



Tuolumne River Regional Park at Gateway - Dry Creek

City of Modesto

Comprehensive Annual Financial Report
FY 2017-2018 | Fiscal Year Ended June 30, 2018



CITY OF
MODESTO
CALIFORNIA

CITY OF
Modesto, California

COMPREHENSIVE ANNUAL FINANCIAL REPORT
Fiscal Year Ended June 30, 2018

Prepared by
Finance Department

CITY OF MODESTO
 June 30, 2018
TABLE OF CONTENTS

INTRODUCTORY SECTION

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

FINANCIAL SECTION

Independent Auditors' Report..... 3-5
 Management's Discussion and Analysis 6-14
 Basic Financial Statements:
 Government-wide Financial Statements:
 Statement of Net Position 17
 Statement of Activities..... 18-19
 Fund Financial Statements:
 Balance Sheet – Governmental Funds20
 Reconciliation of the Balance Sheet of Governmental Funds to the
 Statement of Net Position – Governmental Activities.....21
 Statement of Revenues, Expenditures, and Changes in Fund Balances -
 Governmental Funds.....22
 Reconciliation of the Statement of Revenues, Expenditures, and
 Changes in Fund Balances of Governmental Funds to the Statement of Activities –
 Governmental Activities23
 Statement of Net Position – Proprietary Funds24
 Statement of Revenues, Expenses, and Changes in Fund Net Position -
 Proprietary Funds25
 Statement of Cash Flows – Proprietary Funds 26-27
 Statement of Fiduciary Net Position – Fiduciary Funds28
 Statement of Changes in Fiduciary Net Position – Private Purpose Trust Fund.....29
 Notes to Basic Financial Statements 30-73
 Required Supplementary Information:
 Schedule of Changes in the Net Pension Liability and Related Ratios..... 77-78
 Schedule of Plan Contributions.....79
 Schedule of Changes in the OPEB Liability and Related Ratios80
 Schedule of Contributions.....81
 Schedule of Revenues – Budget (GAAP Basis) and Actual – General Fund82
 Schedule of Expenditures by Function – Budget (GAAP Basis) and Actual – General Fund.....83
 Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget (GAAP Basis)
 and Actual - Housing and Community Development Special Revenue Fund.....84
 Notes to Required Supplementary Information..... 85-86
 Combining and Individual Fund Statements and Schedules:
 Nonmajor Governmental Funds:
 Combining Balance Sheet..... 92-95
 Combining Statement of Revenues, Expenditures, and Changes in
 Fund Balances 96-98

Schedules of Revenues, Expenditures, and Changes in Fund Balance –	
Budget (GAAP Basis) and Actual:	
Operating Grants Special Revenue Fund.....	99
Local Transportation Special Revenue Fund.....	100
Traffic Safety Special Revenue Fund	101
Downtown Improvement District Special Revenue Fund.....	102
Strategic Planning and Development Special Revenue Fund	103
Transportation Special Tax Special Revenue Fund	104
Nonmajor Enterprise Funds:	
Combining Statement of Net Position	106-107
Combining Statement of Revenues, Expenses, and Changes in	
Fund Net Position.....	108-109
Combining Statement of Cash Flows.....	110-113
Internal Service Funds:	
Combining Statement of Net Position	116-117
Combining Statement of Revenues, Expenses, and Changes in	
Fund Net Position.....	118-119
Combining Statement of Cash Flows.....	120-123
Agency Funds:	
Statement of Changes in Assets and Liabilities.....	125

STATISTICAL SECTION

Financial Trends:	
Net Position by Component	130
Changes in Net Position	131-132
Fund Balances of Governmental Funds	133
Changes in Fund Balances of Governmental Funds.....	134
Revenue Capacity:	
Water Utility System	135
Debt Capacity:	
Ratio of Outstanding Debt by Type.....	136
Computation of Direct and Overlapping Debt	137
Computation of Legal Debt Margin	138
Revenue Bond Coverage, Wastewater Revenue Bonds.....	139
Demographic and Economic Information:	
Demographic and Economic Statistics	140
Principal Employers	141
Principal Property Taxpayers.....	142
Operating Information:	
Full-Time City Government Employees by Function	143
Operating Indicators by Function	144
Capital Asset Statistics by Function/Program	145

CONTINUING DISCLOSURE SECTION

Continuing Disclosure Requirements Information.....	148-159
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INTRODUCTORY TAB

INTRODUCTORY TAB

INTRODUCTORY SECTION



December 14, 2018

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

We are pleased to present to you the Comprehensive Annual Financial Report (CAFR) for the City of Modesto (the City). The City of Modesto City Charter and Municipal Code require that a complete CAFR, which is comprised of financial statements and reports 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, 2018.

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 Hudson Henderson and Company, Inc. was selected in 2018 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, 2018, 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 auditors' 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 auditors' 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 214,181. 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 the 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 (MSA) decreased during the 2017-2018 fiscal year. As of June 30, 2018, the MSA’s unemployment rate was recorded at 7.2%, which is down from the 7.8% rate of a year ago. Total non-farm employment in the MSA is projected to grow by 28,900 jobs to 190,600 during the ten year period 2014 to 2024. For the same period, the industry sector consisting of mining, logging and construction shows the highest percentage increase of 38.7% adding 2,900 jobs followed by Health Care which is projected to grow by 31.4% and add 6,400 jobs. Professional Business Services is expected to grow by 29.7% and add 4,100 jobs. The next fastest growing industry sectors are Leisure and Hospitality, Wholesale Trade, Educational Services and Transportation, Warehousing and Utilities which are forecasted to add 8,400 jobs by 2024.

The 2018-19 Stanislaus County assessment roll, on which property taxes are based, is \$49.5 billion, which is an increase of 5.81 percent over the previous year. According to Zillow, the median price of homes listed in Stanislaus County as of September 30, 2018 is \$330,000 and the median rent price is \$1,600. Modesto building permit activity during fiscal year 2017-2018 ended with a total of 5,033 permits issued with a valuation of \$172,595,385.

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.

Entertainment and Tourism

Modesto features vibrant arts, entertainment, sports and cultural expression. Downtown Modesto is home to the world-class Gallo Center that brings national and international entertainment, arts and multicultural programming to the Central Valley region. Downtown, you can experience the Historic Graffiti Cruise Route, the Legends of the Cruise Walk of Fame, and the Classic Community Mural Series celebrating the cruising culture phenomenon born in Modesto and immortalized by native son George Lucas in American Graffiti. Live entertainment is a prominent feature in the Civic Plaza and nearby clubs, and a busy calendar of entertaining and educational events can be experienced just across the street at the Modesto Centre Plaza.

Baseball with the Modesto Nuts baseball team is just minutes from the city center, and golfers enjoy two highly rated 18-hole courses and a municipal course year-round. Modesto is gaining recognition for its bike routes and trails, and is a frequent host city for the Tour-de-France rated Amgen Tour of California bicycle race. Water lovers have river parks and kayaking.

The McHenry Mansion and McHenry Museum anchor the city's loving preservation of its historical heritage, drawing visitors from all over the world. The city's annual Architectural Festival offers free tours, exhibits, workshops and films in the iconic State Theatre featuring one of the best collections of mid-century modernism in the nation. Arts live year round with monthly Art Walks, and seasonal activities including the Graffiti Cruise, parades, the Modesto on Ice downtown skating rink, the Dickens Faire, ModShop arts and crafts walk, and PorchFest community music stroll bring joy to residents and visitors. Modesto truly offers something great for everyone.

Our Strategic Priorities

During 2018, 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 2017-18, General Fund Balance was as follows: Restricted and Nonspendable - \$5.6 million; Committed - \$18.4 million; Assigned - \$1.1 million; and Unassigned \$1.7 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 / ACCOMPLISHMENTS

Healthy Economy & Great Quality of Life

- The UC Merced Venture Lab opened in June 2018 at the Centre Plaza to assist with entrepreneurship in the City
- Over 151,000 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
- Construction is nearing completion for the opening of the Valley Children's Hospital project on Pelandale
- Eleven low-income census tracts were designated Opportunity Zones in Modesto. Investments made by individuals in these zones may defer or eliminate federal taxes on capital gains.
- After School Program staff partner with Modesto City Schools to motivate, encourage, and empower over 840 youth daily to recognize and achieve their full individual potential and become productive community members
- REACH summer Camp (Recreation, Education, Arts, Culture and Health for youth 6 – 13 years old) offers games, sports, community service and other high-interest activities to over 130 unduplicated participants sparking a life-long appreciation of positive leisure activities and provide opportunities for leadership
- Provided 2,000 youth swim lessons throughout the year and offered over 5,000 swimmers a safe place to stay cool during our public recreational swim.
- The senior population, especially Boomers, is most concerned with health and wellness. The Modesto Senior Citizens Center has responded by providing up to nine classes that promote health and wellness. The two most popular classes are Zumba Gold and Young At Heart Strength Training which each meet twice a week and reach maximum capacity of 75 per class session.
- Implemented a real-time bus tracking system for Modesto Area Express
- Deployed new fare media for Modesto Area Express
- Restructured Modesto Area Express routes to make them easier to understand and improve on-time performance

Great Safe Neighborhoods

- Increased the number of Neighborhood Watch Groups by 2.79% and the number of Neighborhood Watch meetings by 12.5%
- Recertified 106 Crime Free Multi-Housing properties, hold bi-monthly meetings and reinstated 8-hour Manager Training.
- Increased the number of Business Watch Groups by 36.36% and Business Watch Meetings by 14.29%
- NOC (Neighborhood Outreach Collaborative) deployments were increased by 50%
- Community Engagement Activities increased by 77.55%
- Modesto Police Department (MPD) hosted 5 Town Hall Meetings, one for each area command as well as 12 Coffee with Cops events throughout the City
- 5 firefighters graduated from the academy in August, several Engineers and a Battalion Chief joined celebrated their promotions
- Five (5) new engines and two ladder trucks were placed into service
- Placed a new California Office of Emergency (OES) grant funded HazMat rig into service, this apparatus is able to serve throughout the County and State during HazMat incidents

- The Fire Prevention Division was awarded a grant for the purchase of a Sparky the dog fire costume, he has been very well received and a great addition to the fire safety education team
- Modesto Fire Department was honored to receive the gracious donation of an original 1919 Seagrave pumper that once served the citizens of Modesto in its day, we cannot continue to thank Mr. & Mrs. Bill Spidell enough

Vibrant Infrastructure & Sustainable Environment

- Construction was completed on much needed renovation projects at Sanders, Freedom, Garrison and J.M. Pike Neighborhood Parks
- Worked with various neighborhood groups in the City to provide park improvements throughout Modesto through the City's Park Partners Program (examples include Graceada Park Pool and Splashpad Renovation, Graceada Park Tot Playground Replacement, Beard Brook Park Dog Park and Garrison Park Sign Replacement).
- Applied for and received almost \$5 million in grant funds for four important park improvement projects (Virginia Corridor Phase 7, Neece Drive Boat Ramp, TRRP River Overlook and TRRP River Pavilion & Outdoor Theatre).
- The City began delivering recycled water from the City to the Del Puerto Water District, as part of the North Valley Regional Recycled Water Program. Construction was completed in February 2018
- The 4 million gallon Industrial Tank is currently in construction and expected to be complete in late 2018. This is the last of the major "Downstream Improvements" needed to efficiently deliver domestic water to our customers.
- Partnered with other local water agencies to form a regional Groundwater Sustainability Agency to collaboratively manage groundwater resources
- The Water and Wastewater Master Plans and supporting environmental documents will be complete in late 2018.
- Received a \$4 million Proposition 84 grant for the Roosevelt Park storm drain cross connection project. Construction will be underway in Fall 2018.
- Completed reconstruction of the Pelandale Avenue overcrossing on SR-99 with new alignments and construction of a southbound auxiliary lane to enhance safety, relieve congestion and improve traffic operations
- Received a Grant for over \$4,000,000 from California Air Resources Board for 5 Proterra battery-electric zero-emission public transit buses and the installation of eight depot chargers
- The City received a grant award in the amount of \$3.4 million from Department of Transportation to be utilized for the Right of Way acquisition for the State Route 132 project.

Effective Responsive & Transparent Government

- Implementation of a new facilities management and online booking system in Parks, Recreation, & Neighborhoods
- City of Modesto was ranked #7 in the nation and #1 in California through the 2017 Digital Cities Awards Program. This nation-wide awards program examines how well municipalities incorporate technology into its operations to better serve its citizens.
- Completed the implementation of the new Business License Software (HDL) for Finance - Customer Service Division
- Council approved the purchase of a Citywide upgrade of the Network Communications system
- Utilizing the online portal launched late in fiscal year 2017, the Citation Processing Division assisted customers with approximately one-third of all citation appeals now being handled online, providing an alternative method to mailing in paperwork and also reducing wait times in the office
-
- Finance Customer Services Division began providing Cash Handling Training and Best Practices through on-site visits with City departments, ensuring compliance with the City's Cash Handling Administrative Directive
- The City acquired one new 6-7 yard dump truck to circumvent renting the vehicle for City use

- Construction design is in process for the Fleet Maintenance Facility to keep inventory and repairs in one location to streamline workflow

Awards / 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, 2017. This was the 35th 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 an award from the GFOA for its third year for the Popular Annual Financial Report (PAFR) for fiscal year ended June 30, 2017. 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 submit its 2018 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,



Joseph P. Lopez
City Manager



DeAnna Christensen
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, 2017

Christopher P. Morill

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	Bill Zoslocki, District 4
Tony Madrigal, District 2	Jenny Kenoyer, District 5
Kristi Ah You, District 3	Douglas Ridenour, District 6

CITY ATTORNEY
Adam Lindgren

CITY AUDITOR
Monica Houston

CITY CLERK
Stephanie Lopez

MODESTO CITY MANAGER
Joseph P. Lopez

DEPUTY CITY MANAGER OPERATIONS

PUBLIC WORKS

UTILITIES

PARKS, RECREATION & NEIGHBORHOODS

COMMUNITY & ECONOMIC DEVELOPMENT

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

POLICE DEPARTMENT

FIRE DEPARTMENT

PUBLIC RELATIONS

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

BUDGET

FINANCE

HUMAN RESOURCES

INFORMATION TECHNOLOGY

INNOVATION & PERFORMANCE MANAGEMENT

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

FINANCIAL SECTION TAB

FINANCIAL SECTION TAB

FINANCIAL SECTION



INDEPENDENT AUDITORS' REPORT

To the City Council
City of Modesto, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Modesto, California (the City) as of and for the year ended June 30, 2018, 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.

Auditors' 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 accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

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, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note I-F to the financial statements, in 2018, the City adopted new accounting guidance, *GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of changes in net pension liability and related ratios, schedule of plan contributions, schedule of changes in the OPEB liability and related ratios, schedule of contributions, and budgetary comparison schedules for the General Fund and Housing and Community Development Special Revenue Fund, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining and individual fund statements and schedules, 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 section, statistical section and continuing disclosure section 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 14, 2018, 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.

HUDSON HENDERSON & COMPANY, INC.

Hudson Henderson & Company, Inc.

Fresno, California
December 14, 2018

Management's Discussion and Analysis

This section of the City of Modesto (the City) comprehensive annual financial report presents a discussion and analysis of the City's financial performance during the fiscal year ended June 30, 2018. 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 2018 fiscal year by \$1,048,553,755 (*total net position*). Of this amount, \$151,263,820 is restricted for a specific purpose (*restricted net position*), \$949,340,356 is invested in capital assets, net of related debt and (\$52,050,421) is unrestricted (*unrestricted net position*).
- The City's total net position increased by \$49,157,586 compared to the prior year. This increase is attributed to additions made to the City's infrastructure and capital improvements.
- As of June 30, 2018, the City's governmental funds reported combined fund balances of \$133,959,278, an increase of \$13,877,906 in comparison with the prior year.
- As of June 30, 2018, 6.34% of the General fund balance of \$1,695,476 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 \$26,745,582 or 22.5% of total General Fund expenditures. Of this, \$2,674,200 is the restricted fund balances. The unassigned fund balance of \$1,695,476 represents 1.3% 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 increase of \$8,241,258 in comparison with the prior year. This increase was attributed to new debt offset by principal payments made during the fiscal year.

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 the City finances, in a manner similar to a private-sector business.

The *Statement of Net Position* presents information on all the 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).

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

Management's Discussion and Analysis (continued)

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 17-19 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 18 individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures and changes in fund balances for the General Fund and Housing and Community Development 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 20-23 of this report.

Proprietary funds are maintained two ways. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its Water, Sewer, Parking, Storm Drain, Compost, Airport, Bus, Golf, Community Center 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 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".

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

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

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

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

Management's Discussion and Analysis *(continued)*

Notes to Basic Financial Statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes can be found on **pages 30-73** 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 77-86 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 90-125** of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$1,048,553,755 at the close of the most recent fiscal year.

Net Position

	Governmental activities		Business-type activities		Total	
	2018	2017	2018	2017	2018	2017
Current and other assets	\$243,103,994	\$234,821,516	\$261,380,685	\$244,685,705	\$504,484,679	\$479,507,221
Capital assets	418,014,444	419,668,957	904,169,388	870,561,610	1,322,183,832	1,290,230,567
Total assets	661,118,438	654,490,473	1,165,550,073	1,115,247,315	1,826,668,511	1,769,737,788
Deferred outflows of resources	70,743,496	56,076,070	40,085,699	44,831,198	110,829,195	100,907,268
Current and other liabilities	303,343,367	292,651,623	132,037,995	132,908,806	435,381,362	\$425,560,429
Long-term liabilities	92,513,335	98,300,219	348,564,989	334,536,847	441,078,324	432,837,066
Total liabilities	395,856,702	390,951,842	480,602,984	467,445,653	876,459,686	858,397,495
Deferred inflows of resources	10,481,112	10,503,691	2,003,153	2,347,701	12,484,265	12,851,392
Net position:						
Net investment in capital assets	377,529,238	376,743,556	571,811,118	555,163,217	949,340,356	931,906,773
Restricted net position	130,192,278	123,851,082	21,071,542	21,525,961	151,263,820	145,377,043
Unrestricted net position	(182,197,396)	(191,483,628)	130,146,975	113,595,981	(52,050,421)	(77,887,647)
Total net position	\$325,524,120	\$309,111,010	\$723,029,635	\$690,285,159	\$1,048,553,755	\$999,396,169

The largest portion of the City's net position, \$949,340,356 or 90.5%, reflects its investment in capital assets (e.g. land, water rights, buildings, improvements, furnishings and equipment, buses and fare boxes, pipelines, and infrastructure), less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City's investment in its capital assets is reported net of 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 (\$52,050,421) or (5.0%).

The remaining balance of the City's net position of \$151,263,820 or 14.4% represents resources that are subject to external restrictions on how they may be used.

The City's net position increased by \$49,157,586 during the current fiscal year was largely due to the additions associated with the City's infrastructure and capital improvements.

Management's Discussion and Analysis (continued)

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

	Changes in Net Position					
	Governmental activities		Business-type activities		Total	
	2018	2017	2018	2017	2018	2017
Revenues:						
Program revenues:						
Charges for services	\$32,463,928	\$28,933,906	\$150,864,635	\$141,588,536	\$183,328,563	\$170,522,442
Operating grants and contributions	5,802,634	5,050,771	17,858,762	15,975,703	23,661,396	21,026,474
Capital grants and contributions	3,062,292	2,117,867	7,196,698	19,617,513	10,258,990	21,735,380
General revenues:						
Taxes	59,468,267	57,045,850	207,849	199,124	59,676,116	57,244,974
Intergovernment revenue not restricted for specific purposes	76,641,006	68,415,868	-	-	76,641,006	68,415,868
Unrestricted investment earnings	726,199	362,856	1,047,604	872,935	1,773,803	1,235,791
Miscellaneous	818,542	515,206	1,472,809	1,316,801	2,291,351	1,832,007
Total revenues	178,982,868	162,442,324	178,648,357	179,570,612	357,631,225	342,012,936
Expenses:						
General government	15,432,617	13,945,824	-	-	15,432,617	13,945,824
Community development	17,268,926	15,419,529	-	-	17,268,926	15,419,529
Highways and streets	22,997,140	22,481,002	-	-	22,997,140	22,481,002
Public works	8,674,538	13,169,149	-	-	8,674,538	13,169,149
Parks and recreation	4,456,508	3,947,898	-	-	4,456,508	3,947,898
Public safety	120,629,673	104,348,464	-	-	120,629,673	104,348,464
Interest on long-term debt	2,510,224	2,500,849	-	-	2,510,224	2,500,849
Water	-	-	56,526,729	63,008,231	56,526,729	63,008,231
Sewer	-	-	41,444,220	36,248,877	41,444,220	36,248,877
Bus	-	-	20,538,934	21,979,360	20,538,934	21,979,360
Parking	-	-	1,553,258	1,628,226	1,553,258	1,628,226
Storm drain	-	-	5,202,444	6,119,472	5,202,444	6,119,472
Compost	-	-	9,652,175	9,648,481	9,652,175	9,648,481
Airport	-	-	1,578,654	1,744,557	1,578,654	1,744,557
Golf	-	-	2,616,077	2,871,167	2,616,077	2,871,167
Community center	-	-	1,780,010	1,934,179	1,780,010	1,934,179
Abatement and Public Nuisance	-	-	351,557	51,624	351,557	51,624
Total expenses	191,969,626	175,812,715	141,244,058	145,234,174	333,213,684	321,046,889
Change in net position before transfers	(12,986,758)	(13,370,391)	37,404,299	34,336,438	24,417,541	20,966,047
Transfers	(354,287)	(1,750,401)	354,287	1,750,401	-	-
Total transfers	(354,287)	(1,750,401)	354,287	1,750,401	-	-
Change in net position	(13,341,045)	(15,120,792)	37,758,586	36,086,839	24,417,541	20,966,047
Net position - beginning	309,111,010	324,231,802	690,285,159	654,198,320	999,396,169	978,430,122
Prior year adjustments	29,754,155	-	(5,014,110)	-	24,740,045	-
Net position - ending	\$325,524,120	\$309,111,010	\$723,029,635	\$690,285,159	\$1,048,553,755	\$999,396,169

Governmental activities. Governmental activities increased the City's net position by \$16,413,110. This increase was mainly due to the results of implementing GASB Statement No. 75 "Accounting and Financial Reporting for Postemployment Benefits Other than Pension" which generated a reduction of the net OPEB liability by \$25.1 million. The long-term liabilities decrease was attributed to the principal payments of about \$2.8 million and \$4.0 million in claim reductions made during the fiscal year. Charges for service revenues increased by \$3.5 million mainly due to on-going efforts to promote the City of Modesto program. Operating and capital grants contributions increased by \$1.7 million due to on-going efforts on grant funding opportunities. Intergovernmental revenue increased by \$8.2 million due to establishing a new revenue source from the Stanislaus County county-wide, 25 year, half-cent sales tax increase known as Measure L. Measure L will be utilized to fund local transportation improvements.

Expenses in total were higher compared to the prior year by \$16,156,911 or 9.19%, due to the City's payment made to the California Public Employment Retirement system (CalPERS) for their annual unfunded accrued liability.

Business-type activities. Business-type activities increased the City's net position by \$32,744,476. This increase is attributed to a healthy net position in our Water and Sewer Fund which generated an increase in

Management's Discussion and Analysis (continued)

net position by \$20.7 million and increase in our business-type capital assets. The Sewer fund has been able to manage their operational revenues due to a rate increase on September 1, 2017 of 6% to ensure they meet the debt ratio requirements set by Council. In addition, the Water Fund implemented a rate increase of 9% on April 1, 2018 to manage their debit ratio requirements and their capital needs for the City's water infrastructure.

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, 2018, the City's governmental funds reported combined fund balances of \$133,959,278 an increase of \$13,877,906 from the prior year. The total unassigned fund balance for the governmental funds was (\$27,904), which includes a positive \$1,695,476, 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. The unassigned fund balance for the General Fund decreased due to the Council approving \$12.8 million being accounted for as emergency reserves in FY 16-17 and an additional \$2.6 million in FY 17-18 which required Council authority to utilize these funds.

The General Fund is the chief operating fund of the City. At June 30, 2018, unassigned fund balance of the General Fund was \$1,695,476 while total fund balance was \$26,745,582. 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 1.1% of total General Fund expenditures, while total fund balance represents 22.52% of that same amount. The prior year ratios were 2.8% and 25.4%, 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, 2018, total fund balance was \$27,721,634, an increase of \$490,023 from prior year. This increase is attributed to new program income received to fund future low income project activity.

Revenues of governmental funds totaled \$179,309,249 in fiscal year 2017-18, which represents an increase of \$19,913,139 from fiscal year 2016-17.

Expenditures of governmental funds totaled \$160,677,962 in fiscal year 2017-18, representing an decrease of \$505,486 from fiscal year 2016-17.

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 2018		FY 2017		% Change
	Amount	Percent	Amount	Percent	
Taxes	\$59,468,267	33.2%	\$57,045,850	35.8%	4.2%
Licenses and permits	153,226	0.1%	201,445	0.1%	-23.9%
Intergovernmental	85,629,758	47.8%	72,069,739	45.2%	18.8%
Charges for services	25,467,795	14.2%	24,454,286	15.3%	4.1%
Special assessments	5,715,030	3.2%	3,014,768	1.9%	89.6%
Interest and rent	1,574,347	0.9%	1,402,387	0.9%	12.3%
Net increase (decrease) in fair value	(645,593)	-0.4%	(572,616)	-0.4%	12.7%
Fines and forfeits	1,127,877	0.6%	1,263,407	0.8%	-10.7%
Miscellaneous	818,542	0.6%	516,844	0.4%	58.4%
Total	\$179,309,249	100.0%	\$159,396,110	100.0%	12.5%

Management's Discussion and Analysis *(continued)*

- 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 the City staff.
- Intergovernmental – Revenues increased by \$13.6 million due to an increase in the new revenue source for the Stanislaus County county-wide, 25 year, half-cent sales tax increase known as Measure L to assist with the funding for local transportation improvements for the City.
- Charges for Services – Revenues increased by \$1.0 million due to the Capital Facility Funds collecting an increase in revenue for the building permits issued for all new construction or additional square footage built within the City of Modesto.
- Special assessments: Revenue increased by \$2.7 million due to an increase in building permits issued in the Community Facility District Village One #2 during FY 2017-18.
- Interest and rent – Revenues increased due to increases to our interest earnings based on on-going improvements to the City's investment strategy which has increased our return on investment in the City's portfolio.

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

Expenditures by Function – Governmental Funds

Exp by Function	FY 2018		FY 2017		% Change
	Amount	Percent	Amount	Percent	
General government	\$11,837,635	7.4%	\$11,542,131	7.2%	2.6%
Community development	13,234,820	8.2%	13,264,050	8.2%	-0.2%
Highways and streets	8,936,163	5.6%	9,240,654	5.7%	-3.3%
Public works	6,509,418	4.1%	10,919,102	6.8%	-40.4%
Parks and recreation	3,420,453	2.1%	3,269,360	2.0%	4.6%
Public safety	92,341,706	57.5%	86,475,891	53.7%	6.8%
Capital outlay	19,037,250	11.8%	21,431,186	13.3%	-11.2%
Debt Service-principal retirement	2,849,343	1.8%	2,535,093	1.6%	12.4%
Debt Service-interest charges	2,114,488	1.3%	2,075,202	1.3%	1.9%
Debt Service-other	396,686	0.2%	430,779	0.3%	-7.9%
Total	\$160,677,962	100.0%	\$161,183,448	100.0%	-0.3%

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

- Public Works – Expenditures decreased by \$4.4 million or 40.4% due to the movement of the Construction Administration division being restructured to the utility funds.
- Highways and Streets – Expenditures decreased by \$304,491 or 3.3% over the prior year, due to a reduction in street related projects compared to the prior year.
- Public safety – Expenditures increased by \$5,865,815 or 6.8% 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 \$2,393,936 or 11.2% reflects a decrease due to a large purchase being made in FY 16-17 for the General Fund due to a new capital lease agreement with Pierce Manufacturing Inc. for the purchase of five Velocity Pumpers and two Velocity Tillers in the amount of \$5,883,756.

Management's Discussion and Analysis (continued)

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

	FY 2018	FY 2017	Increase/(Decrease)	Percent
			Amount	
Transfers in	\$10,707,217	\$5,559,720	\$5,147,497	92.6%
Transfers out	(13,568,675)	(6,659,759)	(6,908,916)	103.7%
Capital leases	-	5,883,756	(5,883,756)	-100%
Sale of assets	154,458	31,239	123,219	394.4%
Net financing (uses)	(\$2,707,000)	\$4,814,956	(\$7,521,956)	-156.2%

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 financing (uses) from governmental funds for 2018 were \$(2,707,000) compared to \$4,814,956 in the prior year. This net transfer is to various City funds including transferring funds from the General Fund, Capital Facility Fee funds, Fleet Fund and the Public Financing Authority to cover the debt service payments, fleet replacement and various transfers to cover City grant matches.

