A current Water rate study is underway and will be completed by the start of FY2016-17.

Source: City of Modesto.

**CITY OF MODESTO
CITY WATER UTILITY SYSTEM STATISTICS
CONTINUING DISCLOSURE REQUIREMENTS
YEAR ENDED JUNE 30, 2016**

**CITY WATER UTILITY SYSTEM STATISTICS
(Calendar Years 2007 through 2016)**

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Number of Service Accounts	76,661.0	76,852.0	76,899.0	76,508.0	76,983.0	76,788.0	75,357.0	75,006.0	74,665.0	72,825.0
Total Water Production (MG)(1)	25,886.0	25,182.0	23,824.0	21,712.0	20,892.0	21,765.0	21,606.0	20,630.0	17,692.0	15,155.0
Capacity (MGD)(2)	166.0	166.0	166.0	166.0	166.0	175.2	175.2	175.2	175.2	175.2
Peak Daily Distribution (MGD)	115.4	116.5	113.0	110.0	98.5	97.2	99.8	95.3	84.6	74.7
Average Daily Distribution (MGD)	70.9	68.8	65.3	59.5	57.2	59.5	59.2	56.5	48.5	41.5

- (1) "MG" means million gallons.
(2) "MGD" means million gallons daily.

**CITY WATER UTILITY SYSTEM
Service Area Total Production (Billion Gallons)
(Fiscal Years 2007 through 2016)**

Fiscal Year Ended	Well Water	Surface Water	Total
2007	13.97	11.92	25.89
2008	14.74	10.44	25.18
2009	14.14	9.69	23.83
2010	11.32	10.39	21.71
2011	11.72	9.17	20.89
2012	11.57	10.19	21.76
2013	10.62	10.99	21.61
2014	10.72	9.91	20.63
2015	10.63	5.85	16.48
2016	9.22	5.02	14.24

**CITY WATER UTILITY SYSTEM
Average Monthly Water Rates Comparison
Flat Rate (1" Service)
As of July 1, 2015**

City	Flat Rate Typical
Fresno (1)	\$ 12.30
Lodi (2)	\$ 26.92
Modesto	\$ 46.38
Stockton (1)	\$ 29.24
Tracy (1)	\$ 16.05
Turlock (1)	\$ 21.20

- (1) Water is metered. Charge varies per meter size.
(2) Water is both metered and flat rate. Charge varies per meter and dwelling size.

CITY OF MODESTO
CONTINUING DISCLOSURE REQUIREMENTS
YEAR ENDED JUNE 30, 2016

The following table sets forth connection fees for all users except multi-family units by meter size for year 2015-2016:

CITY WATER UTILITY SYSTEM
Connection Fees Comparison
Except Multiple Family Units
(Fiscal Year 2015-2016)

<u>Meter Size</u>	<u>Connection Fees</u>
5/8" meter**	\$2,282
1" meter	\$5,702
1-1/2" meter	\$11,406
2" meter	\$18,247
3" meter	\$36,494
4" meter	\$57,023
6" meter	\$114,044
8" meter	\$182,470
10" meter	\$262,301
12" meter	\$490,389

**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, 2016**

**CITY WATER UTILITY SYSTEM
Sale of Water
(Year Ended June 30, 2016)***

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Revenues (\$000)										
Residential (Flat Rates)	\$30,716	\$31,495	\$30,585,450	\$21,256,928	\$16,888,754	\$14,464,689	\$12,955,005	\$10,723,594	\$9,037,477	\$7,320,096
Commercial, Industrial and Municipal (Metered)	17,006	17,890	20,445,393	28,758,412	33,190,426	37,162,861	42,452,862	44,093,862	43,118,855	40,242,493
Total Water Sales	\$47,722	\$49,385	\$51,030,843	\$50,015,340	\$50,079,180	\$51,627,550	\$55,407,867	\$54,817,456	\$52,156,332	\$47,562,589

The table below sets forth the adopted single family residential flat rates approved through fiscal year 2015-16.