The fund balance of the City's General Fund decreased by \$2,904,186 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	\$74,842,451	\$51,485,420	\$3,305,910	\$19,917,172	\$149,550,953
Operating expenses	(56,225,844)	(39,579,531)	(23,335,297)	(25,795,864)	(144,936,536)
Operating income (loss)	18,616,607	11,905,889	(20,029,387)	(5,878,692)	4,614,417
Nonoperating revenues (expenses), net	(6,722,099)	(3,481,386)	16,208,264	1,529,351	7,534,130
Income (loss) before capital contributions and transfers	11,894,508	8,424,503	(3,821,123)	(4,349,341)	12,148,547
Contributions and transfers	(197,073)	3,260,745	3,604,207	883,106	7,550,985
Changes in net position	\$11,697,435	\$11,685,248	(\$216,916)	(\$3,466,235)	\$19,699,532

The Water fund had a 6.0% rate increase in April 2018 and the Sewer fund had a rate increase of 9.0% in July 2017. Based on these rate increases the Water and Sewer funds had an increase in their operating revenue which increased their net position.

A pollution remediation liability was reported for the Water and Sewer fund in the amounts of \$8,320,179 and \$7,352,449, respectively 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 82-83** 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 intergovernmental revenue, charges for services and fines and forfeit revenue. The estimated

Management's Discussion and Analysis (continued)

revenues increased about \$1,610,625 while total appropriations were increased \$1,171,991. These amendments were to adjust the actual beginning balances and carryovers after closing the prior fiscal year, and to reflect adjustments to current estimates based on the periodic monitoring of revenue and expenditures throughout the year.

Revenues came in \$5,442,151 more than final estimates. Variances in Property Taxes \$221,561, Business License Taxes \$1,449,679, Intergovernmental \$2,184,256 and Charges for Services Revenue \$1,190,105 were due to an increase in collection and compliance efforts and increases in property values.

Expenditures, overall, were \$4,469,474 under budget, primarily due to efforts of departments to realize savings, and certain purchases being deferred to future periods.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital assets

The City's investment in capital assets for its governmental and business-type activities as of June 30, 2018, amounted to \$1,322,183,832 (net of accumulated depreciation). The total increase in the City's investment in capital assets compared to 2017 was 3.0%.

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)	\$ Change
	2018	2017	2018	2017	2018	2017	Percent Change	
Land	\$28,486,969	\$28,267,446	\$34,453,868	\$33,854,403	\$62,940,837	\$62,121,849	1%	\$818,988
Capitalized interest	-	-	7,273,825	8,248,418	7,273,825	8,248,418	-12%	(974,593)
Buildings	12,182,014	12,940,877	34,456,293	37,386,768	46,638,307	50,327,645	-7%	(3,689,338)
Improvements	51,358,075	54,172,467	135,928,019	144,507,172	187,286,094	198,679,639	-6%	(11,393,545)
Furnishings and equipment	3,057,257	3,095,376	5,420,938	5,139,465	8,478,195	8,234,841	3%	243,354
Intangible assets	3,164,415	3,583,041	36,239	118,222	3,200,654	3,701,263	-14%	(500,609)
Equipment pool	18,857,425	13,980,519	-	-	18,857,425	13,980,519	35%	4,876,906
Service animals	16,046	17,334	-	-	16,046	17,334	-7%	(1,288)
Water rights	-	-	262,699,572	274,640,462	262,699,572	274,640,462	-4%	(11,940,890)
Streets	192,817,087	203,598,507	-	-	192,817,087	203,598,507	-5%	(10,781,420)
Signalization	4,848,397	4,630,398	-	-	4,848,397	4,630,398	5%	217,999
Bridges	28,500,140	29,213,408	-	-	28,500,140	29,213,408	-2%	(713,268)
Buses & fareboxes	25,103	25,103	16,210,586	16,298,419	16,235,689	16,323,522	-1%	(87,833)
Pipelines	-	-	137,243,577	118,596,803	137,243,577	118,596,803	16%	18,646,774
Construction in progress	74,701,516	66,144,481	270,446,471	231,771,478	345,147,987	297,915,959	16%	47,232,028
Total	\$418,014,444	\$419,668,957	\$904,169,388	\$870,561,610	\$1,322,183,832	\$1,290,230,567	3%	\$31,953,265

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

- Equipment Pool – Over 110 equipment vehicles were purchased or placed in service in fiscal year 2017-18 in the amount of \$4.9 million.
- Land – 4 land parcels were purchased by the City in fiscal year 2017-18 in the amount of \$818,988.
- Construction in progress – On-going water and wastewater construction projects related to improvements to our water and wastewater system were made in fiscal year 2017-18. Additionally, the new State Route 132 Highway project is under the design phase which increased by \$6.9 million.

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 43-44 of this report.

The City had major capital commitments for contracts awarded for various construction projects. As of June 30, 2018, there were major contracts awarded for water, sewer system improvements, State Route 132

Management’s Discussion and Analysis (continued)

Project, and major street improvements throughout the City in the amount of \$55.6 million for both governmental and business-type funds. Additional information on the City’s commitments can be found in note III-D on page 62-63 of this report.

Long-term debt

At June 30, 2018, the City had total long-term liabilities outstanding of \$441,078,324 net of unamortized discounts and premiums, as compared to \$432,837,066 in the prior year. This amount was comprised of \$52,775,000 of lease revenue bonds, \$46,916,049 of certificates of participation, \$28,090,695 of revenue bonds payable, \$122,378,632 of reimbursement agreement related to Modesto Irrigation District bonds, \$9,953,540 of estimated compensated absences, \$24,432,515 of claims liability, \$147,866,700 of loans payable, \$1,052,226 of developer advances, \$5,522,968 of capital leases, and \$2,090,000 of notes payable.

For the governmental activities, the long-term debt decreased was mainly due to the principal payments made during the fiscal year. For business-type activities, the long-term debt increased due to an increase in loans payable in the amount of \$28.2 million for the California State Water Resources State Revolving loan for the North Valley Regional Recycled Water program. Additional information on the City’s long-term debt can be found in Note II-C on pages 45-55 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
Wastewater Revenue Bonds, Series 2006A	A1		AA-
Wastewater Revenue Bonds, Series 2018A		AA+/A-1+	
2008 Lease Revenue Bonds		A/A-1	A+
2008 Water Certificates of Participation	Aa3	AA+/A-1	

With the implementation of GASB Statement No. 75 “Accounting and Financial Reporting for Postemployment Benefits Other than Pension, the City’s net OPEB liability as of June 30, 2018 was \$29.4 million. Additional information on the City’s net OPEB liability 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, 2018, the CPI-Western Urban Index increased by 3.9%.
- *Utility Service Charges* - Water and Sewer utility rates have a 9.0% and 6.0% scheduled rate increase for fiscal year 2017-18. For the Water and Sewer utility rates, these planned rate increases was effective on
- September 2017 for Sewer and April 2018 for Water. In fiscal year 2018-19, the Water and Sewer utility rates have a 9.0% and 6.0% increase effective on January 2019 for Water and July 2018 for Sewer. 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 2018-19.

During the current fiscal year, fund balance in the General Fund decreased by \$2,904,186, to \$26,745,582, which represents 21.0% 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 2018-19 reflects the Council policy reserve level of 8% of the fund’s total operating expenditures. 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.

BASIC FINANCIAL STATEMENTS

CITY OF MODOSTO
STATEMENT OF NET POSITION
JUNE 30, 2018

	Governmental Activities	Business-type Activities	Total
<u>ASSETS</u>			
Cash and cash equivalents	\$ 63,227,796	\$ 203,409,636	\$ 266,637,432
Accounts receivable, net	2,266,157	1,687,954	3,954,111
Interest receivable	541,956	643,726	1,185,682
Utility billings receivable, net	788,736	12,106,149	12,894,885
Taxes receivable	12,868,867	-	12,868,867
Due from governments, net	10,228,835	5,854,274	16,083,109
Prepaid expenses	682,098	3,197,449	3,879,547
Internal balances	903,637	(903,637)	-
Inventories	9,347	50,967	60,314
Investments in joint ventures	8,944,468	-	8,944,468
Restricted assets:			
Cash and cash equivalents	63,069,915	23,717,133	86,787,048
Cash and cash equivalents with fiscal agent	5,896,782	11,617,034	17,513,816
Due from governments, net	4,502,095	-	4,502,095
Reimbursement agreement	15,304,750	-	15,304,750
Notes and loan receivable, net	53,868,555	-	53,868,555
Capital assets:			
Land and construction in progress	103,188,485	304,900,339	408,088,824
Other capital assets, net of accumulated depreciation	314,825,959	599,269,049	914,095,008
Total assets	661,118,438	1,165,550,073	1,826,668,511
<u>DEFERRED OUTFLOWS OF RESOURCES</u>			
Deferred OPEB	2,602,014	850,292	3,452,306
Deferred pensions	61,536,170	13,164,128	74,700,298
Loss on refunding	-	850,360	850,360
Accumulated decrease in fair value of hedging derivatives	6,605,312	25,220,919	31,826,231
Total deferred outflows of resources	70,743,496	40,085,699	110,829,195
Total assets and deferred outflows of resources	731,861,934	1,205,635,772	1,937,497,706
<u>LIABILITIES</u>			
Accounts payable	5,383,753	11,555,268	16,939,021
Accrued salaries and benefits	1,786,209	657,822	2,444,031
Approved loans payable	214,963	-	214,963
Interest payable	22,538	2,006,496	2,029,034
Unearned revenue	1,911,771	10,168,436	12,080,207
Refundable deposits	4,672,785	2,645,591	7,318,376
Derivative instrument - interest swap	6,605,312	25,220,919	31,826,231
Pollution remediation liability	-	20,714,637	20,714,637
Long-term liabilities:			
Due within one year	8,863,609	16,758,463	25,622,072
Due in more than one year	83,649,726	331,806,526	415,456,252
Net OPEB liability	22,127,172	7,271,349	29,398,521
Net pension liability	260,618,864	51,797,477	312,416,341
Total liabilities	395,856,702	480,602,984	876,459,686
<u>DEFERRED INFLOWS OF RESOURCES</u>			
Deferred OPEB	1,542,122	514,743	2,056,865
Deferred pensions	8,938,990	1,488,410	10,427,400
Total deferred inflows of resources	10,481,112	2,003,153	12,484,265
Total liabilities and deferred inflows of resources	406,337,814	482,606,137	888,943,951
<u>NET POSITION</u>			
Net investment in capital assets	377,529,238	571,811,118	949,340,356
Restricted for:			
Capital projects	54,314,729	-	54,314,729
Housing and community development	55,436,002	-	55,436,002
Other purposes	20,441,547	21,071,542	41,513,089
Unrestricted	(182,197,396)	130,146,975	(52,050,421)
Total net position	\$ 325,524,120	\$ 723,029,635	\$ 1,048,553,755

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

CITY OF MODESTO
STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED JUNE 30, 2018

	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
FUNCTIONS/PROGRAMS:				
Governmental activities:				
General government	\$ 15,432,617	\$ 6,544,581	\$ -	\$ -
Community development	17,268,926	16,049,727	2,872,568	-
Highways and streets	22,997,140	758,952	-	2,532,056
Public works	8,674,538	1,637,024	-	-
Parks and recreation	4,456,508	2,346,211	-	530,236
Public safety	120,629,673	5,127,433	2,930,066	-
Interest on long-term debt	2,510,224	-	-	-
Total governmental activities	<u>191,969,626</u>	<u>32,463,928</u>	<u>5,802,634</u>	<u>3,062,292</u>
Business-type activities:				
Water	56,526,729	74,842,451	-	144,011
Sewer	41,444,220	52,799,102	1,019,231	3,497,910
Bus	20,538,934	3,305,910	16,201,547	3,430,047
Parking	1,553,258	1,434,311	-	-
Storm drain	5,202,444	6,004,682	-	-
Compost	9,652,175	8,934,075	303,332	-
Airport	1,578,654	651,693	334,652	124,730
Golf	2,616,077	2,485,688	-	-
Community center	1,780,010	294,524	-	-
Abatement and public nuisance	351,557	112,199	-	-
Total business-type activities	<u>141,244,058</u>	<u>150,864,635</u>	<u>17,858,762</u>	<u>7,196,698</u>
Total	<u>\$ 333,213,684</u>	<u>\$ 183,328,563</u>	<u>\$ 23,661,396</u>	<u>\$ 10,258,990</u>

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
\$ (8,888,036)	\$ -	\$ (8,888,036)
1,653,369	-	1,653,369
(19,706,132)	-	(19,706,132)
(7,037,514)	-	(7,037,514)
(1,580,061)	-	(1,580,061)
(112,572,174)	-	(112,572,174)
(2,510,224)	-	(2,510,224)
<u>(150,640,772)</u>	<u>-</u>	<u>(150,640,772)</u>
-	18,459,733	18,459,733
-	15,872,023	15,872,023
-	2,398,570	2,398,570
-	(118,947)	(118,947)
-	802,238	802,238
-	(414,768)	(414,768)
-	(467,579)	(467,579)
-	(130,389)	(130,389)
-	(1,485,486)	(1,485,486)
-	(239,358)	(239,358)
<u>-</u>	<u>34,676,037</u>	<u>34,676,037</u>
(150,640,772)	34,676,037	(115,964,735)
20,609,874	-	20,609,874
16,356,095	-	16,356,095
-	207,849	207,849
2,826,160	-	2,826,160
6,433,869	-	6,433,869
13,053,199	-	13,053,199
189,070	-	189,070
31,302,950	-	31,302,950
16,206,760	-	16,206,760
15,730,260	-	15,730,260
274,494	-	274,494
5,715,030	-	5,715,030
7,411,512	-	7,411,512
726,199	1,047,604	1,773,803
818,542	1,472,809	2,291,351
(354,287)	354,287	-
<u>137,299,727</u>	<u>3,082,549</u>	<u>140,382,276</u>
(13,341,045)	37,758,586	24,417,541
309,111,010	690,285,159	999,396,169
29,754,155	(5,014,110)	24,740,045
<u>\$ 325,524,120</u>	<u>\$ 723,029,635</u>	<u>\$ 1,048,553,755</u>

CITY OF MODESTO
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2018

	General	Housing and Community Development	Other Governmental	Total Governmental
ASSETS				
Cash and cash equivalents	\$ 12,946,167	\$ 3,637,479	\$ 18,749,614	\$ 35,333,260
Receivables:				
Accounts, net	877,106	49,283	50,669	977,058
Interest	109,960	1,739	165,936	277,635
Utilities, net	788,736	-	-	788,736
Taxes	12,415,705	-	453,162	12,868,867
Due from governments	1,323,021	508,476	8,372,103	10,203,600
Due from other funds	3,100,022	-	-	3,100,022
Prepaid expenditures	508,449	-	23,816	532,265
Restricted assets:				
Cash and cash equivalents	2,674,200	-	51,500,561	54,174,761
Cash and cash equivalents with fiscal agent	-	-	5,716,898	5,716,898
Due from governments	-	-	4,502,095	4,502,095
Notes receivable, net	-	51,587,376	2,281,179	53,868,555
Advances to other funds	2,373,074	-	64,000	2,437,074
Total assets	\$ 37,116,440	\$ 55,784,353	\$ 91,880,033	\$ 184,780,826
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 1,611,528	\$ 121,526	\$ 2,774,854	\$ 4,507,908
Accrued salaries and benefits	1,482,315	11,079	163,343	1,656,737
Accrued interest payable	-	783	1,878	2,661
Approved loans payable	-	214,963	-	214,963
Due to other funds	-	-	2,650,756	2,650,756
Unearned revenue	230,518	-	1,552,250	1,782,768
Refundable deposits	4,570,314	-	102,471	4,672,785
Advances from other funds	2,359,620	-	1,112,370	3,471,990
Total liabilities	10,254,295	348,351	8,357,922	18,960,568
Deferred inflows of resources:				
Unavailable revenue	116,563	27,714,368	4,030,049	31,860,980
Fund balances:				
Nonspendable	2,881,523	-	23,816	2,905,339
Restricted	2,674,200	27,721,634	64,064,733	94,460,567
Committed	18,397,817	-	-	18,397,817
Assigned	1,096,566	-	17,126,893	18,223,459
Unassigned	1,695,476	-	(1,723,380)	(27,904)
Total fund balances	26,745,582	27,721,634	79,492,062	133,959,278
Total liabilities, deferred inflows of resources, and fund balances	\$ 37,116,440	\$ 55,784,353	\$ 91,880,033	\$ 184,780,826

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, 2018

Total fund balances - total governmental funds \$ 133,959,278

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	\$ 101,508,569	
Depreciable	161,122,602	
Accumulated depreciation on general capital assets	(88,293,792)	
Infrastructure:		
Depreciable	569,022,682	
Accumulated depreciation on infrastructure	<u>(342,857,058)</u>	400,503,003

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

Deferred in the governmental funds	\$ 31,860,980	
Reimbursement agreement with Successor Agency	15,304,750	
Investments in joint ventures	<u>8,944,468</u>	56,110,198

Derivative instruments:

Rate swaps are not reported in governmental funds.	\$ (6,605,312)	
Deferred outflows of resources used to accumulate decreases in fair value of hedging derivatives also are not reported in governmental funds.	<u>6,605,312</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.

14,242,353

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	\$ 58,718,532	
Deferred inflows of resources	<u>(8,490,114)</u>	50,228,418

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

Deferred outflows of resources	\$ 2,388,959	
Deferred inflows of resources	<u>(1,413,144)</u>	975,815

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

Net pension liability	\$ (249,355,485)	
Net OPEB liability	(20,305,204)	
Bonds payable, and other long-term debt	(60,814,379)	
Accrued interest	<u>(19,877)</u>	<u>(330,494,945)</u>

Net position of governmental activities \$ 325,524,120

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, 2018

	General	Housing and Community Development	Other Governmental	Total Governmental
REVENUES:				
Taxes	\$ 57,663,530	\$ -	\$ 1,804,737	\$ 59,468,267
Licenses and permits	123,317	-	29,909	153,226
Intergovernmental	51,639,182	3,276,964	30,713,612	85,629,758
Charges for services	14,956,353	68,107	10,443,335	25,467,795
Special assessments levied	-	-	5,715,030	5,715,030
Interest and rent	856,051	-	718,296	1,574,347
Net decrease in fair value of investments	(246,458)	-	(399,135)	(645,593)
Fines and forfeits	659,198	-	468,679	1,127,877
Miscellaneous	608,523	-	210,019	818,542
Total revenues	<u>126,259,696</u>	<u>3,345,071</u>	<u>49,704,482</u>	<u>179,309,249</u>
EXPENDITURES:				
Current:				
General government	11,476,114	-	361,521	11,837,635
Community development	6,951,742	2,024,165	4,258,913	13,234,820
Highways and streets	-	-	8,936,163	8,936,163
Public works	6,309,935	-	199,483	6,509,418
Parks and recreation	3,340,141	-	80,312	3,420,453
Public safety	89,346,813	-	2,994,893	92,341,706
Capital outlay	238,819	-	18,798,431	19,037,250
Debt service:				
Principal retirement	909,343	245,000	1,695,000	2,849,343
Interest	172,180	48,845	1,893,463	2,114,488
Other	-	-	396,686	396,686
Total expenditures	<u>118,745,087</u>	<u>2,318,010</u>	<u>39,614,865</u>	<u>160,677,962</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>7,514,609</u>	<u>1,027,061</u>	<u>10,089,617</u>	<u>18,631,287</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	697,301	-	10,009,916	10,707,217
Transfers out	(8,641,278)	(539,199)	(4,388,198)	(13,568,675)
Sale of assets	124,155	2,161	28,142	154,458
TOTAL OTHER FINANCING SOURCES (USES)	<u>(7,819,822)</u>	<u>(537,038)</u>	<u>5,649,860</u>	<u>(2,707,000)</u>
CHANGES IN FUND BALANCES	(305,213)	490,023	15,739,477	15,924,287
FUND BALANCES, JULY 1	29,649,768	27,231,611	63,199,993	120,081,372
PRIOR PERIOD ADJUSTMENTS	<u>(2,598,973)</u>	<u>-</u>	<u>552,592</u>	<u>(2,046,381)</u>
FUND BALANCES, JUNE 30	<u>\$ 26,745,582</u>	<u>\$ 27,721,634</u>	<u>\$ 79,492,062</u>	<u>\$ 133,959,278</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, 2018

Net change in fund balances - total governmental funds \$ 15,924,287

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	\$ 19,037,250	
Depreciation expense	<u>(17,635,041)</u>	1,402,209

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.

118,547

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	\$ (615,376)	
Change in investments in joint ventures	<u>(564,149)</u>	(1,179,525)

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

491,550

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		2,849,343
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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	\$ 949	
OPEB expense associated with net OPEB liability	2,225,589	
Pension expense associated with net pension liability	<u>(17,288,178)</u>	(15,061,640)

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.

(17,885,816)

Change in net position of governmental activities

\$ (13,341,045)

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

CITY OF MODESTO
STATEMENT OF NET POSITION - PROPRIETARY FUNDS
JUNE 30, 2018

	Enterprise					
	Water	Sewer	Bus	Other Enterprise	Total Enterprise	Internal Service
ASSETS						
Current assets:						
Cash and cash equivalents	\$ 86,454,576	\$ 92,551,044	\$ 7,563,205	\$ 16,840,811	\$ 203,409,636	\$ 27,894,536
Receivables:						
Accounts, net	9,779	45,628	49,925	1,582,622	1,687,954	1,289,099
Interest	261,998	289,107	19,671	72,950	643,726	264,321
Utilities, net	7,398,466	3,921,680	-	786,003	12,106,149	-
Prepaid expenses	2,759,537	114,450	277,243	46,219	3,197,449	149,833
Due from governments	216,102	2,321,493	2,888,606	428,073	5,854,274	25,235
Inventories	35,435	-	-	15,532	50,967	9,347
Total current assets	<u>97,135,893</u>	<u>99,243,402</u>	<u>10,798,650</u>	<u>19,772,210</u>	<u>226,950,155</u>	<u>29,632,371</u>
Noncurrent assets:						
Advances to other funds	50,000	3,075,973	-	-	3,125,973	88,647
Restricted cash and cash equivalents	9,485,573	14,231,560	-	-	23,717,133	8,895,154
Restricted cash and cash equivalents with fiscal agent	8,883,987	2,106,285	-	626,762	11,617,034	179,884
Land and construction in progress	75,505,135	209,934,001	5,089,476	14,371,727	304,900,339	1,679,916
Other capital assets, net of accumulated depreciation	374,111,857	159,838,592	34,171,348	31,147,252	599,269,049	15,831,525
Total noncurrent assets	<u>468,036,552</u>	<u>389,186,411</u>	<u>39,260,824</u>	<u>46,145,741</u>	<u>942,629,528</u>	<u>26,675,126</u>
Total assets	<u>565,172,445</u>	<u>488,429,813</u>	<u>50,059,474</u>	<u>65,917,951</u>	<u>1,169,579,683</u>	<u>56,307,497</u>
DEFERRED OUTFLOWS OF RESOURCES						
Deferred OPEB	340,292	252,534	53,548	203,918	850,292	213,055
Deferred pensions	4,783,587	4,871,338	823,041	2,686,162	13,164,128	2,817,638
Loss on refunding	428,254	422,106	-	-	850,360	-
Accumulated decrease in fair value of hedging derivatives	25,220,919	-	-	-	25,220,919	-
Total deferred outflows of resources	<u>30,773,052</u>	<u>5,545,978</u>	<u>876,589</u>	<u>2,890,080</u>	<u>40,085,699</u>	<u>3,030,693</u>
Total assets and deferred outflows of resources	<u>\$ 595,945,497</u>	<u>\$ 493,975,791</u>	<u>\$ 50,936,063</u>	<u>\$ 68,808,031</u>	<u>\$ 1,209,665,382</u>	<u>\$ 59,338,190</u>
LIABILITIES						
Current liabilities:						
Accounts payable	\$ 4,742,345	\$ 3,736,792	\$ 1,723,503	\$ 1,352,628	\$ 11,555,268	\$ 875,845
Accrued salaries and benefits	219,441	279,224	34,986	124,171	657,822	129,472
Interest payable	3,556	1,964,507	-	38,433	2,006,496	-
Due to other funds	-	-	-	449,266	449,266	-
Current portion - compensated absences	-	-	-	-	-	3,486,926
Current portion - claims liability	-	-	-	-	-	4,859,767
Current portion - long-term debt	5,234,862	8,504,908	-	380,000	14,119,770	-
Current portion - developer advances	93,112	-	-	-	93,112	-
Unearned revenue	6,407	2,036,641	7,470,751	654,637	10,168,436	129,003
Total current liabilities	<u>10,299,723</u>	<u>16,522,072</u>	<u>9,229,240</u>	<u>2,999,135</u>	<u>39,050,170</u>	<u>9,481,013</u>
Noncurrent liabilities:						
Payable from restricted assets - refundable deposits	1,478,078	1,167,513	-	-	2,645,591	-
Advances from other funds	-	-	-	2,179,704	2,179,704	-
Compensated absences	-	-	-	-	-	6,466,614
Claims liability	-	-	-	-	-	19,572,748
Derivative instrument - interest swap	25,220,919	-	-	-	25,220,919	-
Pollution remediation liability	8,320,179	7,352,449	-	5,042,009	20,714,637	-
Long-term debt:						
Reimbursement agreement related to MID debt	117,618,632	-	-	-	117,618,632	-
Revenue bonds payable	-	25,631,599	-	-	25,631,599	-
Loans payable	400,615	140,894,490	-	-	141,295,105	-
Obligations under capital leases	19,509	-	-	-	19,509	-
Certificates of participation	43,956,049	-	-	2,185,000	46,141,049	-
Developer advances	959,114	-	-	-	959,114	-
Net OPEB liability	2,910,038	2,159,571	457,917	1,743,823	7,271,349	1,821,968
Net pension liability	19,133,065	18,942,154	3,151,106	10,571,152	51,797,477	11,263,379
Total noncurrent liabilities	<u>220,016,198</u>	<u>196,147,776</u>	<u>3,609,023</u>	<u>21,721,688</u>	<u>441,494,685</u>	<u>39,124,709</u>
Total liabilities	<u>230,315,921</u>	<u>212,669,848</u>	<u>12,838,263</u>	<u>24,720,823</u>	<u>480,544,855</u>	<u>48,605,722</u>
DEFERRED INFLOWS OF RESOURCES						
Deferred OPEB	206,003	152,877	32,416	123,447	514,743	128,978
Deferred pensions	669,693	479,114	73,704	265,899	1,488,410	448,876
Total deferred inflows of resources	<u>875,696</u>	<u>631,991</u>	<u>106,120</u>	<u>389,346</u>	<u>2,003,153</u>	<u>577,854</u>
NET POSITION						
Net investment in capital assets	291,699,566	197,269,987	39,260,824	43,580,741	571,811,118	17,511,441
Restricted for other purposes	8,007,495	13,064,047	-	-	21,071,542	8,895,154
Unrestricted	65,046,819	70,339,918	(1,269,144)	117,121	134,234,714	(16,251,981)
Total net position	<u>364,753,880</u>	<u>280,673,952</u>	<u>37,991,680</u>	<u>43,697,862</u>	<u>727,117,374</u>	<u>10,154,614</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 595,945,497</u>	<u>\$ 493,975,791</u>	<u>\$ 50,936,063</u>	<u>\$ 68,808,031</u>	<u>\$ 1,209,665,382</u>	<u>\$ 59,338,190</u>
Adjustment to reflect the consolidation of internal service fund activities					(4,087,739)	
Net position of business-type activities					<u>\$ 723,029,635</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, 2018

	Enterprise				Total Enterprise	Internal Service
	Water	Sewer	Bus	Other Enterprise		
OPERATING REVENUES:						
Charges for services	\$ 74,704,776	\$ 51,483,558	\$ 3,302,374	\$ 19,911,234	\$ 149,401,942	\$ 55,979,222
Sales	-	-	-	-	-	243,995
Miscellaneous	137,675	1,862	3,536	5,938	149,011	-
Total operating revenues	<u>74,842,451</u>	<u>51,485,420</u>	<u>3,305,910</u>	<u>19,917,172</u>	<u>149,550,953</u>	<u>56,223,217</u>
OPERATING EXPENSES:						
Salaries and wages	8,531,336	9,306,410	1,441,658	5,019,374	24,298,778	4,718,775
Cost of sales	-	-	-	-	-	-
Contractual services	7,187,517	6,710,803	14,170,790	6,927,152	34,996,262	5,183,307
Utilities	2,239,621	2,899,393	158,066	618,948	5,916,028	286,640
Maintenance and supplies	2,785,731	2,198,349	2,144,356	4,129,864	11,258,300	3,091,722
Water purchases	10,187,503	-	-	-	10,187,503	-
Insurance	311,289	505,443	29,609	298,773	1,145,114	16,039,130
Claims	-	-	-	-	-	3,964,199
Employee benefits	4,764,901	5,537,443	798,003	2,939,898	14,040,245	20,666,771
Administration services	1,269,609	2,209,533	1,109,433	2,582,847	7,171,422	1,460,380
Allocated indirect administrative costs	1,534,043	848,937	385,920	622,623	3,391,523	341,292
Depreciation	17,414,294	9,363,220	3,097,462	2,656,385	32,531,361	3,042,056
Total operating expenses	<u>56,225,844</u>	<u>39,579,531</u>	<u>23,335,297</u>	<u>25,795,864</u>	<u>144,936,536</u>	<u>58,794,272</u>
OPERATING INCOME (LOSS)	<u>18,616,607</u>	<u>11,905,889</u>	<u>(20,029,387)</u>	<u>(5,878,692)</u>	<u>4,614,417</u>	<u>(2,571,055)</u>
NONOPERATING REVENUES (EXPENSES)						
Operating grants	-	1,019,231	16,201,547	637,984	17,858,762	-
Gain (loss) on disposition of capital assets	(73,845)	(2,584)	(54,485)	16,331	(114,583)	(124,472)
Tax revenue	-	-	-	207,849	207,849	-
Tax expense	(61,662)	(83,956)	-	(525)	(146,143)	-
Interest income	977,046	785,535	(27,127)	165,454	1,900,908	992,462
Net increase (decrease) in fair value of investments	(93,249)	(573,206)	(43,486)	(143,363)	(853,304)	(630,868)
Connection fees	-	1,313,682	-	-	1,313,682	-
Rental income	47,391	504,677	131,815	788,926	1,472,809	-
Interest expense and amortization	(7,118,489)	(5,995,847)	-	(134,167)	(13,248,503)	-
Trustee and letter of credit fees	(399,291)	(448,918)	-	(9,138)	(857,347)	-
Total nonoperating revenues (expenses)	<u>(6,722,099)</u>	<u>(3,481,386)</u>	<u>16,208,264</u>	<u>1,529,351</u>	<u>7,534,130</u>	<u>237,122</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	<u>11,894,508</u>	<u>8,424,503</u>	<u>(3,821,123)</u>	<u>(4,349,341)</u>	<u>12,148,547</u>	<u>(2,333,933)</u>
Capital contributions	144,011	3,497,910	3,430,047	124,730	7,196,698	-
Transfers in	1,118,028	50,535	330,864	1,901,186	3,400,613	4,520,077
Transfers out	<u>(1,459,112)</u>	<u>(287,700)</u>	<u>(156,704)</u>	<u>(1,142,810)</u>	<u>(3,046,326)</u>	<u>(2,012,906)</u>
CHANGES IN NET POSITION	<u>11,697,435</u>	<u>11,685,248</u>	<u>(216,916)</u>	<u>(3,466,235)</u>	<u>19,699,532</u>	<u>173,238</u>
NET POSITION, JULY 1	355,915,368	268,532,858	39,089,085	48,894,641		(43,117,905)
PRIOR YEAR ADJUSTMENTS	<u>(2,858,923)</u>	<u>455,846</u>	<u>(880,489)</u>	<u>(1,730,544)</u>		<u>53,099,281</u>
NET POSITION, JUNE 30	<u>\$ 364,753,880</u>	<u>\$ 280,673,952</u>	<u>\$ 37,991,680</u>	<u>\$ 43,697,862</u>		<u>\$ 10,154,614</u>
Adjustment to reflect the consolidation of internal service funds					18,059,054	
Change in net position of business-type activities					\$ 37,758,586	

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, 2018

	Enterprise					Internal Service
	Water	Sewer	Bus	Other Enterprise	Total Enterprise	
CASH FLOWS FROM OPERATING ACTIVITIES:						
Receipts from customers and users	\$ 75,845,328	\$ 62,879,088	\$ 6,035,339	\$ 19,662,279	\$ 164,422,034	\$ 82,147
Receipts from interfund services provided	73,925	721,120	-	-	795,045	56,219,309
Payments to suppliers	(17,590,217)	(8,683,171)	(16,860,875)	(6,503,018)	(49,637,281)	(23,794,827)
Payment of insurance claims	-	-	-	-	-	(7,416,465)
Payments to employees	(12,230,745)	(11,460,325)	(2,493,130)	(7,391,674)	(33,575,874)	(23,662,971)
Payments for interfund services used	(6,743,167)	(6,172,291)	(2,343,336)	(6,987,762)	(22,246,556)	(2,462,226)
Net cash provided (used) by operating activities	<u>39,355,124</u>	<u>37,284,421</u>	<u>(15,662,002)</u>	<u>(1,220,175)</u>	<u>59,757,368</u>	<u>(1,035,033)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:						
Operating grants received	-	1,019,231	16,201,547	637,984	17,858,762	-
Taxes received	-	-	-	207,849	207,849	-
Transfers in	1,118,028	50,535	330,864	1,901,186	3,400,613	4,520,077
Transfers out	(1,459,112)	(287,700)	(156,704)	(1,142,810)	(3,046,326)	(2,012,906)
Payments on advances from other funds	-	-	-	(34,200)	(34,200)	-
Receipts on advances to other funds	60,814	34,200	-	-	95,014	-
Net cash provided (used) by noncapital financing activities	<u>(280,270)</u>	<u>816,266</u>	<u>16,375,707</u>	<u>1,570,009</u>	<u>18,481,712</u>	<u>2,507,171</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:						
Acquisition and construction of capital assets	(21,478,653)	(40,147,938)	(3,270,709)	(1,441,026)	(66,338,326)	(1,762,517)
Proceeds from sale of capital assets	128,501	7,917	20,823	26,497	183,738	21,654
Proceeds of debt issues	-	39,535,461	-	-	39,535,461	-
Repayment from refunding of long-term debt	-	(14,735,000)	-	-	(14,735,000)	-
Principal repayments	(5,002,098)	(7,478,616)	-	(355,000)	(12,835,714)	-
Interest paid	(7,118,698)	(5,995,847)	-	(100,135)	(13,214,680)	-
Trustee and letter of credit fees	(399,291)	(448,918)	-	(9,138)	(857,347)	-
Capital contributions	144,011	3,497,910	3,430,047	124,730	7,196,698	-
Connection fees for capital purposes	-	1,313,682	-	-	1,313,682	-
Net cash provided (used) by capital and related financing activities	<u>(33,726,228)</u>	<u>(24,451,349)</u>	<u>180,161</u>	<u>(1,754,072)</u>	<u>(59,751,488)</u>	<u>(1,740,863)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:						
Interest received	928,526	2,507,072	(31,989)	117,473	3,521,082	788,764
Net increase (decrease) in the fair value of investments	(93,249)	(573,206)	(43,486.00)	(143,363)	(853,304)	(516,920)
Rental income received	47,391	504,677	131,815	788,926	1,472,809	-
Net cash provided (used) by investing activities	<u>882,668</u>	<u>2,438,543</u>	<u>56,340</u>	<u>763,036</u>	<u>4,140,587</u>	<u>271,844</u>
Net increase (decrease) in cash and cash equivalents	6,231,294	16,087,881	950,206	(641,202)	22,628,179	3,119
CASH AND CASH EQUIVALENTS, JULY 1	98,592,842	92,801,008	6,612,999	18,108,775	216,115,624	36,966,455
CASH AND CASH EQUIVALENTS, JUNE 30	<u>\$ 104,824,136</u>	<u>\$ 108,888,889</u>	<u>\$ 7,563,205</u>	<u>\$ 17,467,573</u>	<u>\$ 238,743,803</u>	<u>\$ 36,969,574</u>
RECONCILIATION TO STATEMENT OF NET POSITION:						
Cash and cash equivalents	\$ 86,454,576	\$ 92,551,044	\$ 7,563,205	\$ 16,840,811	\$ 203,409,636	\$ 27,894,536
Restricted cash and cash equivalents	9,485,573	14,231,560	-	-	23,717,133	8,895,154
Restricted cash and cash equivalents with fiscal agent	8,883,987	2,106,285	-	626,762	11,617,034	179,884
TOTAL CASH AND CASH EQUIVALENTS	<u>\$ 104,824,136</u>	<u>\$ 108,888,889</u>	<u>\$ 7,563,205</u>	<u>\$ 17,467,573</u>	<u>\$ 238,743,803</u>	<u>\$ 36,969,574</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, 2018

	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)	\$ 18,616,607	\$ 11,905,889	\$ (20,029,387)	\$ (5,878,692)	\$ 4,614,417	\$ (2,571,055)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:						
Depreciation	17,414,294	9,363,220	3,097,462	2,656,385	32,531,361	3,042,056
Taxes paid	(61,662)	(83,956)	-	(525)	(146,143)	-
Change in assets, liabilities, and deferred resources:						
(Increase) decrease in accounts receivable	(2,986)	(6,615)	43,088	(264,347)	(230,860)	25,566
Increase in taxes receivable	-	-	-	1,752	1,752	-
Increase in utilities receivable	420,927	660,751	-	23,154	1,104,832	-
(Increase) decrease in due from governments	587,352	10,104,739	1,552,843	(130,240)	12,114,694	20,056
(Increase) decrease in prepaid expenses	(219,786)	(87,378)	(234,904)	(21,959)	(564,027)	341,655
(increase) decrease in inventories	(35,435)	95	-	18,989	(16,351)	9,795
Increase (decrease) in accounts payable	1,856,066	830,839	(971,133)	(750,363)	965,409	(206,032)
Increase (decrease) in accrued salaries and benefits	10,160	62,342	(2,529)	(9,432)	60,541	2,421
Increase in compensated absences	-	-	-	-	-	811,659
Increase (decrease) in net OPEB liability and deferred resources	(83,174)	2,378,790	(443,704)	(67,192)	1,784,720	2,142,400
Increase (decrease) in net pension liability and deferred	1,138,506	942,396	192,764	645,499	2,919,165	(1,233,905)
(Decrease) in claims liability	-	-	-	-	-	(3,452,266)
Increase (decrease) in pollution remediation liability	(357,254)	(142,604)	-	2,442,009	1,942,151	-
(Decrease) in due to other funds	-	-	-	(80,760)	(80,760)	-
Increase in unearned revenue	1,772	1,298,715	1,133,498	195,547	2,629,532	32,617
Increase in refundable deposits	69,737	57,198	-	-	126,935	-
Total adjustments	<u>20,738,517</u>	<u>25,378,532</u>	<u>4,367,385</u>	<u>4,658,517</u>	<u>55,142,951</u>	<u>1,536,022</u>
Net cash provided (used) by operating activities	<u>\$ 39,355,124</u>	<u>\$ 37,284,421</u>	<u>\$ (15,662,002)</u>	<u>\$ (1,220,175)</u>	<u>\$ 59,757,368</u>	<u>\$ (1,035,033)</u>
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:						
Interfund loan transfer correction	\$ -	\$ 2,220,973	\$ -	\$ -	\$ 2,220,973	\$ -

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, 2018

	Private-Purpose Trust	Agency
<u>ASSETS</u>		
Cash and cash equivalents	\$ 3,158,720	\$ 4,004,976
Cash and cash equivalents held with fiscal agent	1,982,508	2,981,237
Interest receivable	22,758	-
Other assets	2,704	-
Total assets	5,166,690	\$ 6,986,213
<u>LIABILITIES</u>		
Due to special district bondholders	\$ -	\$ 4,714,511
Deposits held as agent for others	-	2,271,702
Other payables	104,406	-
Due to other agencies	1,192,004	-
Loans payable:		
Due within one year	2,204,400	-
Due in more than one year	22,070,350	-
Total liabilities	25,571,160	\$ 6,986,213
<u>NET POSITION</u>		
Unrestricted	\$ (20,404,470)	

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, 2018

		Private-Purpose Trust
ADDITIONS:		
Redevelopment Agency Property Tax Trust Fund	\$	2,974,649
Interest and Investment Revenue:		
Use of money and property		36,332
Total additions		3,010,981
DEDUCTIONS:		
Distribution of property taxes to other taxing entities		730,061
Obligation retirements:		
Interest on note payable		448,167
City administrative expenses		131,304
Total deductions		1,309,532
Change in net position		1,701,449
Net position, July 1		(22,105,919)
Net position, June 30	\$	(20,404,470)

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, 2018

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. 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 Sewer Fund also recognize as non-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. 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 which reside in the Trust 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 are 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 inflows 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, 2018 is \$20,585,204.

Utility service accounts receivable are \$12,894,885 net of an allowance for doubtful collections of \$514,931 and include unbilled receivables using actual amounts billed in July for June services for all City funds. City accounts receivable of \$3,954,111 are reported net of an allowance for doubtful collections of \$1,513,969, 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. The consumption method is used to record the 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 received in a service concession agreement and all other types are recorded at acquisition value rather than fair value.

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, 30 years for water rights, 5 years for service animals, 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, 2018, the total estimated liability for all compensated absences, including vacation and sick leave, is \$9,953,540.

8. Fund Balance

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 a General Fund reserve at 8% of the fund's total operating expenditures for fiscal year 2017-2018.

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, 2016
Measurement Date: June 30, 2017
Measurement Period: June 30, 2016 to June 30, 2017

3. Other Postemployment Benefits (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the net position of the City's plan (OPEB Plan) and additions to/deductions from the OPEB Plan's net position have been determined on the same measurement basis. For this purpose, benefit payments are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value.

GASB 75 requires that the reported results must pertain to liability information within certain defined timeframes. For this report, the following timeframes are used:

Valuation Date: June 30, 2016
Measurement Date: June 30, 2017
Measurement Period: July 1, 2016 to June 30, 2017

4. 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, 2018, the City implemented the following GASB standards:

GASB Statement No. 75 – Accounting and Financial Reporting for Postemployment Benefits other than Pension Plans. The provisions of this statement are effective for financial statements for reporting periods beginning after June 15, 2017.

GASB Statement No. 81, Irrevocable Split-Interest Agreements. This Statement is effective for the City's fiscal year ending June 30, 2018.

GASB Statement No. 85 – Omnibus 2017. The provisions of this statement are effective for reporting periods beginning after June 15, 2017.

GASB Statement No. 86 – Certain Debt Extinguishment Issues. The requirements of this statement are effective for reporting periods beginning after June 15, 2017.

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

GASB Statement No. 83 – Certain Asset Retirement Obligations. The requirements of this statement are effective for reporting periods beginning after June 15, 2018.

GASB Statement No. 84 – Fiduciary Activities. The requirements of this statement are effective for reporting periods beginning after December 15, 2018.

GASB Statement No. 87 – Leases. The requirements of this statement are effective for reporting periods beginning after December 15, 2019.

GASB Statement No. 88 – Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements. The requirements of this statement are effective for reporting periods beginning after June 15, 2018.

GASB Statement No. 89 – Accounting for Interest Cost Incurred before the End of a Construction Period. The requirements of this statement are effective for reporting periods beginning after December 15, 2019.

GASB Statement No. 90 – Majority Equity Interests- an amendment of GASB Statements No. 14 and No 61. The requirements of this statement are effective for reporting periods beginning after December 15, 2018.

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’s cash and investments are reported as follows:

Primary Government:	
Cash and cash equivalents	\$ 266,637,432
Restricted cash and cash equivalents	86,787,048
Cash and cash equivalents held with fiscal agent	17,513,816
Sucessor Agency Private-Purpose Trust Fund	
Cash and cash equivalents	3,158,720
Cash and cash equivalents held with fiscal agent	1,982,508
Agency funds	
Cash and cash equivalents	4,004,976
Cash and cash equivalents held with fiscal agent	<u>2,981,237</u>
Total cash and investments	<u><u>\$ 383,065,737</u></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>Maximum Specified % of Portfolio</u>	<u>Maximum % per Issuer</u>	<u>Minimum Quality Requirements</u>
Local Agency Bonds	5 years	None	None	None
Treasury Obligations	5 years	None	None	None
State Obligations	5 years	None	None	A rating
CA Local Agency Obligations	5 years	None	None	A rating
Federal Agencies	5 years	None	None	None
Supranationals	5 years	30 %	5 %	AA
				Federal Reserve eligible
Banker's Acceptances	180 days	40 %	5 %	
Commercial Paper	270 days	25 %	5 %	A1/P1 rating
Negotiable Certificates of Deposit	5 years	30 %	5 %	A rating
				FDIC insured or collateralized
Certificates of Deposit	1 year	20 %	5 %	
Repurchase Agreements	90 days	None	5 %	None
		20 % of combined base value		
Reverse Repurchase Agreements	92 days		5 %	None

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Specified % of Portfolio</u>	<u>Maximum % per Issuer</u>	<u>Minimum Quality Requirements</u>
Medium Term Notes	5 years	30 %	5 %	A rating
Money Market Mutual Funds	N/A	20 %	10 %	Multiple
Mortgage and Asset-backed Securities	5 years	20 %	5 %	AA Rating
CAMP	N/A	None	None	N/A
LAIF	N/A	N/A	None	N/A

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, 2018, the fair value approximated the City's cost. At June 30, 2018, these investments range from a maximum maturity of 4 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 custody at the Bank of New York Trust Company N.A. under the name of the California Local Agency Collateral Pool as administered by the California Department of Business Oversight (Pool Administrator).

The City of Modesto has 10 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, 2018, the City had collected deposit balances of \$27,448,379. On this amount, the FDIC insurance coverage was \$500,000 (\$250,000 for time and savings accounts and \$250,000 for their demand accounts). The remainder of their balances were collateralized as part of the California Local Agency Pool Program.

For further information, on June 30, 2018, the total collected deposit balances at Bank of America from California Local Agency Pool Program participants was \$2,127,497,350 of which \$80,221,478 was FDIC insured. The remaining uninsured balances, \$2,047,275,872 were collateralized by securities pledged by Bank of America that had a market value of \$2,573,903,310. This results in collateral margin coverage 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 their duration, or sensitivity to interest rate changes, being greater.

As of June 30, 2018, the City owned five callable bonds. There were no Federal Agency callables in the portfolio. Information on those bonds has been provided as follows:

Corporate Notes			
Amount	Maturity Date	Call Date	Call Terms
\$1,075,000	10/30/2019	9/30/2019	Callable on and any time after 9/30/2019
\$1,320,000	3/3/2020	2/1/2020	Callable on and any time after 2/1/2020
\$1,155,000	2/1/2021	1/1/2021	Callable on and any time after 1/1/2021
\$2,255,000	3/1/2021	2/1/2021	Callable on and any time after 2/1/2021
\$5,325,000	4/15/2021	3/15/2021	Callable on and any time after 3/15/2021

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	3-18 years
U.S. Treasury Bond/Notes	AA+	Aaa	\$ 35,861,096	\$ -	\$ 12,802,169	\$ 23,058,927	\$ -
Federal Agencies:							
Collateralized Mortgage Obligation	AA+	Aaa	3,199,458	967,046	695,989	-	1,536,422
Federal Agency Bond/Notes	AA+	Aaa	92,406,115	-	63,311,511	29,094,604	-
Corporate Notes	See Below	See Below	44,543,190	6,542,494	15,261,165	22,739,531	-
Negotiable Certificates of Deposit	See Below	See Below	49,822,310	15,389,342	24,659,701	9,773,267	-
CAMP Pool	AAAm	N/A	112,356,629	112,356,629	-	-	-
Total			\$ 338,188,798	\$ 135,255,511	\$ 116,730,536	\$ 84,666,328	\$ 1,536,422
Held By Fiscal Agent							
Money Market Funds	AAAm	Aaa-mf	6,798,492	6,798,492	-	-	-
CAMP	AAAm	N/A	9,670,184	9,670,184	-	-	-
MID – Collateral Agreement	A+	Aa3	6,008,885	6,008,885	-	-	-
Fiscal Agent Total			\$ 22,477,561	\$ 22,477,561	\$ -	\$ -	\$ -
City of Modesto Banking Accts & Cash on Hand	A/A-1	A1/P1	22,843,663				
Timing Differences for Deposit & Electronic Vendor Payments			(444,285)				
Total Cash and Investments			\$ 383,065,737				

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

Amount	Standard & Poors	Moody's Investors Service
\$ 3,460,714	AA+	Aa1
1,840,573	AA	Aa2
3,452,027	AA-	Aa3
5,325,164	A	A1
10,520,537	A+	A1
3,384,795	AA-	A1
4,128,598	A	A2
6,283,932	A-	A2
4,471,897	A-	A3
1,674,953	A	A3
\$ 44,543,190		

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
\$ 9,664,315	A-1	P-1
5,725,028	A-1+	P-1
8,026,497	A+	Aa2
3,387,748	AA-	Aa2
7,501,255	AA-	Aa3
6,909,381	A	A1
6,301,969	A+	A1
2,306,117	AA-	A1
<u>\$ 49,822,310</u>		

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, 2018:

Issuer	Investment Type	Reported Amount	Percent of Portfolio
Fannie Mae (FNMA)	Federal agency securities	\$42,813,764	11.18%
Freddie Mac (FHLMC)	Federal agency securities	\$44,104,755	11.51%

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, 2018:

Investments by Fair Value Level 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	\$ 35,861,096	\$ 35,861,096	\$ -
Corporate Notes	44,543,190	-	44,543,190
Negotiable Certificates of Deposit	49,822,310	-	49,822,310
Collateralized Mortgage Obligation	3,199,458	-	3,199,458
Federal Agency Bond/Notes	92,406,115	-	92,406,115
Total Investments measured at fair value	225,832,169	\$ 35,861,096	\$ 189,971,073
Investments not subject to Fair Value hierarchy			
CAMP	112,356,629		
	<u>\$ 338,188,798</u>		
Investments by Fair Value for Fiscal Agents			
Money Market Funds	\$ 6,798,492	\$ -	\$ 6,798,492
Total Fiscal Agent investments measured at fair value	6,798,492	\$ -	\$ 6,798,492
Investments not subject to Fair Value hierarchy			
CAMP	9,670,184		
MID Collateral Agreement	6,008,885		
	<u>\$ 22,477,561</u>		

B. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2018 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 28,267,446	\$ 219,523	\$ -	\$ 28,486,969
Construction in progress	66,144,481	17,339,668	(8,782,633)	74,701,516
Total capital assets, not being depreciated:	<u>94,411,927</u>	<u>17,559,191</u>	<u>(8,782,633)</u>	<u>103,188,485</u>
Capital assets being depreciated:				
Buildings	32,859,768	150,578	-	33,010,346
Improvements other than buildings	109,176,015	1,591,513	(77,740)	110,689,788
Furnishings & equipment	15,959,838	765,533	(1,698,787)	15,026,584
Buses and fareboxes	278,852	-	-	278,852
Service animals	42,549	11,200	(16,550)	37,199
Intangible assets	8,513,126	8,091	-	8,521,217
Equipment pool	36,686,217	7,855,410	(1,565,044)	42,976,583
Infrastructure				
Streets	510,605,106	1,409	(692,065)	509,914,450
Signals	21,790,323	597,756	-	22,388,079
Bridges	36,699,321	20,832	-	36,720,153
Total capital assets, being depreciated:	<u>772,611,115</u>	<u>11,002,322</u>	<u>(4,050,186)</u>	<u>779,563,251</u>
Less accumulated depreciation for:				
Buildings	(19,918,891)	(909,441)	-	(20,828,332)
Improvements	(55,003,548)	(4,374,809)	46,644	(59,331,713)
Furnishings & equipment	(12,864,462)	(696,712)	1,591,847	(11,969,327)
Buses and fareboxes	(253,749)	-	-	(253,749)
Service animals	(25,215)	(7,461)	11,523	(21,153)
Intangible assets	(4,930,085)	(426,717)	-	(5,356,802)
Equipment pool	(22,705,698)	(2,936,521)	1,523,061	(24,119,158)
Infrastructure				
Streets	(307,006,599)	(10,211,579)	120,815	(317,097,363)
Signals	(17,159,925)	(379,757)	-	(17,539,682)
Bridges	(7,485,913)	(734,100)	-	(8,220,013)
Total accumulated depreciation	<u>(447,354,085)</u>	<u>(20,677,097)</u>	<u>3,293,890</u>	<u>(464,737,292)</u>
Total capital assets being depreciated, net	<u>325,257,030</u>	<u>(9,674,775)</u>	<u>(756,296)</u>	<u>314,825,959</u>
Governmental activities capital assets, net	<u>\$ 419,668,957</u>	<u>\$ 7,884,416</u>	<u>\$ (9,538,929)</u>	<u>\$ 418,014,444</u>

Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
General government	\$ 548,069
Community development	612,757
Highways and streets	11,739,159
Public works	301,379
Parks and recreation	158,363
Public safety	4,275,314
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	<u>3,042,056</u>
Total depreciation expense – Governmental activities	<u><u>\$20,677,097</u></u>

	Beginning Balance	Additions	Deletions	Ending Balance
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 33,854,403	\$ 599,465	\$ -	\$ 34,453,868
Construction in progress	231,771,478	63,491,134	(24,816,141)	270,446,471
Total capital assets, not being depreciated:	<u>265,625,881</u>	<u>64,090,599</u>	<u>(24,816,141)</u>	<u>304,900,339</u>
Capital assets being depreciated:				
Capitalized interest	19,496,181	-	-	19,496,181
Buildings	101,945,199	51,484	(16,572)	101,980,111
Improvements other than buildings	318,004,062	2,564,020	(475,845)	320,092,237
Furnishings and equipment	13,116,865	1,367,858	(131,854)	14,352,869
Intangible assets	455,382	-	(51,998)	403,384
Water rights	358,226,691	-	-	358,226,691
Buses and fareboxes	29,953,107	2,006,256	(1,825,762)	30,133,601
Pipelines	161,071,234	21,173,386	-	182,244,620
Total capital assets, being depreciated:	<u>1,002,268,721</u>	<u>27,163,004</u>	<u>(2,502,031)</u>	<u>1,026,929,694</u>
Less accumulated depreciation for:				
Capitalized interest	(11,247,763)	(974,593)	-	(12,222,356)
Buildings	(64,558,431)	(2,981,161)	15,774	(67,523,818)
Improvements other than buildings	(173,496,890)	(10,942,410)	275,082	(184,164,218)
Furnishings and equipment	(7,977,400)	(1,064,931)	110,400	(8,931,931)
Intangible assets	(337,160)	(81,983)	51,998	(367,145)
Water rights	(83,586,229)	(11,940,890)	-	(95,527,119)
Buses and fareboxes	(13,654,688)	(2,018,781)	1,750,454	(13,923,015)
Pipelines	(42,474,431)	(2,526,612)	-	(45,001,043)
Total accumulated depreciation	<u>(397,332,992)</u>	<u>(32,531,361)</u>	<u>2,203,708</u>	<u>(427,660,645)</u>
Total capital assets being depreciated, net	<u>604,935,729</u>	<u>(5,368,357)</u>	<u>(298,323)</u>	<u>599,269,049</u>
Business-type activities capital assets, net	<u>\$ 870,561,610</u>	<u>58,722,242</u>	<u>(25,114,464)</u>	<u>\$ 904,169,388</u>

Business-type activities:

Water	\$17,414,294
Sewer	9,363,220
Bus	3,097,462
Parking	458,380
Storm drain	573,851
Compost	112,488
Airport	704,375
Golf	50,799
Community center	756,492
Total depreciation expense – Business-type activities	<u>\$32,531,361</u>

C. LONG-TERM DEBT

Loans Payable

Governmental Activities:

No-interest loan payable to the Stanislaus County Economic Development Bank loan program, to pay costs incurred by the City for the Kiernan Business Park East Project; loan intended to be repaid when the financing mechanism is established. As of June 30, 2018, no payments have been made to the Stanislaus County Economic Development Bank. 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.

\$500,000

Total Principal Balance – Governmental-Type Activities

\$500,000

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 the 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 total amount for the project was \$1,136,656, of which 50% was to be repaid as a loan. This original loan amount of \$568,328 has a payment term of 20 years at 2.5017% interest rate.

\$426,397

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 total loan approved by the State Water Resources Control Board is \$121,829,278, plus \$5,328,665 in Accrued Construction Period Interest. The loan repayment term is 20 years (final payment due on December 1, 2035) and after an initial annual payment of \$7,891,411 in the fiscal year ending June 30, 2017, the annual principal and interest payment is \$8,245,564 beginning in the fiscal year ending June 30, 2018.

117,337,522

Loan payable to California State Water Resources Control Board, State Revolving Fund. The Project, commonly known as North Valley Regional Recycled Water Program generally consists of constructing improvements to the City's existing pump station. The City will then distribute the recycled water to the Del Puerto Water District for agricultural use increasing recycled water supplies by 5.4 billion gallons per year within the first 5 years of operation and 9.9 billion gallons per year at build out. Completion of construction date is established as June 30, 2018. Project completion date is established as December 31, 2018. The City agrees to repay all project funds at an interest rate of one percent (1%) per annum and an administrative service charge of zero percent (0%) per annum. The total loan approved by the State Water Resources Control Board is \$41,862,028. As of

June 30, 2018, an additional \$68,857 of approved Construction Period Interest to this liability. The loan repayment term is 30 years (final payment due on June 30, 2048) and after an initial and secondary annual payment of \$1,262,431 and \$1,506,587, respectively, in the fiscal year ending June 30, 2019 and June 30, 2020, the annual principal and interest payment is \$1,633,411 beginning in the fiscal year ending June 30, 2021. The current reported balance includes only the disbursements received as of June 30, 2018.

29,602,781

Total Principal Balances – Business-Type Activities

\$147,366,700

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
2019	\$500,000	\$-	\$6,071,595	\$3,357,310
2020	-	-	6,215,819	3,213,087
2021	-	-	6,363,656	3,065,250
2022	-	-	6,515,199	2,913,707
2023	-	-	6,670,542	2,758,364
2024-2028	-	-	35,822,842	11,321,686
2029-2033	-	-	40,299,086	6,809,153
2034-2038	-	-	28,543,884	1,928,067
2039-2043	-	-	5,296,940	438,319
2044-2048	-	-	5,567,137	168,122
Total	<u>\$500,000</u>	<u>\$-</u>	<u>\$147,366,700</u>	<u>\$35,973,065</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.

\$2,565,000

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 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 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, and were subsequently extended to July 14, 2017 at a commitment fee of 0.875%, then again to June 15, 2020 at a commitment fee of 0.7%.

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 average synthetic fixed-rate was 3.42% for the fiscal year ending June 30, 2018.