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

Lot Size	Effective July 1, 2006	Effective July 1, 2007	Effective July 1, 2008	Effective July 1, 2009	Effective November 1, 2010	Effective July 1, 2011	Effective July 1, 2012	Effective July 1, 2013	Effective July 1, 2014	Effective July 1, 2015
0-5,000 sq. ft. lot	\$33.77	\$35.45	\$37.23	\$37.23	\$38.01	\$38.69	\$39.89	\$40.81	\$40.81	\$40.81
5,001-7,000 sq. ft. lot	38.38	40.30	42.31	42.31	43.20	43.98	45.34	46.38	46.38	46.38
7,001-11,000 sq. ft. lot	45.54	47.82	50.21	50.21	51.26	52.18	53.80	55.04	55.04	55.04
11,001-17,000 sq. ft. lot	48.34	50.76	53.30	53.30	54.42	55.40	57.12	58.43	58.43	58.43
over 17,000 sq. ft. lot	56.84	59.68	62.66	62.66	63.98	65.13	67.15	68.69	68.69	68.69

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

NOTE: Additional financial information available at www.modestogov.com

CITY OF MODESTO
CONTINUING DISCLOSURE REQUIREMENTS INFORMATION
YEAR ENDED JUNE 30, 2016

The following table sets forth the adopted monthly service charge and volume charge for commercial accounts through fiscal year 2015-16.

CITY WATER UTILITY SYSTEM
Water Rates and Charges
Commercial Accounts

	Effective July 1, 2007	Effective July 1, 2008	Effective July 1, 2009	Effective July 1, 2010	Effective November 1, 2010	Effective July 1, 2011	Effective July 1, 2012	Effective July 1, 2013	Effective July 1, 2014	Effective July 1, 2015
Volume-based Rate (\$/hcf)	\$1.22	\$1.28	\$1.28	\$1.28	\$1.33	\$1.33	\$1.37	\$1.40	\$1.40	\$1.40
Fixed Monthly Meter Charge (in addition to volume-based charges)										
5/8"-3/4" meter	\$13.06	\$13.71	\$13.71	\$13.71	\$14.00	\$14.25	\$14.69	\$15.03	\$15.03	\$15.03
1" meter	18.52	19.45	19.45	19.45	19.86	20.22	20.85	21.33	21.33	21.33
1-1/2" meter	32.06	33.66	33.66	33.66	34.37	34.99	36.07	36.90	36.90	36.90
2" meter	48.37	50.79	50.79	50.79	51.86	52.79	54.43	55.68	55.68	55.68
3" meter	91.91	96.51	96.51	96.51	98.54	100.31	103.42	105.80	105.80	105.80
4" meter	140.83	147.88	147.88	147.88	150.99	153.71	158.48	162.13	162.13	162.13
6" meter	276.68	290.51	290.51	290.51	296.61	301.95	311.31	318.47	318.47	318.47
8" meter	439.76	461.75	461.75	461.75	471.45	479.94	494.82	506.20	506.20	506.20
10" meter	630.08	661.58	661.58	661.58	675.47	687.63	708.95	725.26	725.26	725.26
12" meter	1,173.62	1,232.31	1,232.31	1,232.31	1,258.19	1,280.84	1,320.55	1,350.92	1,350.92	1,350.92

Note: Additional financial information is available at www.modestogov.com

**CITY OF MODESTO
BOND RATINGS
FISCAL YEAR ENDED JUNE 30, 2016**

<u>Bonds</u>	<u>Moody's Rating</u>	<u>Standard & Poor's Rating</u>	<u>Fitch Rating</u>
1993 Golf Certificates of Participation		AA-	
Wastewater Revenue Bonds, Series 2006A	A2	AA	AA-
2008 Lease Revenue Bonds		A/A-1	A+
2008 Water Certificates of Participation	Aa1	AA+/A-1	

Sources: www.moodys.com
www.standardandpoors.com
www.Fitchratings.com