44,450,000

Total Principal Balances – Business-Type Activities
Less:

47,015,000

Unamortized Bond Discount – 2008 Water Refunding Certificates of Participation

(98,951)

Total Business-Type Activities – Certificates of Participation

\$46,916,049

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 combined total principal and estimated total interest remaining to be paid on the certificates is \$53,767,190. The Water Fund's principal, interest and other debt service cost paid on certificates for the current year, along with payments for the ARRA loan payable and payments to Modesto Irrigation District under the Treatment and Delivery Agreement, totaled \$12,512,762, and net operating revenues of the Fund were \$38,757,516, which represented coverage of 310%. The Golf Fund's principal and interest paid on certificates totaled \$489,167, and net operating revenues of the Fund were \$508,346, which represented coverage of 104%.

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

Year Ending June 30,	Business-Type Activities	
	Principal	Interest
2019	\$775,000	\$633,504
2020	795,000	625,800
2021	805,000	599,375
2022	860,000	573,240
2023	910,000	545,541
2024-2028	13,005,000	2,156,624
2029-2033	15,290,000	1,302,814
2034-2038	14,575,000	315,292
Total	<u>\$47,015,000</u>	<u>\$6,752,190</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 average synthetic fixed-rate was 3.59% for the fiscal year ending June 30, 2018.

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%.

\$52,775,000

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

Year Ending June 30,	Governmental-Type Activities	
	Principal	Interest
2019	\$1,860,000	\$720,906
2020	2,000,000	730,953
2021	2,170,000	697,281
2022	2,390,000	662,462
2023	2,585,000	624,695
2024-2028	16,215,000	2,449,491
2029-2033	20,810,000	1,046,438
2034-2035	4,745,000	11,929
Total	<u>\$52,775,000</u>	<u>\$6,944,155</u>

Revenue Bonds – Business-Type Activities:

Sewer Enterprise Fund:

Wastewater Revenue Refunding Bonds, Series 2018A; interest payable on November 1 and May 1; principal is payable in annual installments on each November 1, commencing November 1, 2025 and ending November 1, 2036, with interest rates from 4% to 5%. Payment of principal and interest on the Series 2018A Bond is secured by a pledge of Net Revenues. The Series 2018A Bond constitutes “Parity Debt” under the Indenture.

On April 19, 2018, the City issued the Series 2018A Bond as a Parity Debt to fully refund the 2006A Wastewater Revenue Bonds. The proceeds were used to refund the 2006A Wastewater Revenue Bonds and pay cost of issuance in connection with the financing. The Series 2006A has been fully redeemed, and the City will realize significant savings from the refunding of the 2006A bonds.

\$11,340,000

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. The City will realize significant savings from the refunding of the 2005A and 2006A Bonds, bearing an interest rate of 2.42%.

14,685,381

Total Principal Balances – Business-Type Activities

26,025,381

Add: Unamortized Bond Premium – 2018 Wastewater Bonds

2,065,313

Total Business-Type Activities Revenue Bonds

\$ 28,090,694

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

Year Ending June 30,	Business-Type Activities	
	Principal	Interest
2019	\$2,459,095	\$899,544
2020	2,521,328	820,767
2021	2,577,643	759,071
2022	2,644,114	695,888
2023	2,708,639	631,119
2024-2028	4,014,562	2,655,697
2029-2033	4,560,000	1,669,500
2034-2038	4,540,000	438,250
Total	<u>\$26,025,381</u>	<u>\$8,569,836</u>

Notes Payable – Governmental Activities:

On March 26, 2015, the City received notice of a public offering to refinance the existing note, with an outstanding balance of \$2,789,000. 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.

\$2,090,000

Total Notes Payable

\$2,090,000

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

Year Ending June 30,	Governmental-Type Activities	
	Principal	Interest
2019	\$256,000	\$46,003
2020	269,000	41,773
2021	283,000	36,442
2022	297,000	30,150
2023	312,000	22,838
2024-2025	673,000	19,341
Total	<u>\$2,090,000</u>	<u>\$196,547</u>

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, 2018, the total outstanding on the MID bonds is: \$26,335,000 for the 2013 G Bonds and \$93,190,000 for the 2007 F Bonds, for a total of \$119,525,000. 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 interest rates from 2% to 5%. 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. The City has entered into interest-rate swap agreements for the 2007F bonds 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
2019	\$4,760,000	\$3,257,849
2020	5,005,000	3,029,204
2021	5,260,000	2,766,900
2022	5,515,000	2,500,365
2023	5,795,000	2,217,615
2024-2028	23,370,000	9,007,289
2029-2033	29,250,000	6,067,958
2034-2038	40,570,000	2,290,006
Total	<u>\$119,525,000</u>	<u>\$31,137,186</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 synthetic 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 2008 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 2018, the City had posted a cumulative total of \$6,008,884 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, 2018 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	\$44,450,000	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	52,775,000	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, 2018, the fair value of the swaps was in favor of the counterparty as shown in the following table:

Bond Issue	Fair Value
2008 Water Refunding Rev. Certificates of Participation	(\$6,549,927)
2008 Lease Revenue Bonds	(\$6,605,312)
2007 MID Domestic Water Revenue Bonds	(\$18,670,992)

Credit risk - As of June 30, 2018, 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, 2018, 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 Payments and Remarketing	Total
	Principal	Interest	Fees	
June 30,				
2019	\$2,255,000	\$3,295,759	\$4,630,254	\$10,181,013
2020	2,395,000	3,333,082	4,536,149	10,264,231
2021	2,565,000	3,287,556	4,467,249	10,319,805
2022	2,815,000	3,250,567	4,388,553	10,454,120
2023	3,035,000	3,207,475	4,308,663	10,551,138
2024-2028	52,110,000	13,601,405	18,324,753	84,036,158
2029-2033	65,350,000	8,417,211	11,088,268	84,855,479
2034-2038	59,890,000	2,617,226	3,415,570	65,922,796
Total	\$190,415,000	\$41,010,281	\$55,159,459	\$286,584,740

Changes in Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2018, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Loans Payable	\$500,000	\$ -	\$ -	\$500,000	\$500,000
Lease Revenue Bonds	54,470,000	-	1,695,000	52,775,000	1,860,000
Notes Payable	2,335,000	-	245,000	2,090,000	256,000
Obligations under Capital Leases	6,358,720	-	909,341	5,449,379	446,497
Compensated Absences	6,751,718	4,750,822	4,236,099	7,266,441	941,345
Claims liability	27,884,781	511,933	3,964,199	24,432,515	4,859,767
Total governmental activities	\$98,300,219	\$5,262,755	\$11,049,639	\$92,513,335	\$8,863,609
Business-type activities:					
Loans Payable	\$124,280,500	\$28,195,461	\$5,109,261	\$147,366,700	\$6,071,595
Compensated Absences	2,390,163	2,183,998	1,887,062	2,687,099	2,545,581
Certificates of participation	47,735,000	-	720,000	47,015,000	775,000
Unamortized Discount	(104,448)	-	(5,497)	(98,951)	-
Obligations under Capital Leases	-	150,537	76,948	73,589	54,080
Reimbursement Agreement:					
MID Bonds	124,060,000	-	4,535,000	119,525,000	4,760,000
Unamortized Premium	3,424,358	-	570,726	2,853,632	-
Sewer Bonds	31,814,886	11,340,000	17,129,505	26,025,381	2,459,095
Unamortized Discount	(208,950)	-	(208,950)	-	-
Unamortized Premium	-	2,083,430	18,117	2,065,313	-
Developer advances	1,145,338	-	93,112	1,052,226	93,112
Business-type activities	\$334,536,847	\$43,953,426	\$29,925,284	\$348,564,989	\$16,758,463

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

As of June 30, 2018, the City has one active capital lease agreement with Pierce Manufacturing Inc. for the purchase of five Velocity Pumpers and two Velocity Tillers valued at \$5,883,756, less accumulated depreciation of \$274,038.

The following is a schedule of the future minimum lease payments, as of June 30, 2018:

<u>Year Ending June 30,</u>	
2019	\$598,544
2020	598,544
2021	598,544
2022	598,544
2023	598,545
2024-2028	<u>3,348,390</u>
Total minimum lease payments	6,341,111
Less: amount representing interest	<u>(891,732)</u>
Present value of minimum lease payments	<u><u>\$5,449,379</u></u>

During the fiscal year ending June 30, 2018, the City paid-off two capital leases with Pierce Manufacturing Inc.: 1) for the purchase of two Pierce Velocity 1500 GPM Pumpers valued at \$1,070,472, less \$262,646 of depreciation accumulated as of June 30, 2018, and 2) for the purchase of one 4x4 Freightliner Wildland Pumper valued at \$330,947, less \$91,056 of depreciation accumulated as of June 30, 2018.

Business-Type Activities

As of June 30, 2018, the City has one active capital lease agreement with Envirogen Technologies for the purchase of the Grayson Nitrate Treatment System valued at \$150,538, less accumulated depreciation of \$25,035.

The following is a schedule of the future minimum lease payments, as of June 30, 2018:

<u>Year Ending June 30,</u>	
2019	\$60,000
2020	<u>20,000</u>
Total minimum lease payments	80,000
Less: amount representing interest	<u>(6,411)</u>
Present value of minimum lease payments	<u><u>\$73,589</u></u>

E. DEVELOPER ADVANCES

The Del Este Water Company (Del Este) entered into various agreements with developers under which infrastructure components were either constructed on behalf of Del Este or cash was advanced to the company to construct the infrastructure. Agreements in existence at the time of the City's acquisition of Del Este were assumed by the City. The terms of repayment call for no interest, with principal paid over a 40-year period. As of June 30, 2018, the total outstanding balance due under the agreements is \$1,052,226. The total annual payments fluctuate depending on the ending date of each agreement. At June 30, 2018, the amount of \$93,112 due during fiscal year 2019 has been reported as "current portion-developer advances" on the Water Enterprise Fund statement of net position. The remaining \$959,114 of outstanding principal has been reported under noncurrent liabilities, as "developer advances."

F. INTERFUND BALANCES

Interfund balances as of June 30, 2018 consist of the following:

Due to General Fund from:

Other governmental funds	\$2,650,756
Other enterprise funds	<u>449,266</u>
Total Due to General Fund	<u>3,100,022</u>
Total Due to/Due From:	<u>\$ 3,100,022</u>

Advances from General Fund to:

Other governmental funds	\$1,048,370
Other enterprise funds	<u>1,324,704</u>
Advances from General Fund	<u>2,373,074</u>

Advances from Water Fund to General Fund 50,000

Advances from Sewer Fund to:

General Fund	2,220,973
Other enterprise funds	<u>855,000</u>

Advances from Sewer Fund 3,075,973

Advances from other governmental funds to other governmental funds 64,000

Advance from internal service funds to General Fund 88,647

Total Advances from/Advances to \$5,651,694

All balances reported as “due to/due from” are short-term loans to cover temporary fund cash shortages as of June 30, 2018, and were repaid early in fiscal year 2019. 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, 2018, are provided below:

	General Fund	Housing and Community Development	Other Governmental	Total Governmental Funds
Nonspendable				
Advances to other funds	\$ 2,373,074	\$ -	\$ -	\$ 2,373,074
Prepaid Items	508,449	-	23,816	532,265
Total Nonspendable Fund Balance	2,881,523	-	23,816	2,905,339
Restricted				
Capital Facility Fees	-	-	34,799,695	34,799,695
Cash with Fiscal Agent	-	-	5,716,898	5,716,898
Community Facilities District	-	-	16,484,595	16,484,595
Grants and Donations	-	3,855,892	1,041,497	4,897,389
Notes Receivable	-	23,865,742	2,281,179	26,146,921
Deposits	2,674,200	-	-	2,674,200
Traffic Fines	-	-	3,740,869	3,740,869
Total Restricted Fund Balance	2,674,200	27,721,634	64,064,733	94,460,567
Committed				
General Fund Set-Aside	18,397,817	-	-	18,397,817
Total Committed Fund Balance	18,397,817	-	-	18,397,817
Assigned				
Encumbrances - Vendor Contracts	1,096,566	-	-	1,096,566
Downtown Improvement District	-	-	84,229	84,229
Successor Redevelopment Housing Agency	-	-	449,991	449,991
Gas Tax Funding	-	-	4,749,879	4,749,879
Measure L Funding	-	-	9,741,123	9,741,123
Special Capital Outlay Projects	-	-	809,138	809,138
Strategic Planning and Development	-	-	1,292,533	1,292,533
Total Assigned Fund Balance	1,096,566	-	17,126,893	18,223,459
Unassigned - General Fund	1,695,476	-	-	1,695,476
Unassigned - Special Revenue Funds	-	-	(866,500)	(866,500)
Unassigned - Debt Service Funds	-	-	(112,915)	(112,915)
Unassigned - Capital Project Funds	-	-	(743,965)	(743,965)
Total Unassigned Fund Balance	1,695,476	-	(1,723,380)	(27,904)
Total Fund Balance	\$ 26,745,582	\$ 27,721,634	\$ 79,492,062	\$ 133,959,278

H. DEFICIT FUND EQUITY

The Operating Grants fund has a fund balance deficit of \$98,685, which will be recovered through future revenues and local matches covered through the General Fund or other City funds.

The Capital Grants fund has a fund balance deficit of \$726,822, 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 \$6,145,091, due to the pollution remediation liability reported for the Carpenter Landfill. 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 \$1,136,172, 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 \$1,206,624. It exists partially because the total compensated absences and other post-employment benefit balance for the employees which reside in this fund 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 \$12,076,902, due mainly to the recognition of settlements that were reached both in the current and 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	-	-	\$ 449,611	\$ 65,000	\$ 68,640	-	-	\$ 114,050	\$ 697,301
Other Governmental	\$ 6,862,927	\$ 525,844	2,340,108	-	-	-	\$ 46,800	234,237	10,009,916
Water	1,290	-	180	-	65,000	-	-	1,051,558	1,118,028
Sewer	-	-	-	-	-	-	11,471	39,064	50,535
Bus	5,741	-	322,323	-	-	-	-	2,800	330,864
Other Enterprise	1,168,162	-	-	700,000	-	-	-	33,024	1,901,186
Internal Service	603,158	13,355	1,275,976	694,112	154,060	\$ 156,704	1,084,539	538,173	4,520,077
Grand Total	\$ 8,641,278	\$ 539,199	\$ 4,388,198	\$ 1,459,112	\$ 287,700	\$ 156,704	\$ 1,142,810	\$ 2,012,906	\$ 18,627,907

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.

State Senate Bill (SB) 107 was then passed in 2015. This bill included many significant changes to the operation of the Successor Agencies. Among these changes were the Annual Recognized Obligation Payment Schedule (ROPS), the Last and Final ROPS, a single Countywide Oversight Board, and the requirement for the County Auditor-Controller to review the obligation payments made by the Successor Agency. Some of these changes like the County Oversight Board and the requirement for the County Auditor-Controller to review the obligation payments made by the Successor Agency become effective July 1, 2018. The Modesto RDA Successor Agency will comply with all aspects of the changes incorporated by SB 107.

As of June 30, 2018, 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, 2018 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.

\$15,304,750

Annual debt service requirements to maturity are as follows:

Year Ending June 30,	Principal	Interest	Total
2019	\$539,400	\$610,170	\$1,149,570
2020	580,000	595,343	1,175,343
2021	629,300	567,937	1,197,237
2022	693,100	539,334	1,232,434
2023	749,650	508,632	1,258,282
2024-2028	4,702,350	1,995,910	6,698,260
2029-2033	6,034,900	854,532	6,889,432
2034	1,376,050	8,015	1,384,065
Total	<u>\$15,304,750</u>	<u>\$5,679,873</u>	<u>\$20,984,623</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.

Future debt service requirements to maturity for loans payable, as of June 30, 2018, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 405,000	\$ -	\$ 405,000
Total	\$ 405,000	\$ -	\$ 405,000

As of June 30, 2018, 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. \$8,565,000

Future debt service requirements to maturity for the Certificates of Participation, as of June 30, 2018, are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	1,455,000	193,625	1,648,625
2023	1,535,000	118,875	1,653,875
2024	1,610,000	40,250	1,650,250
Total	\$8,565,000	\$1,346,375	\$9,911,375

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 \$54,040,827 net of \$172,272 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 \$214,963 consist of amounts being held for housing projects using funds provided by federal grants. This liability is expected to be liquidated in less than a year.

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, 2018, the City reported a pollution remediation liability from the Water and Sewer funds in the amount of \$8,320,179 and \$7,352,449, 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. Construction was to begin in Spring of 2017, however, due to flooding during the Winter of 2016, the groundwater level increased to a level too high to begin construction. The City has submitted a request to the CVRWQCB to delay the project until Spring of 2018. The waters did recede and the project went out to bid and was awarded in August 2018. However a unanticipated permit delay occurred and it is not projected to be resolved until November or December 2018. Due to the winter weather and rainy season, the project is now anticipated to begin in the spring of 2019 and conclude by December 2019. As of June 30, 2018, the City reported a pollution remediation liability from Compost Fund in the amount of \$5,042,009.

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. The General Fund, Housing and Community Development and other governmental funds reported deferred inflows of resources in the amount of \$116,563, \$27,714,368 and \$4,030,049 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), OPEB liability (Note III-F), 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, 2018 is \$24,432,515 consisting of \$20,238,044 workers' compensation, \$3,967,219 general liability, \$183,432 dental, and \$43,820 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 \$24,182,495 and \$4,224,748, respectively. The actuarial liability for workers' compensation and general liability were based on 2018 actuarial reports.

The current portion of the total claims liability is estimated to be \$4,859,767 and the balance of \$19,572,748 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, 2017 through June 30, 2018 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>
2016-17	\$23,596,531	\$13,619,346	\$(9,331,096)	\$27,884,781
2017-18	27,884,781	3,964,199	(7,416,465)	\$24,432,515

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, 2018, the balance of these districts' outstanding debt was as follows:

<u>Issue</u>	<u>Outstanding Amount</u>
Village One #2 Community Facilities District	\$27,990,000
Fairview Village Community Facilities District	4,055,000

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, 2018, 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 \$6,775,000.

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 both operating and capital commitments of \$9,856,860 for the City's governmental funds as of June 30, 2018 for contracts awarded but not completed and other outstanding purchase requisitions and orders. This amount consists of \$1,096,566 in the General Fund, \$301,244 in the Housing and Community Development, and \$8,459,050 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, 2018, there are major contracts for water (Conco West Inc - \$9.7 million and DA Wood Construction \$3.8 million)- , sewer system improvements (Mountain Cascade \$4.7 million and Rolfe Construction \$4.0 million), street improvement projects (Knife River Construction - \$3.4 million), and State Route 132 Project (Dokken Engineering \$6.9 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 \$162,693 for the fiscal year ended June 30, 2018. As of June 30, 2018 the City's investment in this joint venture was \$599,931, 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, 2018 was \$158,646. The City's investment in this joint venture was estimated to be \$373,980 as of June 30, 2018, 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. Starting in July 1, 2018 the County Sheriff's office will become the fiscal administrator.

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, 2018, the City's payments to the Agency were \$980,228 for operations and capital reserve. The City's equity interest in the Agency is \$7,970,557, 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, 2018, 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.

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, 2018, the City has no equity interest.

F. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

I. 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. 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.

II. Employees Covered

As of June 30, 2018, actuarial valuation, the following current and former City employees were covered by the OPEB plan membership:

Inactive employees, beneficiaries and dependents currently receiving benefits	580
Active employees	<u>605</u>
Total	1,185

III. Contributions

The OPEB plan and its contribution requirements are established by Memoranda of Understanding with the applicable employee bargaining units and may be amended by the agreements between the City and the bargaining units. The annual contribution is based on the actuarially determined contribution. For the fiscal year ended June 30, 2018, the City's cash contributions were \$2,733,246 in payments made by the employer and no estimated subsidy was determined.

IV. Total OPEB Liability

The City's total OPEB liability was measured as of June 30, 2017 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation dated June 30, 2016 that rolled forward to determine the June

30, 2017 total OPEB liability, based on the following actuarial methods and assumptions:

Actuarial Assumptions:	
Discount Rate	3.58% for TOL as of June 30, 2017. 2.85% for TOL as of June 30, 2016.
Inflation	N/A
Salary increases	Ranges from 19.8% to 3.40% based on years of service and employer category
Trend	<i>Medical:</i> Graded from 6.50% to ultimate 4.50% over 8 years <i>Dental/Vision:</i> 4.50%
Mortality (1)	Pre- and Post-Retirement Mortality rates are based on CalPERS Experience Study Released in 2014. Detailed information regarding mortality assumptions can be found in Section 3.

(1) Pre-retirement mortality information was derived from data collected during 1997 to 2011 CalPERS Experience Study dated January 2014 and post-retirement mortality information was derived from the 2007 to 2011 CalPERS Experience Study. The Experience Study Reports may be accessed on the CalPERS website www.calpers.ca.gov under Forms and Publications.

V. Discount Rate

The discount rate used to measure the total OPEB liability was 3.58 percent. The projection of the cash flows used to determine the discount rate assumed that the City contributions will be made at rates equal to the actuarially determined contribution rates. Based on these assumptions, the OPEB City's net position was projected to be available to make all projected OPEB payments for current active and inactive employees and beneficiaries based on the 'pay as you go' annual contributions.

VI. Changes in the OPEB Liability

The change in the OPEB Liability is as follows:

	Total OPEB Liability
Balance at June 30, 2017 (Valuation Date June 30, 2016)	\$ 31,601,528
Changes recognized for the measurement period:	
Service cost	\$ 935,427
Interest	892,669
Changes of Assumptions	(1,600,635)
Benefit Payments	(2,430,468)
Net Changes	\$ (2,203,007)
Balance at June 30, 2018 (Valuation Date June 30, 2017)	\$ 29,398,521

VII. Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the OPEB liability of the Plan as of the measurement date, calculated using the discount rate of 3.58 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 (2.58 percent) or 1 percentage-point higher (4.58 percent) than the current rate:

	1% Decrease	Current Discount Rate	1% Increase
Total OPEB Liability	2.58%	3.58%	4.58%
Plan's Net Pension Liability/ (Asset)	\$ 31,638,470	\$ 29,398,521	\$ 27,464,539

VIII. Sensitivity of the Net OPEB Liability to Changes in the Health Care Cost Trend Rates

The following presents the OPEB liability of the Plan if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current rate, for measurement period ended June 30, 2018:

	1% Decrease	Current Trend Rate	1% Increase
Total OPEB Liability	\$ 28,368,652	\$ 29,398,521	\$ 30,703,899

IV. OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

As of the start of the measurement period (July 1, 2017), the OPEB liability was \$31,601,528

For the measurement period ended June 30, 2018 (the measurement date), the City incurred an OPEB expense of \$1,565,266.

Components of OPEB Expense	
Service cost	\$ 935,427
Interest	892,669
Expensed portion of current-period changes of assumptions or other inputs	(262,830)
OPEB Expense	\$ 1,565,266

As of June 30, 2017, the City has deferred outflows and deferred inflows of resources related to the OPEB liability as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Contribution subsequent to measurement period	\$ 2,733,246	\$ -
Changes in proportion and differences between employer's contributions and proportionate share of contributions	719,060	719,060
Changes of assumptions or other inputs	-	1,337,805
Total	\$ 3,452,306	\$ 2,056,865

The amounts above are net of outflows and inflows recognized in the 2016-2017 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, 2019.

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,	Deferred outflows/inflows of resources related to OPEB expense
2019	\$ (262,830)
2020	(262,830)
2021	(262,830)
2022	(262,830)
2021	(262,830)
2022	(23,655)
Thereafter	\$ -

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, 2018 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, 2017 (the measurement date) for the Plans, the average active employee contribution rate was 6.802% of annual pay for Miscellaneous and 9.408% for Safety and the employer's contribution rate is 7.430% of annual payroll for Miscellaneous and 19.383% for Safety. The employee and employer contributions made in for fiscal year June 30, 2017 was \$11.88 million for the Miscellaneous plan and \$18.044 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, 2017, using an annual actuarial valuation as of June 30, 2016 rolled forward to June 30, 2017 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	7.15%	7.15%
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, 2016 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 7.15 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 7.15 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long-term expected discount rate of 7.15 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, 2017 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	20.0	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	1.0	(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, 2016 (1)	\$ 410,872,571	\$ 305,114,946	\$ 105,757,625
Changes Recognized for the Measurement Period:			
Service Cost	6,992,542	-	6,992,542
Interest on the Total Pension Liability	30,399,913	-	30,399,913
Changes of Assumptions	24,124,929	-	24,124,929
Differences between Expected and Actual Experience	(1,956,450)	-	(1,956,450)
Plan to Plan Resource Movement	-	505	(505)
Contributions - Employer	-	8,382,192	(8,382,192)
Contributions - Employees	-	3,396,338	(3,396,338)
Net Investment Income	-	33,859,910	(33,859,910)
Benefit Payments, including Refunds of Employee	(22,727,426)	(22,727,426)	-
Administrative Expense	-	(450,482)	450,482
Net Change during 2016-17	36,833,508	22,461,037	14,372,471
Balance at June 30, 2017 (1)	\$ 447,706,079	\$ 327,575,983	\$ 120,130,096

(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.

Safety Plan	Increase (Decrease)		
	Total Pension	Plan Fiduciary Net	Net Pension
Balance at June 30, 2016 (1)	\$ 525,440,909	\$ 356,722,447	\$ 168,718,462
Changes Recognized for the Measurement Period:			
Service Cost	9,298,519	-	9,298,519
Interest on the Total Pension Liability	39,048,366	-	39,048,366
Changes of Assumptions	33,217,275	-	33,217,275
Differences between Expected and Actual Experience	(3,102,753)	-	(3,102,753)
Plan to Plan Resource Movement	-	(505)	505
Contributions - Employer	-	12,812,060	(12,812,060)
Contributions - Employees	-	3,165,011	(3,165,011)
Net Investment Income	-	39,443,735	(39,443,735)
Benefit Payments, including Refunds of Employee	(28,147,381)	(28,147,381)	-
Administrative Expense	-	(526,677)	526,677
Net Change during 2016-17	50,314,026	26,746,243	23,567,783
Balance at June 30, 2017 (1)	\$ 575,754,935	\$ 383,468,690	\$ 192,286,245

(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 7.15 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 (6.15 percent) or 1 percentage-point higher (8.15 percent) than the current rate:

Miscellaneous Plan

	Discount Rate - 1% (6.15%)	Current Discount Rate (7.15%)	Discount Rate + 1% (8.15%)
Plan's Net Pension Liability/ (Asset)	\$ 177,612,137	\$ 120,130,096	\$ 72,422,033

Safety Plan

	Discount Rate - 1% (6.15%)	Current Discount Rate (7.15%)	Discount Rate + 1% (8.15%)
Plan's Net Pension Liability/ (Asset)	\$ 272,679,382	\$ 192,286,245	\$ 126,671,237

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

As of the start of the measurement period (July 1, 2016), the net pension liability was \$105,757,625 for the Miscellaneous Plan and \$168,718,462 for the Safety Plan.

For the measurement period ended June 30, 2017 (the measurement date), the City incurred a pension expense of \$15,640,188 for the Miscellaneous Plan and \$24,894,238 for the Safety Plan.

As of June 30, 2018, 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	\$ 17,423,560	\$ (1,118,225)
Differences between Expected and Actual Experiences	-	(2,863,991)
Net Difference between Projected and Actual Earnings on Pension Plan Investments	4,348,008	-
Contributions subsequent to the measurement date	8,555,587	-
Total	\$ 30,327,155	\$ (3,982,216)

Safety Plan

	Deferred Outflows of Resources	Deferred Inflows of Resources
Change of Assumptions	\$ 25,115,501	\$ (2,777,886)
Differences between Expected and Actual Experiences	-	(3,667,298)
Net Difference between Projected and Actual Earnings on Pension Plan Investments	5,250,628	-
Contributions subsequent to the measurement date	14,007,014	-
Total	\$ 44,373,143	\$ (6,445,184)

The amounts above are net of outflows and inflows recognized in the 2016-2017 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, 2018.

Other amounts reported as deferred inflows and outflows of resources related to pensions will be recognized in future pension expense (not including contributions subsequent to the measurement date) as follows:

Fiscal Year Ended June 30	Miscellaneous Plan	Safety Plan
2018	3,657,691	4,170,393
2019	11,046,207	12,321,476
2020	5,584,416	9,586,277
2021	(2,498,962)	(2,157,201)
Total	\$ 17,789,352	\$ 23,920,945

H. DEFICIENCY OF EXPENDITURES OVER APPROPRIATIONS

For the fiscal year ended June 30, 2018, expenditures exceeded appropriations as follows:

General Fund

<u>Expenditures</u>	<u>Amount</u>
Public Works Facilities	\$33,133
Fire Protection	62,694
Interest Expenditures	12,119

Housing and Community Development

<u>Expenditures</u>	<u>Amount</u>
Interest Expenditures	\$949

Other Governmental Funds

Expenditures

Amount

Local Transportation Fund – Highways and streets

\$240

I. PRIOR YEAR ADJUSTMENTS

A prior period adjustment was made to the governmental and business-type activities beginning net positions to reflect the prior period cost related to the implementation of GASB Statement No. 75 “Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.” For governmental activities, a decrease to net position was made in the amount of \$2,598,973 due to a prior year reclassification of an interfund loan due from the General Fund to the Sewer fund for the repayment from a settlement agreement. An increase in net position in the amount of \$552,592 was made to reclassify intergovernmental revenues from Measure L received in FY 2017-18 but was for the prior fiscal year. Additionally, there were some corrections to various governmental capital assets that were identified as part of the annual inventory review, which generated a decrease in net position in the amount of \$743,767.

For business-type activities, an increase to net position was made in the amount of \$2,598,973 due to a prior year reclassification of an interfund loan reference above. A decrease of \$426,059 was made to net position to reclassify prior year intergovernmental revenue to unearned revenue. An increase to net position was made in the amount of \$28,955 to account for a capital lease in the Water Fund to lease Grayson Nitrate Tx system.

The restatement of beginning net position of the governmental activities is summarized as follows:

Governmental Activities	
Net position at July 1, 2017, as previously stated	\$309,111,010
Net OPEB liability adjustment	32,544,303
Interfund loan reclassification	(2,598,973)
Measure L prior year revenues	552,592
Capital Asset adjustment	<u>(743,767)</u>
Net position at July 1, 2017, as restated	<u>\$338,865,165</u>

The restatement of beginning net position of the business-type activities is summarized as follows:

Business-Type Activities	
Net position at July 1, 2017, as previously stated	\$690,285,159
Net OPEB liability adjustment	(7,215,979)
Interfund loan reclassification	2,598,973
Unearned revenue prior year correction	(426,059)
Capital lease adjustment	<u>28,955</u>
Net position at July 1, 2017, as restated	<u>\$685,271,049</u>

J. SUBSEQUENT EVENTS

In October 2018, the City Council approved a construction contract with C. Overaa & Co., Richmond, CA, in the amount of \$16,972,000 plus \$1,697,200 for contingency (if needed) for a total amount of \$18,669,200 to address key deficiencies in the primary treatment facilities at the Sutter Avenue Treatment Plant.

In November 2018, the City Council increased funding to purchase property necessary for right of way to support the construction of the State Route 132 West Freeway/Expressway Phase 1 Project in a total amount not to exceed \$14,516,081.

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**REQUIRED SUPPLEMENTARY
INFORMATION TAB**

**REQUIRED SUPPLEMENTARY
INFORMATION TAB**

REQUIRED SUPPLEMENTARY INFORMATION

City of Modesto
Schedule of Changes in the Net Pension Liability and Related Ratios
For the Year Ended June 30th
Last Ten Fiscal Years *

Miscellaneous Plan

Measurement Period	2016-2017	2015-2016	2014-2015	2013-2014
TOTAL PENSION LIABILITY				
Service Cost	\$ 6,992,542	\$ 6,092,179	\$ 5,768,082	\$ 6,400,912
Interest on Total Pension Liability	30,399,913	29,752,178	28,873,755	28,037,915
Changes of Assumptions	24,124,929	-	(6,709,358)	-
Difference Between Expected and Actual Experience	(1,956,450)	(2,005,545)	(3,177,191)	-
Benefit Payments, Including Refunds of Employee Contributions	(22,727,426)	(21,686,131)	(20,945,229)	(20,334,821)
Net Change in Total Pension Liability	36,833,508	12,152,681	3,810,059	14,104,006
Total Pension Liability – Beginning	410,872,571	398,719,890	394,909,831	380,805,825
Total Pension Liability – Ending (a)	\$ 447,706,079	\$ 410,872,571	\$ 398,719,890	\$ 394,909,831
PLAN FIDUCIARY NET POSITION				
Contributions – Employer	\$ 8,382,192	\$ 6,920,358	\$ 5,632,179	\$ 4,654,055
Contributions – Employee	3,396,338	3,349,400	3,061,157	2,853,492
Net Investment Income	33,859,910	1,667,540	7,093,159	48,702,803
Benefit Payments, Including Refunds of Employee Contributions	(22,727,426)	(21,686,131)	(20,945,229)	(20,334,821)
Plan to Plan Resource Movement	505	(1,118)	(188)	-
Administrative Expense	(450,482)	(192,011)	(355,544)	-
Net Change in Fiduciary Net Position	22,461,037	(9,941,962)	(5,514,466)	35,875,529
Plan Fiduciary Net Position – Beginning	305,114,946	315,056,908	320,571,374	284,695,845
Plan Fiduciary Net Position – Ending (b)	327,575,983	305,114,946	315,056,908	320,571,374
Plan Net Pension Liability – Ending (a) - (b)	\$ 120,130,096	\$ 105,757,625	\$ 83,662,982	\$ 74,338,457
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	73.17%	74.26%	79.02%	81.18%
Covered Payroll	\$ 46,735,345	\$ 45,207,621	\$ 41,562,776	\$ 44,125,963
Plan Net Pension Liability as a Percentage of Covered Payroll	257.04%	233.94%	201.29%	168.47%

Benefit Changes: The figures above do not include any liability impact that may have resulted from plan changes, which occurred after June 30, 2015 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: In 2017, the discount rate changed to 7.15 percent. In 2015, the discount rates was changed from 7.5 percent (net of administrative expenses) to 7.65 percent and remained the same in 2016.

* The pension schedules are required to show ten years of data and the additional years' information will be displayed as it becomes available.

City of Modesto
Schedule of Changes in the Net Pension Liability and Related Ratios
For the Year Ended June 30th
Last Ten Fiscal Years *

Safety Plan

Measurement Period	2016-2017	2015-2016	2014-2015	2013-2014
TOTAL PENSION LIABILITY				
Service Cost	\$ 9,298,519	\$ 8,193,455	\$ 8,633,865	\$ 8,970,868
Interest on Total Pension Liability	39,048,366	38,004,835	36,721,112	35,310,732
Changes of Assumptions	33,217,275	-	(9,188,394)	-
Difference Between Expected and Actual Experience	(3,102,753)	(2,184,871)	(849,707)	-
Benefit Payments, Including Refunds of Employee Contributions	(28,147,381)	(26,911,771)	(25,426,619)	(24,313,823)
Net Change in Total Pension Liability	50,314,026	17,101,648	9,890,257	19,967,777
Total Pension Liability – Beginning	525,440,909	508,339,261	498,449,004	478,481,227
Total Pension Liability – Ending (a)	\$ 575,754,935	\$ 525,440,909	\$ 508,339,261	\$ 498,449,004
PLAN FIDUCIARY NET POSITION				
Contributions – Employer	\$ 12,812,060	\$ 11,137,899	\$ 10,210,101	\$ 8,963,542
Contributions – Employee	3,165,011	2,962,566	2,800,626	2,939,117
Net Investment Income	39,443,735	1,898,536	8,215,387	56,385,743
Benefit Payments, Including Refunds of Employee Contributions	(28,147,381)	(26,911,771)	(25,426,619)	(24,313,823)
Plan to Plan Resource Movement	(505)	1,118	211	-
Administrative Expense	(526,677)	(224,190)	(414,089)	-
Net Change in Fiduciary Net Position	26,746,243	(11,135,842)	(4,614,383)	43,974,579
Plan Fiduciary Net Position – Beginning	356,722,447	367,858,289	372,472,672	328,498,093
Plan Fiduciary Net Position – Ending (b)	383,468,690	356,722,447	367,858,289	372,472,672
Plan Net Pension Liability – Ending (a) - (b)	\$ 192,286,245	\$ 168,718,462	\$ 140,480,972	\$ 125,976,332
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	66.60%	67.89%	72.36%	74.73%
Covered Payroll	\$ 30,608,378	\$ 30,022,552	\$ 31,202,983	\$ 31,090,551
Plan Net Pension Liability as a Percentage of Covered Payroll	628.21%	561.97%	450.22%	405.19%

Benefit Changes: The figures above do not include any liability impact that may have resulted from plan changes, which occurred after June 30, 2015 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: In 2017, the discount rate changed to 7.15 percent. In 2015, the discount rates was changed from 7.5 percent (net of administrative expenses) to 7.65 percent and remained the same in 2016.

* The pension schedules are required to show ten years of data and the additional years' information will be displayed as it becomes available.

City of Modesto
Schedule of Plan Contributions (1)
Last Ten Fiscal Years*

Miscellaneous Plan

Fiscal Year	2017-2018	2016-2017	2015-2016	2014-2015	2013-2014
Actuarially Determined Contribution (2)	\$ 8,555,587	\$ 8,382,192	\$ 6,920,358	\$ 5,632,179	\$ 4,654,055
Contributions in Relation to the Actuarially Determined Contribution (2)	(8,555,587)	(8,382,192)	(6,920,358)	(5,632,179)	(4,654,055)
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Payroll	\$ 41,436,798	\$ 46,735,345	\$ 45,207,621	\$ 41,562,776	\$ 44,125,963
Contributions as a Percentage of Covered Payroll	20.65%	17.94%	15.31%	13.55%	10.55%

Safety Plan

Fiscal Year	2017-2018	2016-2017	2015-2016	2014-2015	2013-2014
Actuarially Determined Contribution (2)	\$ 14,007,017	\$ 12,812,060	\$ 11,137,899	\$ 10,210,101	\$ 8,963,542
Contributions in Relation to the Actuarially Determined Contribution (2)	(14,007,017)	(12,812,060)	(11,137,899)	(10,210,101)	(8,963,542)
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Payroll	\$ 28,397,068	\$ 30,608,378	\$ 30,022,552	\$ 31,202,983	\$ 31,090,551
Contributions as a Percentage of Covered Payroll	49.33%	41.86%	37.10%	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.

* The pension schedules are required to show ten years of data and the additional years' information will be displayed as it becomes available.

City of Modesto
Schedule of Changes in the OPEB Liability and Related Ratios
Last Ten Fiscal Years *

<i>Measurement Period</i>	<u>FY 2017-2018</u>
	June 30, 2017
Total OPEB liability	
Service cost	\$ 935,427
Interest	892,669
Changes of assumptions	(1,600,635)
Benefit payments	<u>(2,430,468)</u>
Net change in total OPEB liability	(2,203,007)
Total OPEB liability - beginning	<u>31,601,528</u>
Total OPEB liability - ending (a)	<u><u>\$ 29,398,521</u></u>
 Covered-employee payroll	 \$ 55,637,076
	 52.84%

Notes to Schedule:

*Historical information is required only for measurement periods for which GASB 75 is applicable. Future years' information will be displayed up to 10 years as information becomes available.

**City of Modesto
Schedule of Contributions
Last Ten Fiscal Years ***

Fiscal Year	2018-2019	2017-2018	2016-2017
Actuarially Determined Contribution (ADC)	\$ 2,733,246	\$ 2,430,468	\$ 2,527,076
Contributions in Relation to the ADC	(2,733,246)	(2,430,468)	(2,527,076)
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
 Covered-Employee Payroll	 \$ 57,903,435	 \$55,637,076	 \$49,552,706
 Contributions as a Percentage of Covered-Employee Payroll	 4.72%	 4.37%	 5.10%

Notes to schedule:

The actuarial methods and assumptions used to set the actuarially determined contributions for Fiscal Year 2017-2018 were as follows for June 30, 2017 measurement date actuarial valuations.

Actuarial Cost Method	Entry Age Normal
Discount Rate	3.58% for TOL as of June 30, 2017. 2.85% for TOL as of June 30, 2016.
Asset Valuation Method	Market Value of Assets
Inflation	N/A
Salary Increases	Ranges from 19.8% to 3.40% based on years of service and employer category
Trend	Medical: Graded from 6.50% to ultimate 4.50% over 8 years; Dental/Vision: 4.50%
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.

*Historical information is required only for measurement periods for which GASB 75 is applicable. Future years' information will be displayed up to 10 years as information becomes available.

CITY OF MODESTO
SCHEDULE OF REVENUES - BUDGET (GAAP BASIS) AND ACTUAL - GENERAL FUND
FISCAL YEAR ENDED JUNE 30, 2018

	Budget		Actual	Variance with Final Budget
	Original	Final		
TAXES				
Utility users tax	\$ 20,459,361	\$ 20,559,361	\$ 20,609,874	\$ 50,513
Property tax	15,784,250	16,134,534	16,356,095	221,561
Transient occupancy tax	2,450,000	2,600,000	2,826,160	226,160
Franchise tax	4,605,794	4,605,794	4,818,202	212,408
Business license tax	11,603,520	11,603,520	13,053,199	1,449,679
Total taxes	54,902,925	55,503,209	57,663,530	2,160,321
LICENSES AND PERMITS	85,952	85,952	123,317	37,365
INTERGOVERNMENTAL				
Sales tax	30,440,650	30,440,650	31,302,950	862,300
Motor vehicle license fees	15,888,030	15,888,030	16,206,760	318,730
State	780,000	1,075,704	1,292,369	216,665
County	101,742	101,742	-	(101,742)
Federal	-	-	24,440	24,440
Other intergovernmental	1,798,800	1,948,800	2,812,663	863,863
Total intergovernmental	49,009,222	49,454,926	51,639,182	2,184,256
CHARGES FOR SERVICES				
General government	2,199,493	2,269,132	2,313,825	44,693
Community development	2,819,575	2,894,575	2,814,250	(80,325)
Public works	1,629,795	1,629,795	1,545,276	(84,519)
Parks and recreation	956,847	956,847	995,303	38,456
Public safety	1,785,137	1,839,335	3,106,335	1,267,000
Indirect cost recovery	4,176,564	4,176,564	4,181,364	4,800
Total charges for services	13,567,411	13,766,248	14,956,353	1,190,105
INTEREST AND RENT	526,600	526,600	856,051	329,451
NET DECREASE IN FAIR VALUE OF INVESTMENTS	160,000	160,000	(246,458)	(406,458)
FINES AND FORFEITS	477,260	842,260	659,198	(183,062)
MISCELLANEOUS				
Mandated cost recovery	82,000	82,000	161,927	79,927
Other	395,550	396,350	446,596	50,246
Total miscellaneous	477,550	478,350	608,523	130,173
Total revenues	\$ 119,206,920	\$ 120,817,545	\$ 126,259,696	\$ 5,442,151

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, 2018

	Budget		Actual	Variance with Final Budget
	Original	Final		
General government:				
City council	\$ 416,411	\$ 422,296	\$ 421,827	\$ 469
Human resources	1,443,697	1,464,395	1,367,762	96,633
City manager	2,314,381	2,379,154	1,922,529	456,625
City attorney	2,138,752	2,139,591	1,993,713	145,878
City clerk/auditor	1,304,124	1,266,141	899,636	366,505
Finance	4,443,361	4,737,008	4,522,657	214,351
Other	421,000	421,000	353,382	67,618
Total general government	<u>12,481,726</u>	<u>12,829,585</u>	<u>11,481,506</u>	<u>1,348,079</u>
Community development:	<u>7,480,587</u>	<u>7,904,545</u>	<u>6,961,709</u>	<u>942,836</u>
Public works:				
Administration	399,913	401,531	363,083	38,448
Operations Service and maintenance	5,488,218	5,445,748	5,130,800	314,948
Facilities	692,908	782,919	816,052	(33,133)
Total public works	<u>6,581,039</u>	<u>6,630,198</u>	<u>6,309,935</u>	<u>320,263</u>
Parks and recreation:				
Administration	898,539	911,299	803,172	108,127
Planning and development	452,532	454,870	439,869	15,001
Recreation division	2,399,932	2,404,449	2,097,100	307,349
Total parks and recreation	<u>3,751,003</u>	<u>3,770,618</u>	<u>3,340,141</u>	<u>430,477</u>
Public safety:				
Fire protection	29,862,944	31,292,728	31,355,422	(62,694)
Police protection	60,803,747	59,705,363	58,214,851	1,490,512
Total public safety	<u>90,666,691</u>	<u>90,998,091</u>	<u>89,570,273</u>	<u>1,427,818</u>
Debt service:				
Principal retirement	921,463	921,463	909,343	12,120
Interest expenditures	160,061	160,061	172,180	(12,119)
Total debt service	<u>1,081,524</u>	<u>1,081,524</u>	<u>1,081,523</u>	<u>1</u>
Total expenditures	<u>\$ 122,042,570</u>	<u>\$ 123,214,561</u>	<u>\$ 118,745,087</u>	<u>\$ 4,469,474</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, 2018

	<u>Budget</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Intergovernmental - federal grants	\$ 4,052,433	\$ 4,204,506	\$ 3,276,964	\$ (927,542)
Charges for services	220,638	220,638	68,107	(152,531)
Interest and rent - interest	13,612	13,612	-	(13,612)
Net increase in fair value of investments	-	-	-	-
Miscellaneous	-	-	-	-
Total revenues	<u>4,286,683</u>	<u>4,438,756</u>	<u>3,345,071</u>	<u>(1,093,685)</u>
EXPENDITURES				
Community development	6,407,586	6,443,073	2,024,165	4,418,908
Debt service:				
Principal retirement	245,000	245,000	245,000	-
Interest	47,896	47,896	48,845	(949)
Total expenditures	<u>6,700,482</u>	<u>6,735,969</u>	<u>2,318,010</u>	<u>4,417,959</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(2,413,799)</u>	<u>(2,297,213)</u>	<u>1,027,061</u>	<u>3,324,274</u>
OTHER FINANCING SOURCES (USES):				
Transfers out	-	(771,739)	(539,199)	232,540
Sales of assets	-	-	2,161	2,161
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>(771,739)</u>	<u>(537,038)</u>	<u>234,701</u>
CHANGES IN FUND BALANCE	(2,413,799)	(3,068,952)	490,023	3,558,975
FUND BALANCE, JULY 1	<u>27,231,611</u>	<u>27,231,611</u>	<u>27,231,611</u>	<u>-</u>
FUND BALANCE, JUNE 30	<u>\$ 24,817,812</u>	<u>\$ 24,162,659</u>	<u>\$ 27,721,634</u>	<u>\$ 3,558,975</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, 2018

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, 2018

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.

**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 and Downtown Modesto Community Benefit District 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.

TRANSPORTATION SPECIAL TAX FUND – To account for state-collected, locally-shared gas tax, 25 year, ½ cent sales tax Measure L, and SB-1 (Road Repair and Accountability Act of 2017) monies. This fund may be used for all road 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.

Nonmajor Capital Projects Funds (cont'd)

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.

TRANSPORTATION SPECIAL TAX CAPITAL FUND – To account for receipts and disbursements of Governmental Fund capital projects funded through locally-shared gas tax, 25 year, ½ cent sales tax Measure L, and SB-1 (Road Repair and Accountability Act of 2017) monies.

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.

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CITY OF MODESTO
COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2018

	Special Revenue					
	Operating Grants	Local Transportation	Traffic Safety	Downtown Improvement District	Strategic Planning and Development	Transportation Special Tax
ASSETS						
Cash and cash equivalents	\$ 772,078	\$ 1,515,345	\$ -	\$ 86,271	\$ 1,300,235	\$ 13,275,320
Receivables:						
Accounts, net	-	-	-	-	-	49,021
Interest	4,218	4,352	-	268	3,324	32,246
Taxes	92,555	-	-	20,962	-	308,508
Due from governments	2,401,638	-	2,481	-	-	1,233,972
Prepaid expenditures	5,161	-	-	-	450	770
Restricted assets:						
Cash and cash equivalents	-	222,058	3,728,084	-	-	-
Cash and cash equivalents with fiscal agent	692,475	-	-	-	-	-
Due from governments	-	-	12,785	-	-	-
Notes receivable, net	70,179	-	-	-	-	-
Advances to other funds	-	-	-	-	-	-
Total assets	\$ 4,038,304	\$ 1,741,755	\$ 3,743,350	\$ 107,501	\$ 1,304,009	\$ 14,899,837
LIABILITIES AND AND FUND BALANCES						
Liabilities:						
Accounts payable	\$ 17,185	\$ -	\$ -	\$ 23,272	\$ 11,026	\$ 339,282
Accrued salaries and benefits	67,854	-	2,481	-	-	83,029
Interest payable	-	-	-	-	-	-
Due to other funds	-	-	-	-	-	-
Unearned revenue	-	1,519,697	-	-	-	32,553
Refundable deposits	38,805	-	-	-	-	-
Advances from other funds	-	-	-	-	-	-
Total liabilities	123,844	1,519,697	2,481	23,272	11,026	454,864
Deferred inflows of resources:						
Unavailable revenue	4,013,145	-	-	-	-	-
Fund balances:						
Nonspendable	5,161	-	-	-	450	770
Restricted	762,654	222,058	3,740,869	-	-	-
Assigned	-	-	-	84,229	1,292,533	14,444,203
Unassigned	(866,500)	-	-	-	-	-
Total fund balances	(98,685)	222,058	3,740,869	84,229	1,292,983	14,444,973
Total liabilities and fund balances	\$ 4,038,304	\$ 1,741,755	\$ 3,743,350	\$ 107,501	\$ 1,304,009	\$ 14,899,837

Capital Projects

Special Fund for Capital Outlays	Parks	Securities for Future Improvements	Capital Grants	Community Facilities Districts	Successor Redevelopment Housing Agency	Capital Facility Fees	Transportation Special Tax Capital
\$ 1,244,391	\$ 4,179	\$ -	\$ 1	\$ 228,211	\$ -	\$ 64,000	\$ 231,447
-	1,648	-	-	-	-	-	-
786	2,025	-	-	41,917	-	76,800	-
-	-	-	-	31,137	-	-	-
-	-	-	1,369,447	286,708	1,192,004	1,885,853	-
-	-	-	17,143	-	-	-	-
-	753,042	66,397	-	16,484,595	-	30,246,385	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	4,489,310	-
-	-	-	-	-	2,211,000	-	-
-	-	-	-	-	-	64,000	-
<u>\$ 1,245,177</u>	<u>\$ 760,894</u>	<u>\$ 66,397</u>	<u>\$ 1,386,591</u>	<u>\$ 17,072,568</u>	<u>\$ 3,403,004</u>	<u>\$ 36,826,348</u>	<u>\$ 231,447</u>
\$ 436,039	\$ 7,852	\$ -	\$ 144,082	\$ 514,328	\$ -	\$ 1,060,010	\$ 184,648
-	-	-	-	9,979	-	-	-
-	-	-	-	-	1,878	-	-
-	-	-	1,952,427	-	594,408	-	-
-	-	-	-	-	-	-	-
-	-	-	-	63,666	-	-	-
-	-	-	-	-	145,727	966,643	-
<u>436,039</u>	<u>7,852</u>	<u>-</u>	<u>2,096,509</u>	<u>587,973</u>	<u>742,013</u>	<u>2,026,653</u>	<u>184,648</u>
-	-	-	16,904	-	-	-	-
-	-	-	17,143	-	-	-	-
-	753,042	66,397	-	16,484,595	2,211,000	34,799,695	-
809,138	-	-	-	-	449,991	-	46,799
-	-	-	(743,965)	-	-	-	-
<u>809,138</u>	<u>753,042</u>	<u>66,397</u>	<u>(726,822)</u>	<u>16,484,595</u>	<u>2,660,991</u>	<u>34,799,695</u>	<u>46,799</u>
<u>\$ 1,245,177</u>	<u>\$ 760,894</u>	<u>\$ 66,397</u>	<u>\$ 1,386,591</u>	<u>\$ 17,072,568</u>	<u>\$ 3,403,004</u>	<u>\$ 36,826,348</u>	<u>\$ 231,447</u>

CITY OF MODESTO
COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2018

	Debt Service Public Financing Authority	Total
<u>ASSETS</u>		
Cash and cash equivalents	\$ 28,136	\$ 18,749,614
Receivables:		
Accounts, net	-	50,669
Interest	-	165,936
Taxes	-	453,162
Due from governments	-	8,372,103
Prepaid expenditures	292	23,816
Restricted assets:		
Cash and cash equivalents	-	51,500,561
Cash and cash equivalents with fiscal agent	5,024,423	5,716,898
Due from governments	-	4,502,095
Notes receivable, net	-	2,281,179
Advances to other funds	-	64,000
	\$ 5,052,851	\$ 91,880,033
<u>LIABILITIES AND FUND BALANCES</u>		
Liabilities:		
Accounts payable	\$ 37,130	\$ 2,774,854
Accrued salaries and benefits	-	163,343
Interest payable	-	1,878
Due to other funds	103,921	2,650,756
Unearned revenue	-	1,552,250
Refundable deposits	-	102,471
Advances from other funds	-	1,112,370
	141,051	8,357,922
Total liabilities		
Deferred inflows of resources:		
Unavailable revenue	-	4,030,049
Fund balances:		
Nonspendable	292	23,816
Restricted	5,024,423	64,064,733
Assigned	-	17,126,893
Unassigned	(112,915)	(1,723,380)
	4,911,800	79,492,062
Total fund balances		
	\$ 5,052,851	\$ 91,880,033
Total liabilities and fund balances		

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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, 2018

	Special Revenue					
	Operating Grants	Local Transportation	Traffic Safety	Downtown Improvement District	Strategic Planning and Development	Transportation Special Tax
REVENUES:						
Taxes	\$ 380,106	\$ -	\$ -	\$ 189,070	\$ -	\$ 1,235,561
Licenses and permits	-	-	-	-	-	29,909
Intergovernmental	2,994,323	(2,135)	-	-	-	15,730,260
Charges for services	1,809,203	-	308,742	-	42,106	729,043
Special assessments levied	59,295	-	-	676,266	-	-
Interest and rent	22,508	12,493	-	1,029	13,817	103,338
Net increase (decrease) in fair value of investments	(9,824)	(11,103)	-	(650)	(8,886)	(53,314)
Fines and forfeits	-	-	468,679	-	-	-
Miscellaneous	65,451	-	-	-	313	103,673
Total revenues	<u>5,321,062</u>	<u>(745)</u>	<u>777,421</u>	<u>865,715</u>	<u>47,350</u>	<u>17,878,470</u>
EXPENDITURES:						
Current:						
General government	253,939	-	-	-	-	-
Community development	1,617,659	-	-	859,251	52,868	-
Highways and streets	-	240	-	-	-	8,935,923
Public works	199,483	-	-	-	-	-
Parks and recreation	22,651	-	-	-	-	-
Public safety	2,770,291	-	224,602	-	-	-
Capital outlay:						
General government	-	-	-	-	-	-
Community development	-	-	-	-	11,052	-
Highways and streets	-	-	-	-	-	47,229
Public works	28,865	-	-	-	-	-
Parks and recreation	-	-	-	-	-	-
Public safety	70,166	-	8,296	-	-	-
Debt service:						
Principal retirement	-	-	-	-	-	-
Interest	-	-	-	-	-	-
Other	-	-	-	-	-	-
Total expenditures	<u>4,963,054</u>	<u>240</u>	<u>232,898</u>	<u>859,251</u>	<u>63,920</u>	<u>8,983,152</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>358,008</u>	<u>(985)</u>	<u>544,523</u>	<u>6,464</u>	<u>(16,570)</u>	<u>8,895,318</u>
OTHER FINANCING SOURCES (USES):						
Transfers in	824,327	9,640	-	-	(18,842)	2,960,828
Transfers out	(1,411)	(31,177)	(2,415)	(750)	-	(3,817,581)
Sale of assets	-	-	-	-	-	18,142
TOTAL OTHER FINANCING SOURCES (USES)	<u>822,916</u>	<u>(21,537)</u>	<u>(2,415.00)</u>	<u>(750)</u>	<u>(18,842)</u>	<u>(838,611)</u>
CHANGES IN FUND BALANCES	1,180,924	(22,522)	542,108	5,714	(35,412)	8,056,707
FUND BALANCES, JULY 1	(1,279,609)	244,580	3,198,761	78,515	1,328,395	5,835,674
PRIOR PERIOD ADJUSTMENTS	-	-	-	-	-	552,592
FUND BALANCES, JUNE 30	<u>\$ (98,685)</u>	<u>\$ 222,058</u>	<u>\$ 3,740,869</u>	<u>\$ 84,229</u>	<u>\$ 1,292,983</u>	<u>\$ 14,444,973</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	Measure L Capital
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-
-	6,355	-	3,491,132	274,494	-	7,003,927	-
-	-	-	-	614,316	-	6,933,570	-
-	-	-	-	4,979,469	-	-	-
1,900	8,371	-	1,529	181,007	(7,362)	312,018	-
(862)	(5,636)	-	-	(109,347)	4,948	(204,461)	-
-	-	-	-	-	-	-	-
-	25,054	-	-	15,528	-	-	-
<u>1,038</u>	<u>34,144</u>	<u>-</u>	<u>3,492,661</u>	<u>5,955,467</u>	<u>(2,414)</u>	<u>14,045,054</u>	<u>-</u>
-	-	-	-	-	-	107,582	-
22,732	-	-	-	1,654,188	-	52,215	-
-	-	-	-	-	-	-	-
-	35,000	-	22,580	-	-	81	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
27,886	-	-	6,212	4,611,486	-	-	-
-	-	-	2,745,593	-	-	7,535,142	777,193
-	-	-	-	-	-	-	-
-	63,103	-	1,176,685	-	-	618,209	-
1,071,314	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>1,121,932</u>	<u>98,103</u>	<u>-</u>	<u>3,951,070</u>	<u>6,265,674</u>	<u>-</u>	<u>8,313,229</u>	<u>777,193</u>
<u>(1,120,894)</u>	<u>(63,959)</u>	<u>-</u>	<u>(458,409)</u>	<u>(310,207)</u>	<u>(2,414)</u>	<u>5,731,825</u>	<u>(777,193)</u>
1,638,556	-	-	793,875	41,833	-	159,288	823,992
-	(38,556)	-	-	(21,475)	-	(455,991)	-
10,000	-	-	-	-	-	-	-
<u>1,648,556</u>	<u>(38,556)</u>	<u>-</u>	<u>793,875</u>	<u>20,358</u>	<u>-</u>	<u>(296,703)</u>	<u>823,992</u>
527,662	(102,515)	-	335,466	(289,849)	(2,414)	5,435,122	46,799
281,476	855,557	66,397	(1,062,288)	16,774,444	2,663,405	29,364,573	-
-	-	-	-	-	-	-	-
<u>\$ 809,138</u>	<u>\$ 753,042</u>	<u>\$ 66,397</u>	<u>\$ (726,822)</u>	<u>\$ 16,484,595</u>	<u>\$ 2,660,991</u>	<u>\$ 34,799,695</u>	<u>\$ 46,799</u>

CITY OF MODESTO
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
FISCAL YEAR ENDED JUNE 30, 2018

	<u>Debt Service</u>	
	Public Financing Authority	<u>Total</u>
REVENUES:		
Taxes	\$ -	\$ 1,804,737
Licenses and permits	-	29,909
Intergovernmental	1,221,611	30,713,612
Charges for services	-	10,443,335
Special assessments levied	-	5,715,030
Interest and rent	67,648	718,296
Net increase (decrease) in fair value of investments	-	(399,135)
Fines and forfeits	-	468,679
Miscellaneous	-	210,019
Total revenues	<u>1,289,259</u>	<u>49,704,482</u>
EXPENDITURES:		
Current:		
General government	-	361,521
Community development	-	4,258,913
Highways and streets	-	8,936,163
Public works	-	199,483
Parks and recreation	-	80,312
Public safety	-	2,994,893
Capital outlay:		
General government	-	-
Community development	-	4,656,636
Highways and streets	-	11,105,157
Public works	-	28,865
Parks and recreation	-	1,857,997
Public safety	-	1,149,776
Debt service:		
Principal retirement	1,695,000	1,695,000
Interest	1,893,463	1,893,463
Other	396,686	396,686
Total expenditures	<u>3,985,149</u>	<u>39,614,865</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(2,695,890)</u>	<u>10,089,617</u>
OTHER FINANCING SOURCES (USES):		
Transfers in	2,757,577	9,991,074
Transfers out	-	(4,369,356)
Sale of assets	-	28,142
TOTAL OTHER FINANCING SOURCES (USES)	<u>2,757,577</u>	<u>5,649,860</u>
CHANGES IN FUND BALANCES	61,687	15,739,477
FUND BALANCES, JULY 1	4,850,113	63,199,993
PRIOR PERIOD ADJUSTMENTS	-	552,592
FUND BALANCES, JUNE 30	<u>\$ 4,911,800</u>	<u>\$ 79,492,062</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, 2018

	Budget		Actual	Variance with Final Budget
	Original	Final		
REVENUES:				
Taxes	\$ 400,000	\$ 400,000	\$ 380,106	\$ (19,894)
Intergovernmental	3,163,139	6,544,260	2,994,323	(3,549,937)
Charges for services	2,380,303	2,380,303	1,809,203	(571,100)
Special assessments	69,500	69,500	59,295	(10,205)
Interest and rent - interest	144	1,759	22,508	20,749
Net decrease in fair value of investments	-	-	(9,824)	(9,824)
Miscellaneous	288,720	395,507	65,451	(330,056)
Total revenues	<u>6,301,806</u>	<u>9,791,329</u>	<u>5,321,062</u>	<u>(4,470,267)</u>
EXPENDITURES:				
General government	273,893	524,618	253,939	270,679
Community development	2,099,246	1,765,924	1,617,659	148,265
Public works	365,818	570,803	228,348	342,455
Parks and recreation	630,888	2,287,961	22,651	2,265,310
Public safety	3,464,027	4,638,786	2,840,457	1,798,329
Total expenditures	<u>6,833,872</u>	<u>9,788,092</u>	<u>4,963,054</u>	<u>4,825,038</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(532,066)</u>	<u>3,237</u>	<u>358,008</u>	<u>354,771</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	631,711	837,753	824,327	(13,426)
Transfers out	(1,285)	(12,279)	(1,411)	10,868
Sale of assets	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>630,426</u>	<u>825,474</u>	<u>822,916</u>	<u>(2,558)</u>
CHANGES IN FUND BALANCE	98,360	828,711	1,180,924	352,213
FUND BALANCE, JULY 1	(1,279,609)	(1,279,609)	(1,279,609)	-
FUND BALANCE (DEFICIT), JUNE 30	<u>\$ (1,181,249)</u>	<u>\$ (450,898)</u>	<u>\$ (98,685)</u>	<u>\$ 352,213</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, 2018

	Original	Final	Actual	Variance with Final Budget
REVENUES:				
Intergovernmental	\$ -	\$ -	\$ (2,135)	\$ 1,848
Interest and rent - interest	-	-	12,493	12,493
Net decrease in fair value of investments	-	-	(11,103)	(11,103)
Total revenues	<u>-</u>	<u>-</u>	<u>(745)</u>	<u>3,238</u>
EXPENDITURES:				
Highways and streets	-	-	240	(240)
(DEFICIENCY) OF REVENUES (UNDER) EXPENDITURES	<u>-</u>	<u>-</u>	<u>(985)</u>	<u>(985)</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	-	-	9,640	9,640
Transfers out	(138,248)	(161,248)	(31,177)	130,071
TOTAL OTHER FINANCING SOURCES (USES)	<u>(138,248)</u>	<u>(161,248)</u>	<u>(21,537)</u>	<u>139,711</u>
CHANGES IN FUND BALANCE	(138,248)	(161,248)	(22,522)	138,726
FUND BALANCE, JULY 1	244,580	244,580	244,580	-
FUND BALANCE, JUNE 30	<u>\$ 106,332</u>	<u>\$ 83,332</u>	<u>\$ 222,058</u>	<u>\$ 138,726</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, 2018

	Budget		Actual	Variance with Final Budget
	Original	Final		
REVENUES:				
Charges for services	\$ 171,107	\$ 171,107	\$ 308,742	\$ 137,635
Motor vehicle fines	400,000	400,000	468,679	68,679
Total revenues	<u>571,107</u>	<u>571,107</u>	<u>777,421</u>	<u>206,314</u>
EXPENDITURES:				
Public safety	<u>473,156</u>	<u>472,485</u>	<u>232,898</u>	<u>239,587</u>
EXCESS OF REVENUES OVER EXPENDITURES	97,951	98,622	544,523	445,901
OTHER FINANCING USES:				
Transfers out	<u>(2,522)</u>	<u>(2,522)</u>	<u>(2,415)</u>	<u>107</u>
CHANGES IN FUND BALANCE	95,429	96,100	542,108	446,008
FUND BALANCE, JULY 1	<u>3,198,761</u>	<u>3,198,761</u>	<u>3,198,761</u>	<u>-</u>
FUND BALANCE, JUNE 30	<u>\$ 3,294,190</u>	<u>\$ 3,294,861</u>	<u>\$ 3,740,869</u>	<u>\$ 446,008</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, 2018

	Budget		Actual	Variance with Final Budget
	Original	Final		
REVENUES:				
Taxes - business license tax	\$ 176,010	\$ 176,010	\$ 189,070	\$ 13,060
Special assessments levied	-	700,000	676,266	(23,734)
Interest and rent - interest	-	-	1,029	1,029
Net decrease in fair value of investments	-	-	(650)	(650)
Total revenues	<u>176,010</u>	<u>876,010</u>	<u>865,715</u>	<u>(10,295)</u>
EXPENDITURES:				
Current:				
Community development	173,249	888,959	859,251	29,708
Total expenditures	<u>173,249</u>	<u>888,959</u>	<u>859,251</u>	<u>29,708</u>
OTHER FINANCING SOURCES (USES):				
Transfers out	(783)	(783)	(750)	33
TOTAL OTHER FINANCING SOURCES (USES)	<u>(783)</u>	<u>(783)</u>	<u>(750)</u>	<u>33</u>
CHANGES IN FUND BALANCE	1,978	(13,732)	5,714	19,446
FUND BALANCE, JULY 1	<u>78,515</u>	<u>78,515</u>	<u>78,515</u>	<u>-</u>
FUND BALANCE, JUNE 30	<u>\$ 80,493</u>	<u>\$ 64,783</u>	<u>\$ 84,229</u>	<u>\$ 19,446</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, 2018

	Budget		Actual	Variance with Final Budget
	Original	Final		
REVENUES:				
Charges for services	\$ 23,600	\$ 108,831	\$ 42,106	\$ (66,725)
Interest and rent - interest	14	14	13,817	13,803
Net decrease in fair value of investments	(65)	(65)	(8,886)	(8,821)
Miscellaneous	-	-	313	313
Total revenues	<u>23,549</u>	<u>108,780</u>	<u>47,350</u>	<u>(61,430)</u>
EXPENDITURES:				
Community development	<u>95,000</u>	<u>160,231</u>	<u>63,920</u>	<u>96,311</u>
(DEFICIENCY) OF REVENUES (UNDER) EXPENDITURES	(71,451)	(51,451)	(16,570)	34,881
OTHER FINANCING SOURCES:				
Transfers out	<u>(50,000)</u>	<u>(50,000)</u>	<u>(18,842)</u>	<u>31,158</u>
CHANGES IN FUND BALANCE	(121,451)	(101,451)	(35,412)	66,039
FUND BALANCE, JULY 1	<u>1,366,840</u>	<u>961,840</u>	<u>1,328,395</u>	<u>366,555</u>
FUND BALANCE, JUNE 30	<u>\$ 1,245,389</u>	<u>\$ 860,389</u>	<u>\$ 1,292,983</u>	<u>\$ 432,594</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
TRANSPORTATION SPECIAL TAX REVENUE FUND
FISCAL YEAR ENDED JUNE 30, 2018

	Budget		Actual	Variance with Final Budget
	Original	Final		
REVENUES:				
Intergovernmental:				
State	\$ -	\$ 16,652,179	\$ 15,730,260	\$ (921,919)
Taxes	-	1,000,000	1,235,561	235,561
Licenses and permits	-	-	29,909	29,909
Charges for services	379,471	379,471	729,043	349,572
Interest and rent	-	12,138	103,338	91,200
Net decrease in fair value of investments	-	-	(53,314)	(53,314)
Miscellaneous	40,000	40,000	103,673	63,673
Total revenues	<u>419,471</u>	<u>18,083,788</u>	<u>17,878,470</u>	<u>(205,318)</u>
EXPENDITURES:				
Highway and streets	<u>9,563,613</u>	<u>10,264,156</u>	<u>8,983,152</u>	<u>1,281,004</u>
(DEFICIENCY) OF REVENUES (UNDER) EXPENDITURES	<u>(9,144,142)</u>	<u>7,819,632</u>	<u>8,895,318</u>	<u>1,075,686</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	9,544,285	12,320,749	2,960,828	(9,359,921)
Transfers out	(9,461,941)	(23,878,468)	(3,817,581)	20,060,887
Sale of assets	-	-	18,142	18,142
TOTAL OTHER FINANCING SOURCES (USES)	<u>82,344</u>	<u>(11,557,719)</u>	<u>(838,611)</u>	<u>10,719,108</u>
CHANGES IN FUND BALANCE	(9,061,798)	(3,738,087)	8,056,707	11,794,794
FUND BALANCE, JULY 1	5,835,674	5,835,674	5,835,674	-
PRIOR PERIOD ADJUSTMENTS	<u>-</u>	<u>-</u>	<u>552,592</u>	<u>552,592</u>
FUND BALANCE (DEFICIT), JUNE 30	<u>\$ (3,226,124)</u>	<u>\$ 2,097,587</u>	<u>\$ 14,444,973</u>	<u>\$ 12,347,386</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, 2018

	Parking	Storm Drain	Compost
<u>ASSETS</u>			
Current assets:			
Cash and cash equivalents	\$ 604,521	\$ 11,403,017	\$ 3,711,317
Receivables:			
Accounts	-	-	941,808
Interest	1,351	28,212	16,410
Taxes	-	-	-
Utilities, net	-	471,717	314,286
Prepaid expenses	472	16,294	2,417
Due from governments	-	4,538	205,837
Inventories	-	-	-
	<u>606,344</u>	<u>11,923,778</u>	<u>5,192,075</u>
Total current assets			
Noncurrent assets:			
Restricted cash and cash equivalents with fiscal agent	-	-	-
Land and construction in progress	3,131,804	1,313,320	1,140,000
Other capital assets, net of accumulated depreciation	4,684,789	13,549,561	1,266,818
Total noncurrent assets	<u>7,816,593</u>	<u>14,862,881</u>	<u>2,406,818</u>
Total assets	<u>8,422,937</u>	<u>26,786,659</u>	<u>7,598,893</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>			
Deferred OPEB	22,951	21,309	141,070
Deferred pensions	199,864	301,227	1,831,517
Total deferred outflows of resources	<u>222,815</u>	<u>322,536</u>	<u>1,972,587</u>
Total assets and deferred outflows of resources	<u>\$ 8,645,752</u>	<u>\$ 27,109,195</u>	<u>\$ 9,571,480</u>
<u>LIABILITIES</u>			
Current liabilities:			
Accounts payable	\$ 26,997	\$ 123,255	\$ 1,047,263
Accrued salaries and benefits	10,370	13,124	75,230
Interest payable	-	-	3,367
Due to other funds	-	-	-
Unearned revenue	-	-	10,570
Current portion - long-term debt	-	-	-
Total current liabilities	<u>37,367</u>	<u>136,379</u>	<u>1,136,430</u>
Noncurrent liabilities:			
Pollution remediation liability	-	-	5,042,009
Certificates of participation	-	-	-
Advances from other funds	-	1,324,704	855,000
Net OPEB liability	196,272	182,223	1,206,372
Net pension liability	752,344	1,226,532	7,192,645
Total liabilities	<u>985,983</u>	<u>2,869,838</u>	<u>15,432,456</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>			
Deferred OPEB	13,894	12,900	85,400
Deferred pensions	15,255	25,197	198,715
Total deferred inflows of resources	<u>29,149</u>	<u>38,097</u>	<u>284,115</u>
<u>NET POSITION</u>			
Net investment in capital assets	7,816,593	14,862,881	2,406,818
Unrestricted	(185,973)	9,338,379	(8,551,909)
Total net position	<u>7,630,620</u>	<u>24,201,260</u>	<u>(6,145,091)</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 8,645,752</u>	<u>\$ 27,109,195</u>	<u>\$ 9,571,480</u>

Airport	Golf	Community Center	Abatement and Public Nuisance Fund	Total
\$ 674,464	\$ 1	\$ 94,078	\$ 353,413	\$ 16,840,811
23,665	326,240	69,723	221,186	1,582,622
2,757	23,272	-	948	72,950
-	-	-	-	-
-	-	-	-	786,003
2,512	24,295	229	-	46,219
217,698	-	-	-	428,073
-	15,532	-	-	15,532
<u>921,096</u>	<u>389,340</u>	<u>164,030</u>	<u>575,547</u>	<u>19,772,210</u>
-	626,762	-	-	626,762
4,843,842	275,741	3,667,020	-	14,371,727
<u>7,712,273</u>	<u>1,112,981</u>	<u>2,820,830</u>	<u>-</u>	<u>31,147,252</u>
<u>12,556,115</u>	<u>2,015,484</u>	<u>6,487,850</u>	<u>-</u>	<u>46,145,741</u>
<u>13,477,211</u>	<u>2,404,824</u>	<u>6,651,880</u>	<u>575,547</u>	<u>65,917,951</u>
-	-	18,588	-	203,918
189,269	-	164,285	-	2,686,162
<u>189,269</u>	<u>-</u>	<u>182,873</u>	<u>-</u>	<u>2,890,080</u>
<u>\$ 13,666,480</u>	<u>\$ 2,404,824</u>	<u>\$ 6,834,753</u>	<u>\$ 575,547</u>	<u>\$ 68,808,031</u>
\$ 76,627	\$ 53,724	\$ 24,762	\$ -	\$ 1,352,628
6,306	8,123	11,018	-	124,171
1,034	34,032	-	-	38,433
-	449,266	-	-	449,266
5,710	430,851	3,896	203,610	654,637
-	380,000	-	-	380,000
<u>89,677</u>	<u>1,355,996</u>	<u>39,676</u>	<u>203,610</u>	<u>2,999,135</u>
-	-	-	-	5,042,009
-	2,185,000	-	-	2,185,000
-	-	-	-	2,179,704
-	-	158,956	-	1,743,823
<u>724,483</u>	<u>-</u>	<u>675,148</u>	<u>-</u>	<u>10,571,152</u>
<u>814,160</u>	<u>3,540,996</u>	<u>873,780</u>	<u>203,610</u>	<u>24,720,823</u>
-	-	11,253	-	123,447
(2,396)	-	29,128	-	265,899
<u>(2,396)</u>	<u>-</u>	<u>40,381</u>	<u>-</u>	<u>389,346</u>
12,556,115	(549,516)	6,487,850	-	43,580,741
<u>298,601</u>	<u>(586,656)</u>	<u>(567,258)</u>	<u>371,937</u>	<u>117,121</u>
<u>12,854,716</u>	<u>(1,136,172)</u>	<u>5,920,592</u>	<u>371,937</u>	<u>43,697,862</u>
<u>\$ 13,666,480</u>	<u>\$ 2,404,824</u>	<u>\$ 6,834,753</u>	<u>\$ 575,547</u>	<u>\$ 68,808,031</u>

CITY OF MODESTO
COMBINING STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET POSITION - NONMAJOR ENTERPRISE FUNDS
FISCAL YEAR ENDED JUNE 30, 2018

	<u>Parking</u>	<u>Storm Drain</u>	<u>Compost</u>
OPERATING REVENUES:			
Charges for services	\$ 1,434,311	\$ 6,004,682	\$ 8,933,996
Miscellaneous	-	-	79
Total operating revenues	<u>1,434,311</u>	<u>6,004,682</u>	<u>8,934,075</u>
OPERATING EXPENSES:			
Salaries and wages	442,402	417,460	3,332,795
Contractual services	228,378	409,329	3,280,296
Utilities	154,031	30,068	32,045
Maintenance and supplies	153,859	2,206,068	1,214,526
Insurance	62,346	9,803	157,934
Employee benefits	195,231	240,390	2,093,832
Administration services	36,789	1,947,393	424,938
Allocated indirect administrative costs	39,898	145,832	343,639
Depreciation	458,380	573,851	112,488
Total operating expenses	<u>1,771,314</u>	<u>5,980,194</u>	<u>10,992,493</u>
OPERATING INCOME (LOSS)	<u>(337,003)</u>	<u>24,488</u>	<u>(2,058,418)</u>
NONOPERATING REVENUES (EXPENSES):			
Gain on disposition of capital assets	485	14,820	305
Operating grants	-	-	303,332
Tax revenue	-	-	-
Tax expense	(28)	-	-
Interest income	5,052	90,048	48,880
Net decrease in fair value of investments	(3,244)	(72,373)	(32,653)
Rental income	-	-	-
Interest expense	-	-	-
Trustee fees	-	-	-
Total nonoperating revenues (expenses)	<u>2,265</u>	<u>32,495</u>	<u>319,864</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	<u>(334,738)</u>	<u>56,983</u>	<u>(1,738,554)</u>
Capital contributions	-	-	-
Transfers in	2,438	712,045	7,057
Transfers out	<u>(5,795)</u>	<u>(73,739)</u>	<u>(1,004,903)</u>
CHANGES IN NET POSITION	<u>(338,095)</u>	<u>695,289</u>	<u>(2,736,400)</u>
NET POSITION (DEFICIT), JULY 1	<u>8,163,493</u>	<u>23,686,806</u>	<u>(2,211,505)</u>
PRIOR PERIOD ADJUSTMENTS	<u>(194,778)</u>	<u>(180,835)</u>	<u>(1,197,186)</u>
NET POSITION (DEFICIT), JUNE 30	<u>\$ 7,630,620</u>	<u>\$ 24,201,260</u>	<u>\$ (6,145,091)</u>

	Airport	Golf	Community Center	Abatement and Public Nuisance Fund	Total
\$	651,379	\$ 2,485,688	\$ 288,979	\$ 112,199	\$ 19,911,234
	314	-	5,545	-	5,938
	<u>651,693</u>	<u>2,485,688</u>	<u>294,524</u>	<u>112,199</u>	<u>19,917,172</u>
	349,698	-	477,019	-	5,019,374
	242,715	2,294,909	127,049	344,476	6,927,152
	105,804	61,726	235,274	-	618,948
	70,317	289,441	193,853	1,800	4,129,864
	22,666	19,470	26,554	-	298,773
	232,724	-	177,721	-	2,939,898
	39,623	53,905	39,559	40,640	2,582,847
	37,111	56,143	-	-	622,623
	704,375	50,799	756,492	-	2,656,385
	<u>1,805,033</u>	<u>2,826,393</u>	<u>2,033,521</u>	<u>386,916</u>	<u>25,795,864</u>
	<u>(1,153,340)</u>	<u>(340,705)</u>	<u>(1,738,997)</u>	<u>(274,717)</u>	<u>(5,878,692)</u>
	721	-	-	-	16,331
	334,652	-	-	-	637,984
	207,849	-	-	-	207,849
	(497)	-	-	-	(525)
	8,750	8,369	-	4,355	165,454
	(6,841)	(24,929)	-	(3,323)	(143,363)
	130,770	96,657	561,499	-	788,926
	-	(134,167)	-	-	(134,167)
	-	(9,138)	-	-	(9,138)
	<u>675,404</u>	<u>(63,208)</u>	<u>561,499</u>	<u>1,032</u>	<u>1,529,351</u>
	(477,936)	(403,913)	(1,177,498)	(273,685)	(4,349,341)
	124,730	-	-	-	124,730
	5,885	741,352	432,409	-	1,901,186
	<u>(38,806)</u>	<u>(14,057)</u>	<u>(5,510)</u>	<u>-</u>	<u>(1,142,810)</u>
	(386,127)	323,382	(750,599)	(273,685)	(3,466,235)
	13,240,843	(1,459,554)	6,828,936	645,622	48,894,641
	-	-	(157,745)	-	(1,730,544)
\$	<u><u>12,854,716</u></u>	<u><u>(1,136,172)</u></u>	<u><u>5,920,592</u></u>	<u><u>371,937</u></u>	<u><u>43,697,862</u></u>

CITY OF MODESTO
COMBINING STATEMENT OF CASH FLOWS - NONMAJOR ENTERPRISE FUNDS
FISCAL YEAR ENDED JUNE 30, 2018

	<u>Parking</u>	<u>Storm Drain</u>	<u>Compost</u>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers and users	\$ 1,438,533	\$ 6,036,933	\$ 8,849,528
Payments to suppliers	(389,058)	(1,295,480)	(1,002,782)
Payments to employees	(600,878)	(599,743)	(5,035,666)
Payments for interfund services used	(290,114)	(3,465,240)	(2,695,199)
Net cash provided (used) by operating activities	<u>158,483</u>	<u>676,470</u>	<u>115,881</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Operating grants received	-	-	303,332
Taxes received	-	-	-
Transfers in	2,438	712,045	7,057
Transfers out	(5,795)	(73,739)	(1,004,903)
Payments on advances from other funds	-	-	(34,200)
Net cash provided (used) by noncapital financing activities	<u>(3,357)</u>	<u>638,306</u>	<u>(728,714)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Acquisition and construction of capital assets	(6,750)	(423,032)	-
Proceeds from sale of capital assets	485	14,820	10,237
Principal repayments	-	-	-
Interest paid	-	-	-
Trustee fees	-	-	-
Capital contributions	-	-	-
Net cash provided (used) by capital and related financing activities	<u>(6,265)</u>	<u>(408,212)</u>	<u>10,237</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest received (paid)	4,650	85,058	46,404
Net increase in the fair value of investments	(3,244)	(72,373)	(32,653)
Rental income received	-	-	-
Net cash provided (used) by investing activities	<u>1,406</u>	<u>12,685</u>	<u>13,751</u>
Net increase (decrease) in cash and cash equivalents	150,267	919,249	(588,845)
CASH AND CASH EQUIVALENTS, JULY 1	<u>454,254</u>	<u>10,483,768</u>	<u>4,300,162</u>
CASH AND CASH EQUIVALENTS, JUNE 30	<u>\$ 604,521</u>	<u>\$ 11,403,017</u>	<u>\$ 3,711,317</u>
RECONCILIATION TO STATEMENT OF NET POSITION:			
Cash and cash equivalents	\$ 604,521	\$ 11,403,017	\$ 3,711,317
Restricted cash and cash equivalents with fiscal agent	-	-	-
TOTAL CASH AND CASH EQUIVALENTS	<u>\$ 604,521</u>	<u>\$ 11,403,017</u>	<u>\$ 3,711,317</u>

	Airport	Golf	Community Center	Abatement and Public Nuisance Fund	Total
\$	564,245	\$ 2,408,236	\$ 266,140	\$ 98,664	\$ 19,662,279
	(331,687)	(2,563,251)	(492,650)	(428,110)	(6,503,018)
	(539,935)	-	(615,452)	-	(7,391,674)
	(231,430)	(204,533)	(141,886)	40,640	(6,987,762)
	<u>(538,807)</u>	<u>(359,548)</u>	<u>(983,848)</u>	<u>(288,806)</u>	<u>(1,220,175)</u>
	334,652	-	-	-	637,984
	207,849	-	-	-	207,849
	5,885	741,352	432,409	-	1,901,186
	(38,806)	(14,057)	(5,510)	-	(1,142,810)
	-	-	-	-	(34,200)
	<u>509,580</u>	<u>727,295</u>	<u>426,899</u>	<u>-</u>	<u>1,570,009</u>
	(974,098)	-	(37,146)	-	(1,441,026)
	955	-	-	-	26,497
	-	(355,000)	-	-	(355,000)
	-	(100,135)	-	-	(100,135)
	-	(9,138)	-	-	(9,138)
	<u>124,730</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>124,730</u>
	<u>(848,413)</u>	<u>(464,273)</u>	<u>(37,146)</u>	<u>-</u>	<u>(1,754,072)</u>
	9,955	(33,425)	-	4,831	117,473
	(6,841)	(24,929)	-	(3,323)	(143,363)
	130,770	96,657	561,499	-	788,926
	<u>133,884</u>	<u>38,303</u>	<u>561,499</u>	<u>1,508</u>	<u>763,036</u>
	(743,756)	(58,223)	(32,596)	(287,298)	(641,202)
	<u>1,418,220</u>	<u>684,986</u>	<u>126,674</u>	<u>640,711</u>	<u>18,108,775</u>
\$	<u><u>674,464</u></u>	<u><u>626,763</u></u>	<u><u>94,078</u></u>	<u><u>353,413</u></u>	<u><u>17,467,573</u></u>
\$	674,464	1	94,078	353,413	16,840,811
	-	626,762	-	-	626,762
\$	<u><u>674,464</u></u>	<u><u>626,763</u></u>	<u><u>94,078</u></u>	<u><u>353,413</u></u>	<u><u>17,467,573</u></u>

(continued)

CITY OF MODESTO
COMBINING STATEMENT OF CASH FLOWS - NONMAJOR ENTERPRISE FUNDS (Continued)
FISCAL YEAR ENDED JUNE 30, 2018

	Parking	Storm Drain	Compost
RECONCILIATION OF OPERATING INCOME (LOSS)			
TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
Operating income (loss)	\$ (337,003)	\$ 24,488	\$ (2,058,418)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	458,380	573,851	112,488
Taxes paid	(28)	-	-
Change in assets, liabilities, and deferred resources:			
(Increase) decrease in accounts receivable	4,222	2,774	(20,288)
Increase in taxes receivable	-	-	-
(Increase) decrease in utilities receivable	-	27,126	(3,972)
(Increase) decrease in due from other governments	-	9,077	(53,049)
Increase (decrease) in accounts payable	(3,670)	(19,686)	(684,195)
Decrease in inventories	-	-	-
(Increase) decrease in prepaid expenses	(173)	7,459	(2,417)
Increase (decrease) in accrued salaries and benefits	(533)	316	(9,354)
Decrease in net pension liability and deferred resources	44,851	64,812	446,799
Decrease in net OPEB liability and deferred resources	(7,563)	(7,021)	(46,484)
Increase pollution remediation	-	-	2,442,009
(Decrease) in due to other funds	-	-	-
Increase (decrease) in unearned revenue	-	(6,726)	(7,238)
Total adjustments	495,486	651,982	2,174,299
Net cash provided (used) by operating activities	\$ 158,483	\$ 676,470	\$ 115,881

<u>Airport</u>	<u>Golf</u>	<u>Community Center</u>	<u>Abatement and Public Nuisance Fund</u>	<u>Total</u>
\$ <u>(1,153,340)</u>	\$ <u>(340,705)</u>	\$ <u>(1,738,997)</u>	\$ <u>(274,717)</u>	\$ <u>(5,878,692)</u>
704,375	50,799	756,492	-	2,656,385
(497)	-	-	-	(525)
(4,020)	(6,955)	(32,280)	(207,800)	(264,347)
1,752	-	-	-	1,752
-	-	-	-	23,154
(86,268)	-	-	-	(130,240)
(42,080)	11,840	(12,018)	(554)	(750,363)
-	18,989	-	-	18,989
(2,304)	(24,295)	(229)	-	(21,959)
(3,502)	1,277	2,364	-	(9,432)
45,989	-	43,048	-	645,499
-	-	(6,124)	-	(67,192)
-	-	-	-	2,442,009
-	(80,760)	-	-	(80,760)
1,088	10,262	3,896	194,265	195,547
<u>614,533</u>	<u>(18,843)</u>	<u>755,149</u>	<u>(14,089)</u>	<u>4,658,517</u>
\$ <u><u>(538,807)</u></u>	\$ <u><u>(359,548)</u></u>	\$ <u><u>(983,848)</u></u>	\$ <u><u>(288,806)</u></u>	\$ <u><u>(1,220,175)</u></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, 2018

	Fleet Management	Central Services	Information & Technology Services
<u>ASSETS</u>			
Current assets:			
Cash and cash equivalents	\$ 9,737,376	\$ 67,500	\$ 5,241,782
Receivables:			
Accounts	47,506	-	-
Interest	25,664	476	13,872
Prepaid expenses	13,173	1,159	130,906
Due from governments	-	-	-
Inventories	-	9,347	-
Total current assets	9,823,719	78,482	5,386,560
Noncurrent assets:			
Advances to other funds	-	-	-
Restricted assets - cash and cash equivalents	-	-	-
Restricted assets - cash from fiscal agent	-	-	-
Land and construction in progress	1,126,674	-	553,242
Other capital assets, net of accumulated depreciation	11,797,687	55,939	3,898,967
Total noncurrent assets	12,924,361	55,939	4,452,209
Total assets	22,748,080	134,421	9,838,769
<u>DEFERRED OUTFLOWS OF RESOURCES</u>			
Deferred OPEB	82,497	-	122,432
Deferred pensions	906,916	-	1,418,117
Total deferred outflows of resources	989,413	-	1,540,549
Total assets and deferred outflows of resources	\$ 23,737,493	\$ 134,421	\$ 11,379,318
<u>LIABILITIES</u>			
Current liabilities:			
Accounts payable	\$ 194,308	\$ 42	\$ 153,621
Accrued salaries and benefits	43,875	1,772	61,850
Unearned revenue	38,207	-	-
Current portion - compensated absences	-	-	-
Current portion - claims liability	-	-	-
Total current liabilities	276,390	1,814	215,471
Noncurrent liabilities:			
Compensated absences	-	-	-
Claims liability	-	-	-
Net OPEB liability	705,489	-	1,046,986
Net pension liability	3,578,983	-	5,798,860
Total liabilities	4,560,862	1,814	7,061,317
<u>DEFERRED INFLOWS OF RESOURCES</u>			
Deferred OPEB	49,942	-	74,117
Deferred pensions	124,183	-	276,365
Total deferred inflows of resources	174,125	-	350,482
<u>NET POSITION</u>			
Net investment in capital assets	12,924,361	55,939	4,452,209
Restricted	-	-	-
Unrestricted	6,078,145	76,668	(484,690)
Total net position	19,002,506	132,607	3,967,519
Total liabilities, deferred inflows of resources, and net position	\$ 23,737,493	\$ 134,421	\$ 11,379,318

	Insurance	Employee Benefits Management	Building Services	Total
\$	11,905,222	\$ -	\$ 942,656	\$ 27,894,536
	1,207,843	33,750	-	1,289,099
	165,571	56,311	2,427	264,321
	1,045	2,668	882	149,833
	-	-	25,235	25,235
	-	-	-	9,347
	<u>13,279,681</u>	<u>92,729</u>	<u>971,200</u>	<u>29,632,371</u>
	-	88,647	-	88,647
	-	8,895,154	-	8,895,154
	179,884	-	-	179,884
	-	-	-	1,679,916
	-	-	78,932	15,831,525
	<u>179,884</u>	<u>8,983,801</u>	<u>78,932</u>	<u>26,675,126</u>
	<u>13,459,565</u>	<u>9,076,530</u>	<u>1,050,132</u>	<u>56,307,497</u>
	-	-	8,126	213,055
	186,851	74,152	231,602	2,817,638
	<u>186,851</u>	<u>74,152</u>	<u>239,728</u>	<u>3,030,693</u>
\$	<u>13,646,416</u>	\$ <u>9,150,682</u>	\$ <u>1,289,860</u>	\$ <u>59,338,190</u>
\$	466,160	\$ 5,496	\$ 56,218	\$ 875,845
	8,133	3,117	10,725	129,472
	90,796	-	-	129,003
	-	3,486,926	-	3,486,926
	4,859,767	-	-	4,859,767
	<u>5,424,856</u>	<u>3,495,539</u>	<u>66,943</u>	<u>9,481,013</u>
	-	6,466,614	-	6,466,614
	19,572,748	-	-	19,572,748
	-	-	69,493	1,821,968
	697,759	373,302	814,475	11,263,379
	<u>25,695,363</u>	<u>10,335,455</u>	<u>950,911</u>	<u>48,605,722</u>
	-	-	4,919	128,978
	27,955	21,851	(1,478)	448,876
	<u>27,955</u>	<u>21,851</u>	<u>3,441</u>	<u>577,854</u>
	-	-	78,932	17,511,441
	-	8,895,154	-	8,895,154
	<u>(12,076,902)</u>	<u>(10,101,778)</u>	<u>256,576</u>	<u>(16,251,981)</u>
	<u>(12,076,902)</u>	<u>(1,206,624)</u>	<u>335,508</u>	<u>10,154,614</u>
\$	<u>13,646,416</u>	\$ <u>9,150,682</u>	\$ <u>1,289,860</u>	\$ <u>59,338,190</u>

CITY OF MODESTO
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET POSITION - INTERNAL SERVICE FUNDS
FISCAL YEAR ENDED JUNE 30, 2018

	<u>Fleet Management</u>	<u>Central Services</u>
OPERATING REVENUES:		
Charges for services	\$ 6,657,371	\$ 1,497
Sales	-	243,995
Total operating revenues	<u>6,657,371</u>	<u>245,492</u>
OPERATING EXPENSES:		
Salaries and wages	1,416,866	75,668
Cost of sales	-	-
Contractual services	1,613,412	23,879
Utilities	4,090	-
Maintenance and supplies	1,947,506	145,954
Insurance	76,176	1,126
Claims	-	-
Employee benefits	876,636	35,889
Administration services	900,533	3,831
Allocated indirect administrative costs	341,292	-
Depreciation	2,335,399	10,445
Total operating expenses	<u>9,511,910</u>	<u>296,792</u>
OPERATING INCOME (LOSS)	<u>(2,854,539)</u>	<u>(51,300)</u>
NONOPERATING REVENUES (EXPENSES):		
Gain (loss) on disposition of capital assets	(129,194)	4,722
Interest income	69,317	(781)
Net decrease in fair value of investments	(50,992)	684
Total nonoperating revenues (expenses)	<u>(110,869)</u>	<u>4,625</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	<u>(2,965,408)</u>	<u>(46,675)</u>
Transfers in	2,747,909	404,509
Transfers out	-	(1,466,037)
CHANGES IN NET POSITION	<u>(217,499)</u>	<u>(1,108,203)</u>
NET POSITION (DEFICIT), JULY 1	19,916,641	1,240,810
PRIOR PERIOD ADJUSTMENTS	<u>(696,636)</u>	<u>-</u>
NET POSITION (DEFICIT), JUNE 30	<u>\$ 19,002,506</u>	<u>\$ 132,607</u>

Information & Technology Services	Insurance	Employee Benefits Management	Building Services	Total
\$ 5,193,351	\$ 23,942,062	\$ 17,436,929	\$ 2,748,012	\$ 55,979,222
-	-	-	-	243,995
<u>5,193,351</u>	<u>23,942,062</u>	<u>17,436,929</u>	<u>2,748,012</u>	<u>56,223,217</u>
2,407,772	303,484	106,118	408,867	4,718,775
-	-	-	-	-
1,051,071	660,487	77,002	1,757,456	5,183,307
118,893	253	144	163,260	286,640
926,417	4,723	11,050	56,072	3,091,722
42,551	15,907,037	3,077	9,163	16,039,130
-	3,964,199	-	-	3,964,199
1,334,495	312,347	17,874,196	233,208	20,666,771
38,933	121,916	222,735	172,432	1,460,380
-	-	-	-	341,292
693,294	-	-	2,918	3,042,056
<u>6,613,426</u>	<u>21,274,446</u>	<u>18,294,322</u>	<u>2,803,376</u>	<u>58,794,272</u>
<u>(1,420,075)</u>	<u>2,667,616</u>	<u>(857,393)</u>	<u>(55,364)</u>	<u>(2,571,055)</u>
-	-	-	-	(124,472)
50,279	613,861	250,487	9,299	992,462
<u>(33,057)</u>	<u>(391,800)</u>	<u>(148,197)</u>	<u>(7,506)</u>	<u>(630,868)</u>
<u>17,222</u>	<u>222,061</u>	<u>102,290</u>	<u>1,793</u>	<u>237,122</u>
(1,402,853)	2,889,677	(755,103)	(53,571)	(2,333,933)
1,195,451	195	75,000	97,013	4,520,077
<u>(142,360)</u>	<u>-</u>	<u>(404,509)</u>	<u>-</u>	<u>(2,012,906)</u>
<u>(349,762)</u>	<u>2,889,872</u>	<u>(1,084,612)</u>	<u>43,442</u>	<u>173,238</u>
5,356,294	(14,966,774)	(55,025,905)	361,029	(43,117,905)
<u>(1,039,013)</u>	<u>-</u>	<u>54,903,893</u>	<u>(68,963)</u>	<u>53,099,281</u>
<u>\$ 3,967,519</u>	<u>\$ (12,076,902)</u>	<u>\$ (1,206,624)</u>	<u>\$ 335,508</u>	<u>\$ 10,154,614</u>

CITY OF MODESTO
COMBINING STATEMENT OF CASH FLOWS - INTERNAL SERVICE FUNDS
FISCAL YEAR ENDED JUNE 30, 2018

	Fleet Management	Central Services	Information & Technology Services
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers and users	\$ -	\$ -	\$ -
Receipts from interfund services provided	6,653,463	245,492	5,193,351
Payments to suppliers	(3,281,726)	(150,732)	(2,310,563)
Payment of insurance claims	-	-	-
Payments to employees	(2,099,163)	(515,377)	(3,144,176)
Payments for interfund services used	(1,572,906)	(19,585)	(84,655)
Net cash provided (used) by operating activities	(300,332)	(440,202)	(346,043)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Transfers in	2,747,909	404,509	1,195,451
Transfers out	-	(1,466,037)	(142,360)
Net cash provided (used) by noncapital financing activities	2,747,909	(1,061,528)	1,053,091
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Acquisition and construction of capital assets	(1,720,122)	(2,999)	(39,396)
Proceeds from sale of capital assets	16,932	4,722	-
Net cash provided (used) by capital and related financing activities	(1,703,190)	1,723	(39,396)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest received	(50,992)	5,328	47,475
Net increase in the fair value of investments	62,956	684	(33,057)
Net cash provided by investing activities	11,964	6,012	14,418
Net increase (decrease) in cash and cash equivalents	756,351	(1,493,995)	682,070
CASH AND CASH EQUIVALENTS, JULY 1	8,981,025	1,561,495	4,559,712
CASH AND CASH EQUIVALENTS, JUNE 30	\$ 9,737,376	\$ 67,500	\$ 5,241,782
RECONCILIATION TO STATEMENT OF NET POSITION:			
Cash and cash equivalents	\$ 9,737,376	\$ 67,500	\$ 5,241,782
Restricted cash and cash equivalents	-	-	-
Restricted cash and cash equivalents with fiscal agent	-	-	-
TOTAL CASH AND CASH EQUIVALENTS	\$ 9,737,376	\$ 67,500	\$ 5,241,782

	Insurance	Employee Benefits Management	Building Services	Total
\$	62,091	\$ -	\$ 20,056	\$ 82,147
	23,942,062	17,436,929	2,748,012	56,219,309
	(16,125,596)	(98,977)	(1,827,233)	(23,794,827)
	(7,416,465)	-	-	(7,416,465)
	(570,428)	(16,745,040)	(588,787)	(23,662,971)
	(145,959)	(247,937)	(391,184)	(2,462,226)
	<u>(254,295)</u>	<u>344,975</u>	<u>(39,136)</u>	<u>(1,035,033)</u>
	195	75,000	97,013	4,520,077
	-	(404,509)	-	(2,012,906)
	<u>195</u>	<u>(329,509)</u>	<u>97,013</u>	<u>2,507,171</u>
	-	-	-	(1,762,517)
	-	-	-	21,654
	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,740,863)</u>
	564,855	213,173	8,925	788,764
	(391,800)	(148,197)	(7,506)	(516,920)
	<u>173,055</u>	<u>64,976</u>	<u>1,419</u>	<u>271,844</u>
	(81,045)	80,442	59,296	3,119
	<u>12,166,151</u>	<u>8,814,712</u>	<u>883,360</u>	<u>36,966,455</u>
\$	<u>12,085,106</u>	<u>8,895,154</u>	<u>942,656</u>	<u>36,969,574</u>
\$	11,905,222	\$ -	\$ 942,656	\$ 27,894,536
	-	8,895,154	-	8,895,154
	179,884	-	-	179,884
\$	<u>12,085,106</u>	<u>8,895,154</u>	<u>942,656</u>	<u>36,969,574</u>

CITY OF MODESTO
COMBINING STATEMENT OF CASH FLOWS - INTERNAL SERVICE FUNDS (Continued)
FISCAL YEAR ENDED JUNE 30, 2018

	<u>Fleet Management</u>	<u>Central Services</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating income (loss)	\$ (2,854,539)	\$ (51,300)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	2,335,399	10,445
Change in assets, liabilities, and deferred resources:		
(Increase) decrease in accounts receivable	(27,780)	-
Increase in due from governments	-	-
(Increase) decrease in prepaid expenses	(12,589)	(977)
Decrease in inventories	-	9,795
Increase (decrease) in accounts payable	40,966	(4,345)
Increase (decrease) in accrued salaries and benefits	1,247	689
Increase in compensated absences	-	-
Decrease in net OPEB liability and deferred resources	672,934	-
(Increase) decrease in net pension liability and deferred resources	(479,842)	(404,509)
Increase in unearned revenue	23,872	-
(Decrease) in claims liability	-	-
Total adjustments	<u>2,554,207</u>	<u>(388,902)</u>
Net cash provided (used) by operating activities	<u>\$ (300,332)</u>	<u>\$ (440,202)</u>

Information & Technology Services	Insurance	Employee Benefits Management	Building Services	Total
\$ (1,420,075)	\$ 2,667,616	\$ (857,393)	\$ (55,364)	\$ (2,571,055)
693,294	-	-	2,918	3,042,056
-	53,346	-	-	25,566
-	-	-	20,056	20,056
(129,010)	487,781	(2,668)	(882)	341,655
-	-	-	-	9,795
(88,343)	(64,920)	(30,238)	(59,152)	(206,032)
594	(450)	229	112	2,421
-	-	811,659	-	811,659
998,671	-	404,509	66,286	2,142,400
(401,174)	45,853	18,877	(13,110)	(1,233,905)
-	8,745	-	-	32,617
-	(3,452,266)	-	-	(3,452,266)
<u>1,074,032</u>	<u>(2,921,911)</u>	<u>1,202,368</u>	<u>16,228</u>	<u>1,536,022</u>
<u>\$ (346,043)</u>	<u>\$ (254,295)</u>	<u>\$ 344,975</u>	<u>\$ (39,136)</u>	<u>\$ (1,035,033)</u>

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.

MODESTO-CERES FIRE PROTECTION AGENCY - To record and distribute the special assessments for fire protection that were established under the Industrial Fire District. This is a joint powers agency between the 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.

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, 2018

Special Districts	Balance June 30, 2017	Additions	Deletions	Balance June 30, 2018
<u>ASSETS</u>				
Cash and cash equivalents	\$ 465,601	\$ 3,445,882	\$ 2,178,209	\$ 1,733,274
Cash and cash equivalents with fiscal agent	2,942,479	2,120,418	2,081,660	2,981,237
	<u>\$ 3,408,080</u>	<u>\$ 5,566,300</u>	<u>\$ 4,259,869</u>	<u>\$ 4,714,511</u>
<u>LIABILITIES</u>				
Due to special district bondholders	\$ 3,408,080	\$ 5,566,300	\$ 4,259,869	\$ 4,714,511
<hr/>				
Tuolumne River Regional Park				
<u>ASSETS</u>				
Cash and cash equivalents	\$ 6,955	\$ 2,619,646	\$ 2,543,650	\$ 82,951
<u>LIABILITIES</u>				
Deposits held as agent for others	\$ 6,955	\$ 2,619,646	\$ 2,543,650	\$ 82,951
<hr/>				
Stanislaus Drug Enforcement Agency				
<u>ASSETS</u>				
Cash and cash equivalents	\$ 2,337,614	\$ 1,300,537	\$ 1,700,496	\$ 1,937,655
<u>LIABILITIES</u>				
Deposits held as agent for others	\$ 2,337,614	\$ 1,300,537	\$ 1,700,496	\$ 1,937,655
<hr/>				
Modesto-Ceres Fire Protection Agency				
<u>ASSETS</u>				
Cash and cash equivalents	\$ 220,336	\$ 586,293	\$ 575,956	\$ 230,673
<u>LIABILITIES</u>				
Deposits held as agent for others	\$ 220,336	\$ 586,293	\$ 575,956	\$ 230,673
<hr/>				
City/County Joint Powers Financing Authority				
<u>ASSETS</u>				
Cash and cash equivalents	\$ 20,362	\$ 301	\$ 240	\$ 20,423
<u>LIABILITIES</u>				
Deposits held as agent for others	\$ 20,362	\$ 301	\$ 240	\$ 20,423
<hr/>				
Totals - All Agency Funds				
<u>ASSETS</u>				
Cash and cash equivalents	\$ 3,050,868	\$ 7,952,659	\$ 6,998,551	\$ 4,004,976
Cash and cash equivalents with fiscal agent	2,942,479	2,120,418	2,081,660	2,981,237
	<u>\$ 5,993,347</u>	<u>\$ 10,073,077</u>	<u>\$ 9,080,211</u>	<u>\$ 6,986,213</u>
<u>LIABILITIES</u>				
Due to special district bondholders	\$ 3,408,080	\$ 5,566,300	\$ 4,259,869	\$ 4,714,511
Deposits held as agent for others	2,585,267	4,506,777	4,820,342	2,271,702
	<u>\$ 5,993,347</u>	<u>\$ 10,073,077</u>	<u>\$ 9,080,211</u>	<u>\$ 6,986,213</u>

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STATISTICAL SECTION
TAB

STATISTICAL SECTION
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STATISTICAL SECTION

Statistical Section

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

Financial Trends

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

1. Net 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

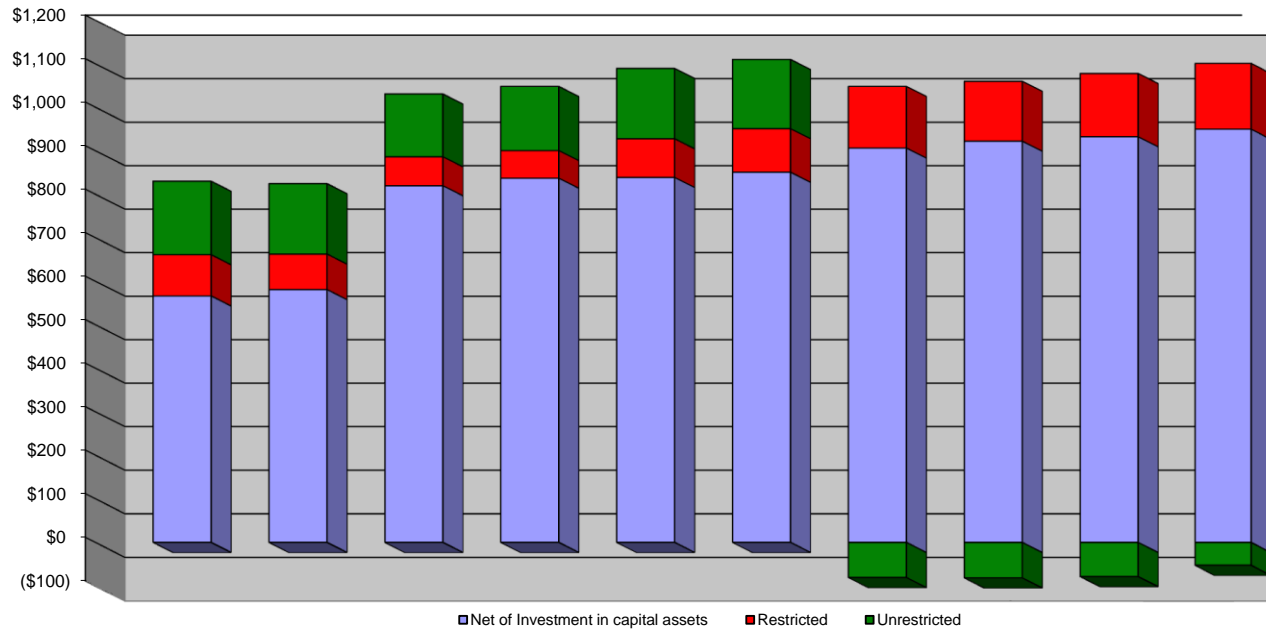
Operating Information

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)



	2009	2010	2011	2012	2013	2014	2015 (2)	2016	2017	2018
Governmental activities										
Net investment in capital assets	\$347,357,492	\$329,592,169	\$338,010,133	\$362,755,958	\$361,582,237	\$347,647,419	\$378,145,625	\$381,887,289	\$376,743,556	\$377,529,238
Restricted	94,819,773	81,528,516	66,570,581	63,498,187	63,381,356	77,564,677	121,105,182	115,619,807	123,851,082	130,192,278
Unrestricted	(472,402)	14,399,778	6,540,870	(4,326,456)	(1,102,658)	9,167,253	(179,570,210)	(173,275,294)	(191,483,628)	(182,197,396)
Total governmental activities net position	<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>	<u>\$309,111,010</u>	<u>\$325,524,120</u>
Business-type activities										
Net investment in capital assets	\$218,432,739	\$251,025,494	\$481,186,894	\$473,757,198	\$476,681,835	\$502,684,950	\$527,784,338	\$539,821,175	\$555,163,217	\$571,811,118
Restricted	-	-	-	-	25,571,860	22,398,957	20,622,619	22,052,595	21,525,961	21,071,542
Unrestricted	169,639,845	147,661,517	138,033,147	152,003,655	162,882,299	150,187,831	99,450,370	92,324,550	113,595,981	130,146,975
Total business-type activities net position	<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>	<u>\$690,285,159</u>	<u>\$723,029,635</u>
Primary government										
Net investment in capital assets	\$565,790,231	\$580,617,663	\$819,197,027	\$836,513,156	\$838,264,072	\$850,332,369	\$905,929,963	\$921,708,464	\$931,906,773	\$949,340,356
Restricted	94,819,773	81,528,516	66,570,581	63,498,187	88,953,216	99,963,634	141,727,801	137,672,402	145,377,043	151,263,820
Unrestricted	169,167,443	162,061,295	144,574,017	147,677,199	161,779,641	159,355,084	(80,119,840)	(80,950,744)	(77,887,647)	(52,050,421)
Total primary government net position	<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>	<u>\$999,396,169</u>	<u>\$1,048,553,755</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)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Expenses										
Governmental activities:										
General government	\$12,700,264	\$12,093,091	\$12,473,794	\$14,236,573	\$12,041,953	\$11,221,704	\$12,085,051	\$12,838,583	\$13,945,824	\$15,432,617
Community development	14,694,997	18,912,766	28,301,160	14,206,876	25,162,533	13,002,466	11,888,475	12,552,115	15,419,529	17,268,926
Highways and streets	23,682,253	23,668,779	24,114,799	21,009,521	20,525,496	21,316,315	21,269,704	20,149,011	22,481,002	22,997,140
Public works	9,151,786	6,759,562	7,393,809	6,780,882	4,064,497	3,241,135	9,810,989	10,749,465	13,169,149	8,674,538
Parks and recreation	15,070,007	13,268,871	10,310,549	11,741,352	13,036,579	11,659,816	4,641,611	3,493,743	3,947,898	4,456,508
Public safety	84,395,987	80,254,834	83,381,310	83,568,633	83,857,207	72,301,682	86,782,741	86,907,876	104,348,464	120,629,673
Interest on long-term debt	6,114,875	5,766,421	3,609,345	3,066,897	3,193,997	2,958,471	3,204,203	2,691,894	2,500,849	2,510,224
Total governmental activities expenses	165,810,169	160,724,324	169,584,766	154,610,734	161,882,262	135,701,589	149,682,774	149,382,687	175,812,715	191,969,626
Business-type activities:										
Water	2,011,386	1,826,401	1,518,955	1,482,640	1,252,660	1,605,829	54,718,239	59,127,625	63,008,231	56,526,729
Sewer	38,190,214	43,619,704	36,305,860	53,730,665	48,656,862	63,498,896	30,281,361	33,093,921	36,248,877	41,444,220
Bus	22,416,713	28,055,056	28,497,430	29,366,025	24,155,935	31,895,568	18,614,175	19,709,745	21,979,360	20,538,934
Parking	6,140,963	5,201,741	7,619,939	6,674,100	4,239,567	6,372,418	1,513,185	1,625,943	1,628,226	1,553,258
Storm drain	1,130,816	1,480,068	4,112,837	4,426,031	4,350,079	4,951,441	3,913,204	5,312,896	6,119,472	5,202,444
Compost	1,682,644	1,918,113	2,157,180	1,640,733	1,534,242	2,291,222	7,841,048	11,998,345	9,648,481	9,652,175
Airport	15,210,224	15,671,731	16,064,104	16,944,803	18,025,010	19,618,547	2,025,146	1,787,081	1,744,557	1,578,654
Golf	2,440,599	2,473,968	2,366,052	2,279,650	2,197,368	2,845,109	2,998,505	3,130,536	2,871,167	2,616,077
Community center	2,303,256	2,346,175	2,284,082	2,352,173	1,864,996	2,031,928	1,852,585	1,981,307	1,934,179	1,780,010
Abatement and public nuisance	-	-	-	34,609	42,879	31,877	93,067	84,152	51,624	351,557
Total business-type activities expenses	91,526,815	102,592,957	100,926,439	118,931,429	106,319,598	135,142,835	123,850,515	137,851,551	145,234,174	141,244,058
Total primary government expenses	\$257,336,984	\$263,317,281	\$270,511,205	\$273,542,163	\$268,201,860	\$270,844,424	\$273,533,289	\$287,234,238	\$321,046,889	\$333,213,684
Program revenues										
Governmental activities:										
Charges for services:										
General government	\$6,987,127	\$6,323,865	\$6,804,398	\$6,799,202	\$6,262,963	\$5,825,407	\$5,912,157	\$6,539,908	\$5,082,405	\$6,544,581
Community development	4,788,324	2,941,932	4,730,263	4,430,690	4,123,811	4,537,984	3,385,050	6,885,850	10,378,999	16,049,727
Highway and streets	8,222,178	2,801,213	3,179,788	4,178,567	761,394	873,566	1,744,505	1,154,290	1,101,813	758,952
Public works	1,349,956	3,344,967	2,909,677	2,936,299	3,565,048	4,146,641	6,621,704	5,469,419	5,908,332	1,637,024
Parks and recreation	4,006,123	6,038,468	3,105,490	3,221,072	3,623,647	3,004,001	1,344,923	771,733	1,614,443	2,346,211
Public safety	4,625,935	4,325,231	4,977,440	3,338,783	3,668,302	3,123,758	4,218,000	3,868,346	4,847,914	5,127,433
Operating grants and contributions	11,424,548	14,559,357	19,861,492	10,270,642	16,477,474	5,868,684	5,862,566	3,630,185	5,050,771	5,802,634
Capital grants and contributions	6,595,213	10,876,018	7,334,967	9,509,584	9,046,762	8,206,154	5,878,550	1,708,602	2,117,867	3,062,292
Total governmental activities program revenues	\$47,999,404	\$51,211,051	\$52,903,515	\$44,684,839	\$47,529,401	\$35,586,195	\$34,967,455	\$30,028,333	\$36,102,544	\$41,328,854
Business-type activities:										
Charges for services:										
Water	\$1,256,360	\$1,239,995	\$1,274,482	\$1,291,401	\$1,169,293	\$1,092,347	\$59,800,535	\$55,992,533	\$69,075,873	\$74,842,451
Sewer	53,218,692	54,670,041	55,345,414	57,534,190	61,474,235	60,254,110	46,193,997	47,859,680	49,905,078	52,799,102
Bus	35,854,857	37,310,731	39,142,045	41,825,928	43,414,773	46,046,304	3,424,662	3,352,615	3,253,046	3,305,910
Parking	5,301,150	5,428,291	6,152,211	5,783,694	5,780,644	5,831,133	1,239,439	1,289,211	1,284,269	1,434,311
Storm drain	1,397,708	1,706,189	4,490,110	4,672,517	8,012,611	4,853,133	5,874,349	5,588,169	5,910,988	6,004,682
Compost	661,524	675,565	1,019,177	619,689	619,904	634,530	7,191,145	7,352,767	8,903,917	8,934,075
Airport	2,944,108	2,769,814	2,877,492	2,892,539	2,946,937	2,989,504	551,373	622,383	596,152	651,693
Golf	1,984,769	1,924,015	1,647,400	1,759,818	1,568,532	2,196,280	2,574,496	2,431,904	2,236,100	2,485,688
Community center	492,989	489,562	433,460	420,059	263,581	230,801	257,991	326,839	305,436	294,524
Abatement and public nuisance	-	-	-	71,567	302,563	201,825	128,636	166,641	117,677	112,199
Operating grants and contributions	11,462,346	13,706,512	12,629,219	12,694,058	13,766,061	13,721,179	14,223,954	14,153,568	15,975,703	17,858,762
Capital grants and contributions	4,527,875	2,898,489	4,856,649	12,021,793	4,282,549	4,971,940	13,820,127	4,753,223	19,617,513	7,196,698
Total business-type activities program revenue	119,102,378	122,819,204	129,867,659	141,587,253	143,601,683	143,023,086	155,280,704	143,889,533	177,181,752	175,920,095
Total primary government program revenues	\$167,101,782	\$174,030,255	\$182,771,174	\$186,272,092	\$191,131,084	\$178,609,281	\$190,248,159	\$173,917,866	\$213,284,296	\$217,248,949
Net (Expense)/Revenue										
Governmental activities	(\$117,810,765)	(\$109,513,273)	(\$116,681,251)	(\$109,925,895)	(\$114,352,861)	(\$100,115,394)	(\$114,715,319)	(\$119,354,354)	(\$139,710,171)	(\$150,640,772)
Business-type activities	27,575,563	20,226,247	28,941,220	22,655,824	37,282,085	7,880,251	31,430,189	6,037,982	31,947,578	34,676,037
Total primary government net expense	(\$90,235,202)	(\$89,287,026)	(\$87,740,031)	(\$87,270,071)	(\$77,070,776)	(\$92,235,143)	(\$83,285,130)	(\$113,316,372)	(\$107,762,593)	(\$115,964,735)

(continued)

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

	<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>	<u>2017</u>	<u>2018</u>
General Revenues and Other Changes in Net Position										
Governmental activities:										
Taxes:										
Utility users tax	\$ 19,093,222	\$ 19,117,518	\$ 19,119,037	\$ 19,230,879	\$ 20,399,116	\$ 20,153,653	\$ 19,591,170	\$ 19,564,921	\$ 20,113,023	\$ 20,609,874
Property taxes, levied for general purposes (2)	13,863,471	12,306,702	12,107,226	11,863,902	11,618,481	12,304,010	13,551,827	14,552,304	15,384,518	16,356,095
Property taxes, generated by and allocated to the airport	6,228,634	6,521,515	5,750,235	2,884,357	-	-	-	-	-	-
Transient occupancy tax	1,853,732	1,460,613	1,639,761	1,769,106	1,884,188	1,879,825	2,097,952	2,523,087	2,669,484	2,826,160
Franchise tax	4,779,854	3,962,159	3,940,364	4,236,705	5,785,355	5,003,130	5,768,146	6,194,733	6,431,223	6,433,869
Business license tax, levied for general purposes	9,330,563	9,068,219	9,339,077	9,694,722	10,176,791	10,573,820	11,421,759	11,944,291	12,255,062	13,053,199
Business license tax, levied for downtown improvement district	196,253	169,471	172,520	177,026	170,222	181,689	188,247	186,123	192,540	189,070
Grants and contributions not restricted to specific programs:										
Sales tax (state appropriation)	24,578,230	22,301,060	24,110,596	25,958,263	27,110,911	27,651,939	28,437,594	29,878,815	30,204,125	31,302,950
Motor vehicle license fee	15,255,503	13,945,172	13,419,232	13,072,804	12,038,983	12,494,642	13,871,248	14,548,427	15,385,069	16,206,760
Gas tax funding	-	-	-	-	-	-	5,924,101	4,533,572	3,968,029	5,672,563
Community facilities district fees	-	-	-	-	-	-	4,570,403	3,829	1,830	274,494
Special assessments, levied	-	-	-	-	-	-	1,924,623	3,168,260	3,014,768	5,715,030
Proceeds from Modesto Regional Fire Authority dissolution	-	-	-	-	-	-	2,500,721	-	-	-
Other	3,285,651	1,286,466	9,718,308	11,794,261	12,844,926	15,269,250	25,866,105	13,101,149	15,842,047	17,469,209
Unrestricted investment earnings	5,247,506	1,211,702	696,848	(411,571)	52,893	441,383	564,314	582,565	362,856	726,199
Miscellaneous	5,809,581	2,502,397	1,630,466	1,821,336	1,861,660	5,402,480	2,281,008	2,440,696	515,206	818,542
Transfers	(5,490,881)	402,303	1,503,170	2,838,873	1,055,670	(41,312)	(775,377)	(567,177)	(1,750,401)	(354,287)
Total government activities	<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>	<u>124,589,379</u>	<u>137,299,727</u>
Business-type activities:										
Taxes:										
Property taxes, generated by and allocated to the airport	202,460	265,587	309,699	253,974	257,687	254,200	237,546	206,854	199,124	207,849
Business license tax, generated by and allocated to the airport	-	-	-	-	-	-	-	-	-	-
Unrestricted investment earnings	6,227,615	3,155,954	1,947,417	2,095,947	1,184,422	2,726,148	554,180	2,247,061	872,935	1,047,604
Connection fees (3)	-	-	-	-	1,200,800	524,914	-	-	-	-
Miscellaneous	253,032	-	-	-	-	-	1,214,729	1,368,761	1,316,801	1,472,809
Settlements	5,490,881	(402,303)	(1,503,170)	(2,838,873)	(1,055,670)	41,317	13,851	-	-	-
Transfers, net	-	447,102	187,096	222,379	116,711	110,376	775,377	567,177	1,750,401	354,287
Special item (4)	(2,211,514)	(1,326,309)	(727,310)	(826,133)	(1,143,257)	(1,356,418)	-	-	-	-
Total business-type activities	<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>	<u>4,139,261</u>	<u>3,082,549</u>
Total primary government	<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>	<u>\$128,728,640</u>	<u>\$140,382,276</u>
Change in Net Position										
Governmental activities	(\$13,779,446)	(\$15,257,976)	(\$13,534,411)	(\$4,995,232)	(\$9,353,665)	\$11,199,115	\$23,068,522	\$3,301,241	(\$15,120,792)	(\$13,341,045)
Business-type activities	37,538,037	22,366,278	29,154,952	21,563,118	37,842,778	10,180,788	34,225,872	10,427,835	36,086,839	37,758,586
Total primary government	<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>	<u>\$20,966,047</u>	<u>\$24,417,541</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>2009</u>	<u>2010</u>	<u>2011 (b)</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
General Fund										
Reserved	\$ 3,568,273	\$ 2,871,715	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved	11,185,485	10,103,645	-	-	-	-	-	-	-	-
Nonspendable	-	-	-	123,061	126,603	102,152	2,770,844	2,647,692	2,515,146	2,881,523
Restricted	-	-	4,313,287	3,998,539	3,713,640	3,718,682	1,341,972	2,092,126	1,970,622	2,674,200
Committed	-	-	-	-	-	3,000,000	3,000,000	3,000,000	15,800,000	18,397,817
Assigned	-	-	458,415	519,051	1,173,377	1,024,149	3,119,753	6,503,769	4,854,307	1,096,566
Unassigned	-	-	10,215,682	10,806,111	11,758,746	12,069,864	14,586,931	12,822,134	4,509,693	1,695,476
Total General Fund	<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>	<u>\$ 29,649,768</u>	<u>\$ 26,745,582</u>
All Other Governmental Funds										
Reserved	\$ 39,607,945	\$ 39,686,892	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved, reported in:										
Special revenue funds	12,808,809	6,867,750	-	-	-	-	-	-	-	-
Capital project funds	58,718,023	54,341,594	-	-	-	-	-	-	-	-
Nonspendable	-	-	-	119	746	3,907	88,057	86,242	81,007	23,816
Restricted	-	-	118,919,268	109,145,041	106,724,809	108,672,378	79,643,971	80,563,574	85,531,411	91,786,367
Assigned	-	-	3,647,941	2,604,281	3,965,851	3,700,733	14,962,522	10,063,058	7,975,865	17,126,893
Unassigned	-	-	(23,614,308)	(18,852,239)	(32,965,286)	(34,656,617)	(3,866,450)	(724,841)	(3,156,679)	(1,723,380)
Total all other governmental funds	<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>	<u>\$ 90,431,604</u>	<u>\$ 107,213,696</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)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenues										
Taxes	\$55,345,729	\$52,606,197	\$52,068,220	\$49,856,697	\$50,034,153	\$50,096,127	\$52,619,101	\$54,965,459	\$57,045,850	\$59,468,267
Licenses and permits	132,459	138,811	139,073	131,302	175,720	174,734	149,888	186,624	201,445	153,226
Intergovernmental	63,606,634	61,551,617	74,242,596	68,682,778	75,737,161	67,426,885	88,906,770	76,317,229	72,069,739	85,629,758
Charges for services	27,051,151	23,509,170	22,638,801	19,897,159	19,800,718	19,457,298	22,337,357	20,429,860	24,454,286	25,467,795
Special assessments levied	37,299	38,520	1,852,529	1,860,905	1,781,896	2,063,784	1,924,623	3,168,260	3,014,768	5,715,030
Interest and rent	2,909,155	1,322,005	838,178	1,145,251	835,994	1,019,357	957,846	1,297,734	1,402,387	1,574,347
Net increase (decrease) in fair value of investments	860,820	399,322	(89,608)	(452,987)	(584,090)	(423,827)	(320,398)	102,422	(572,616)	(645,593)
Fines and forfeits	2,443,506	2,253,014	2,929,182	2,169,482	2,004,133	1,844,607	1,171,076	904,802	1,263,407	1,127,877
Miscellaneous	5,809,581	2,502,397	1,630,467	1,821,336	2,081,776	4,653,746	2,784,295	2,286,597	516,844	818,542
Total Revenues	158,196,334	144,321,053	156,249,438	145,111,923	151,867,461	146,312,711	170,530,558	159,658,987	159,396,110	179,309,249
Expenditures										
Current:										
General government	13,715,577	11,482,240	10,879,751	12,411,413	11,169,669	11,643,579	11,334,202	12,414,982	11,542,131	11,837,635
Community development	14,137,095	18,536,120	26,077,905	12,831,734	23,673,373	12,589,817	11,511,154	12,453,678	13,264,050	13,234,820
Highways and streets	9,721,445	8,102,327	11,530,856	8,434,681	8,560,717	8,744,899	9,672,790	8,498,783	9,240,654	8,936,163
Public works	7,667,125	6,124,685	6,035,524	5,283,123	5,283,702	3,088,701	9,228,780	10,393,169	10,919,102	6,509,418
Parks and recreation	13,307,764	12,138,077	8,722,311	9,756,888	11,299,979	11,947,862	4,212,301	3,385,484	3,269,360	3,420,453
Public safety	78,103,260	75,081,791	73,207,608	72,131,852	74,094,399	74,595,533	81,353,131	84,022,670	86,475,891	92,341,706
Capital outlay	27,663,037	16,655,242	11,219,489	20,839,517	26,616,638	12,901,002	30,339,677	19,817,025	21,431,186	19,037,250
Debt service:										
Principal retirement	1,093,000	2,045,000	2,234,000	2,397,000	1,451,000	1,596,000	1,789,335	2,345,362	2,535,093	2,849,343
Interest	3,033,829	4,032,612	3,620,851	3,229,440	2,330,962	2,159,672	2,417,840	2,043,278	2,075,202	2,114,488
Other	1,395,211	1,408,771	57,557	48,738	932,460	872,350	783,264	697,405	430,779	396,686
Total Expenditures	169,837,343	155,606,865	153,585,852	147,364,386	163,122,899	140,139,415	162,642,474	156,071,836	161,183,448	160,677,962
Excess of revenues over (under) expenditures	(11,641,009)	(11,285,812)	2,663,586	(2,252,463)	(11,255,438)	6,173,296	7,888,084	3,587,151	(1,787,338)	18,631,287
Other Financing Sources (Uses)										
Transfers in	19,237,526	12,346,246	10,557,218	11,384,460	18,230,774	7,962,817	8,157,278	6,960,425	5,559,720	10,707,217
Transfers out	(18,149,564)	(12,402,937)	(13,069,195)	(14,223,663)	(18,417,413)	(11,164,994)	(10,682,539)	(10,572,346)	(6,659,759)	(13,568,675)
Proceeds of loan payable	209,575	-	-	-	-	-	-	-	-	-
Proceeds of lease revenue bonds	65,170,000	-	-	-	-	-	-	-	-	-
Refunding of lease revenue bonds	(65,210,000)	-	-	-	-	-	-	-	-	-
Capital leases	-	-	-	-	-	-	1,070,472	330,947	5,883,756	-
Sale of assets	34,900	-	-	-	72,489	200,838	94,489	106,582	31,239	154,458
Payments to refunded debt escrow agent	(2,431,247)	-	-	-	-	-	-	-	-	-
Total other financing sources (uses)	(1,138,810)	(56,691)	(2,511,977)	(2,839,203)	(114,150)	(3,001,339)	(1,360,300)	(3,174,392)	4,814,956	(2,707,000)
Extraordinary Items:										
RDA dissolution transactions	-	-	-	(403,850)	-	-	-	-	-	-
RDA advance receivable elimination	-	-	-	(966,127)	-	-	-	-	-	-
Total extraordinary items	-	-	-	(1,369,977)	-	-	-	-	-	-
Change in fund balances	(12,779,819)	(11,342,503)	151,609	(6,461,643)	(11,369,588)	3,171,957	6,527,784	412,759	3,027,618	15,924,287
FUND BALANCES, July 1	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	120,081,372
PRIOR PERIOD ADJUSTMENTS	(416,197)	(674,436)	(82,920)	865,322	(2,475,890)	(35,195)	11,484,568	993,395	-	(2,046,381)
FUND BALANCES, June 30	\$125,888,535	\$113,871,596	\$113,940,285	\$108,343,964	\$94,498,486	\$97,635,248	\$115,647,600	\$117,053,754	\$120,081,372	\$133,959,278
Debt service as a percentage of noncapital expenditures	0.03020	0.04623	0.04291	0.04656	0.02870	0.03063	0.03305	0.03346	0.03422	0.03642

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, 2018)

Ten Largest Customers of Water Utility System, Year Ended 06/30/2018

<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) Modesto City Schools	398,205	1.78%	\$ 967,813	1.47%
2) City of Modesto-Stores	318,683	1.42%	\$ 955,543	1.46%
3) Stanislaus Food Products	471,602	2.10%	\$ 899,062	1.37%
4) Foster Farms	333,773	1.49%	\$ 615,521	0.94%
5) Seneca Foods	276,589	1.23%	\$ 525,461	0.80%
6) Stanislaus Housing Authority	148,285	0.66%	\$ 401,201	0.61%
7) Modesto Irrigation District	173,126	0.77%	\$ 373,793	0.57%
8) Sunopta	183,243	0.82%	\$ 345,178	0.53%
9) Yosemite Community College	112,995	0.50%	\$ 286,791	0.44%
10) STANCO	84,110	0.37%	\$ 266,369	0.41%
Total Top Ten	<u>2,500,611</u>	<u>11.14%</u>	<u>\$ 5,636,732</u>	<u>8.60%</u>

Total Flat/Metered Revenues (Water Sales)

\$ 65,619,235

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

Water Sales Revenue, Year Ended 06/30/2018

Residential - Flat Rates

\$ 5,506,216

Commercial, Industrial and Municipal - Metered Rates

\$ 60,113,019

Total Water Sales (2)

\$ 65,619,235

Water Rates and Charges as of 07/01/2017

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

\$ 56.23

Commercial Accounts:

<u>Meter Size</u>	
3/4"	\$ 21.47
1"	\$ 30.39
1 1/2"	\$ 52.71
2"	\$ 79.49
3"	\$ 164.30
4"	\$ 289.28
6"	\$ 588.33
8"	\$ 1,079.32
10"	\$ 1,704.21
12"	\$ 2,239.84

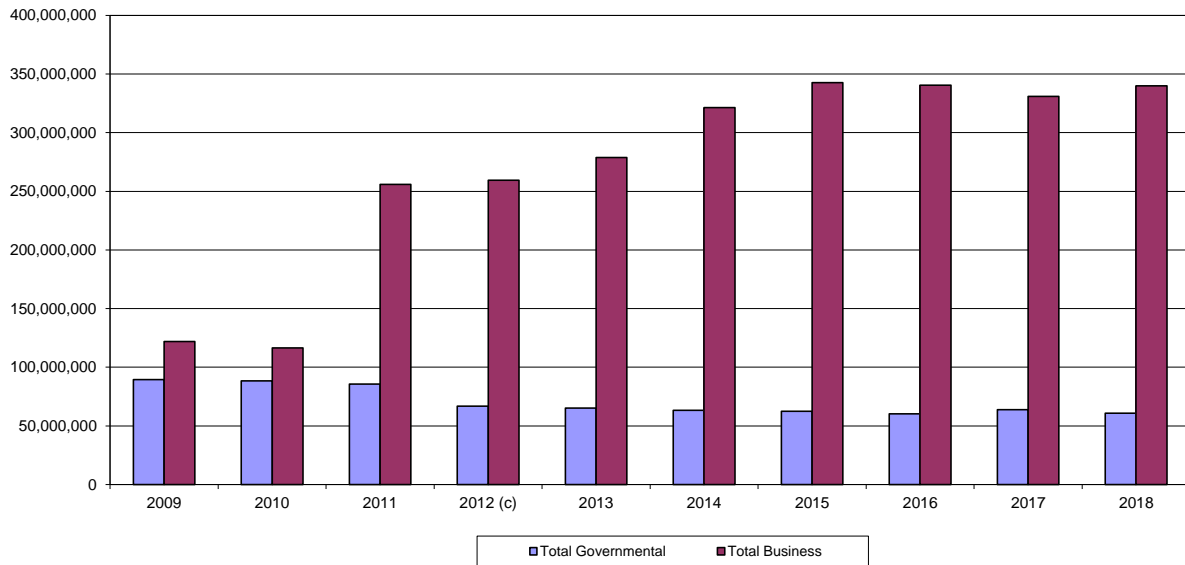
In addition to these minimum charges, commercial accounts are charged \$1.82 per 100 cubic feet of water used.

(2) Water sales only reflect the revenues in the Water Operating Fund and do not include revenue generated from developer fees and fleet replacement revenues.

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 (h)	Certificates of Participation	Lease Revenue Bonds	Notes Payable	Obligations Under Capital Leases	Total
2009	903,362	19,000,000	65,170,000	3,999,252	454,401	89,527,015
2010	905,000	18,015,000	64,275,000	3,802,436	1,221,553	88,218,989
2011	905,030	16,975,000	63,255,000	3,594,658	975,955	85,705,643
2012 (c)	500,000	-	62,130,000	3,392,000	742,937	66,764,937
2013	500,000	-	60,870,000	3,201,000	502,622	65,073,622
2014	500,000	-	59,475,000	3,000,000	256,945	63,231,945
2015	500,000	-	57,970,000	2,789,000	1,070,472	62,329,472
2016	500,000	-	56,305,000	2,568,000	942,057	60,315,057
2017	500,000	-	54,470,000	2,335,000	6,358,720	63,663,720
2018	500,000	-	52,775,000	2,090,000	5,449,379	60,814,379

Business-Type Activities

Fiscal Year	Loans Payable	Certificates of Participation	Reimbursement Agreement related to MID (e)	Revenue Bonds (b)	Obligations Under Capital Leases	Total (f)	Total Primary Government	Percentage of Personal Income (a) (e)	Per Capita (a) (e)
2009	1,543,554	70,545,000	-	49,760,000	-	121,848,554	\$ 211,375,569	3.69%	1,006
2010	1,326,174	67,066,213	-	48,050,000	-	116,442,387	204,661,376	3.66%	968
2011 (d)	6,522,243	50,757,779	-	198,654,489	-	255,934,511	341,640,154	6.51%	1,698
2012 (d)	16,098,866	50,237,067	-	193,098,177	-	259,434,110	326,199,047	5.18%	1,617
2013	41,921,784	49,681,357	-	187,251,865	-	278,855,006	343,928,628	7.53%	1,670
2014	88,922,403	49,634,062	-	182,792,914	-	321,349,379	384,581,324	8.15%	1,860
2015	117,690,257	48,989,556	137,055,810	39,057,561	-	342,793,184	405,122,656	8.63%	1,937
2016 (g)	125,787,342	48,330,053	132,375,084	33,945,516	-	340,437,995	400,753,052	8.21%	1,891
2017	124,280,500	47,630,552	127,484,358	31,605,936	-	331,001,346	394,665,066	8.13%	1,859
2018	147,366,699	47,015,000	119,525,000	26,025,381	73,589	340,005,669	400,820,048	7.22%	1,871

- (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, 2018

<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>60,814,379</u>	100%	\$ <u>60,814,379</u>
Overlapping General Obligation debt - school districts:			
Ceres Unified School District	93,553,785	4.13%	3,863,771
Hart-Ransom Union School District	3,670,225	31.05%	1,139,605
Modesto Elementary School District	6,908,870	66.93%	4,624,107
Modesto High School District	28,176,385	67.59%	19,044,419
Paradise Elementary School District	330,000	0.00%	-
Salida Union Elementary District	215,000	28.23%	60,695
Stanislaus Union School District	20,780,000	75.00%	15,585,000
Sylvan School District	33,858,646	78.08%	26,436,831
Yosemite Community College District	<u>195,494,910</u>	26.07%	<u>50,965,523</u>
Total overlapping debt	<u>382,987,821</u>		<u>121,719,951</u>
Total direct and overlapping debt	\$ <u><u>443,802,200</u></u>		\$ <u><u>182,534,330</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.

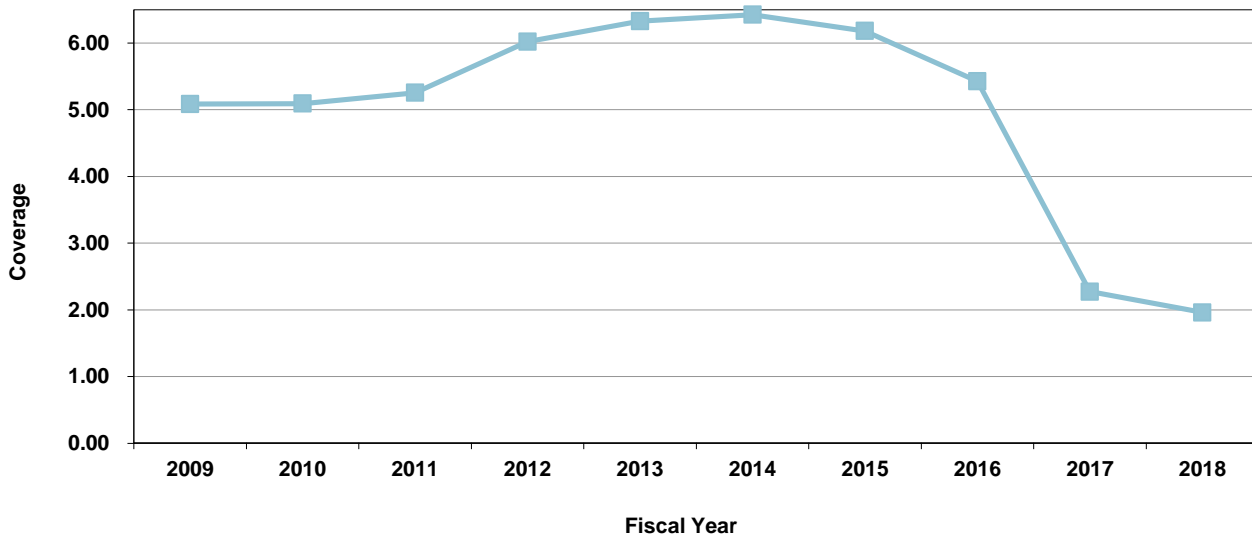
CITY OF MODESTO
COMPUTATION OF LEGAL DEBT MARGIN
JUNE 30, 2018

Net assessed value (1)(3)		\$ 16,308,358,058
Plus homeowners' exemption (1)(3)		<u>201,430,177</u>
Gross assessed value (1)(3)		<u>\$ 16,509,788,235</u>
Debt limit - 15% of gross assessed value (2)		\$ 2,476,468,235
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>\$ 2,476,468,235</u>

<u>Fiscal Year</u>	<u>Debt Limit</u>	<u>Total Net Debt Applicable to Limit</u>	<u>Legal Debt Margin</u>	<u>Total Net Debt Applicable to the Limit as a Percentage of Debt Limit</u>
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%
2017	2,232,042,092	-	2,232,042,092	0%
2018	2,476,468,235	-	2,476,468,235	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

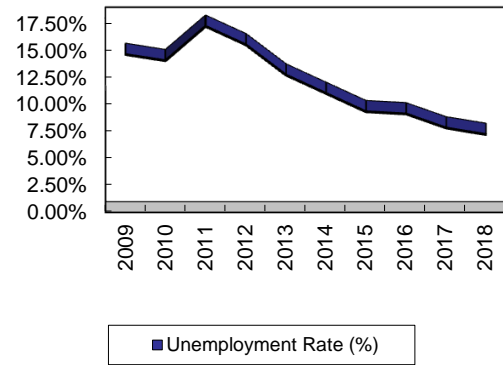
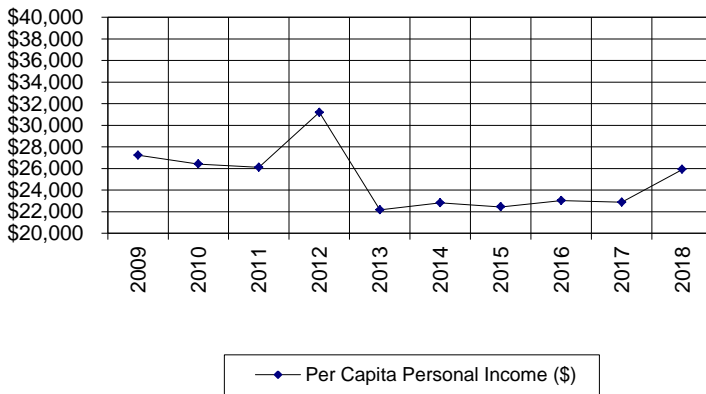
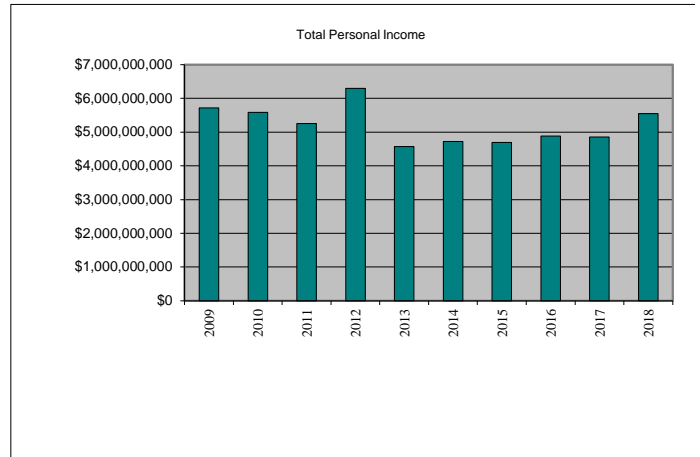
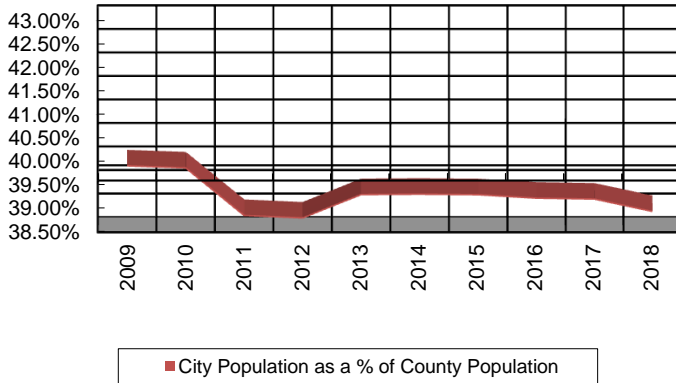
CITY OF MODESTO
REVENUE BOND COVERAGE
WASTEWATER REVENUE BONDS
LAST TEN FISCAL YEARS (4)



<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>
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
2017	50,907,228	25,212,214	25,695,014	11,311,098	2.27
2018	53,770,230	27,227,948	26,542,282	13,536,703	1.96

- 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. In fiscal year 2016-17, began repaying State Revolving Fund loan for Phase 2 - Tertiary Treatment Project debt service.
 - (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
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%
2017	212,287	4,856,701,986	22,878	7.80%	541,466	39.21%
2018	214,181	5,549,643,891	25,911	7.20%	549,976	38.94%

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	2017/18			2009/10		
	Number of (1) Employees	Rank	Percentage of Total City Employment	Number of (1) Employees	Rank	Percentage of Total City Employment
Gallo Vineyards, Inc	6,700	1	2.72%			
Stanislaus County	4,480	2	1.82%			
Modesto City Schools	3,556	3	1.45%	3,113	2	2.98%
Doctors Medical Center	2,600	4	1.06%	1,984	5	1.90%
Memorial Medical Center	2,400	5	0.98%	3,013	3	2.89%
DelMonte Foods, Inc	2,010	6	0.82%	1,700	6	1.63%
Stanislaus Food Products	1,875	7	0.76%	1,500	8	1.44%
City of Modesto	1,500	8	0.61%	1,187	10	1.14%
Sylvan Union School District	917	9	0.37%			
Modesto Junior College	842	10	0.34%	1,643	7	1.58%
Seneca				2,100	4	2.01%
E & J Gallo				3,308	1	3.17%
Kaiser Permanente Modesto				1,500	9	1.44%
Subtotal	<u>26,880</u>		<u>10.93%</u>	<u>21,048</u>		<u>20.18%</u>
Total Labor Force	246,000			104,300		
Total City Population	214,181			211,536		

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.

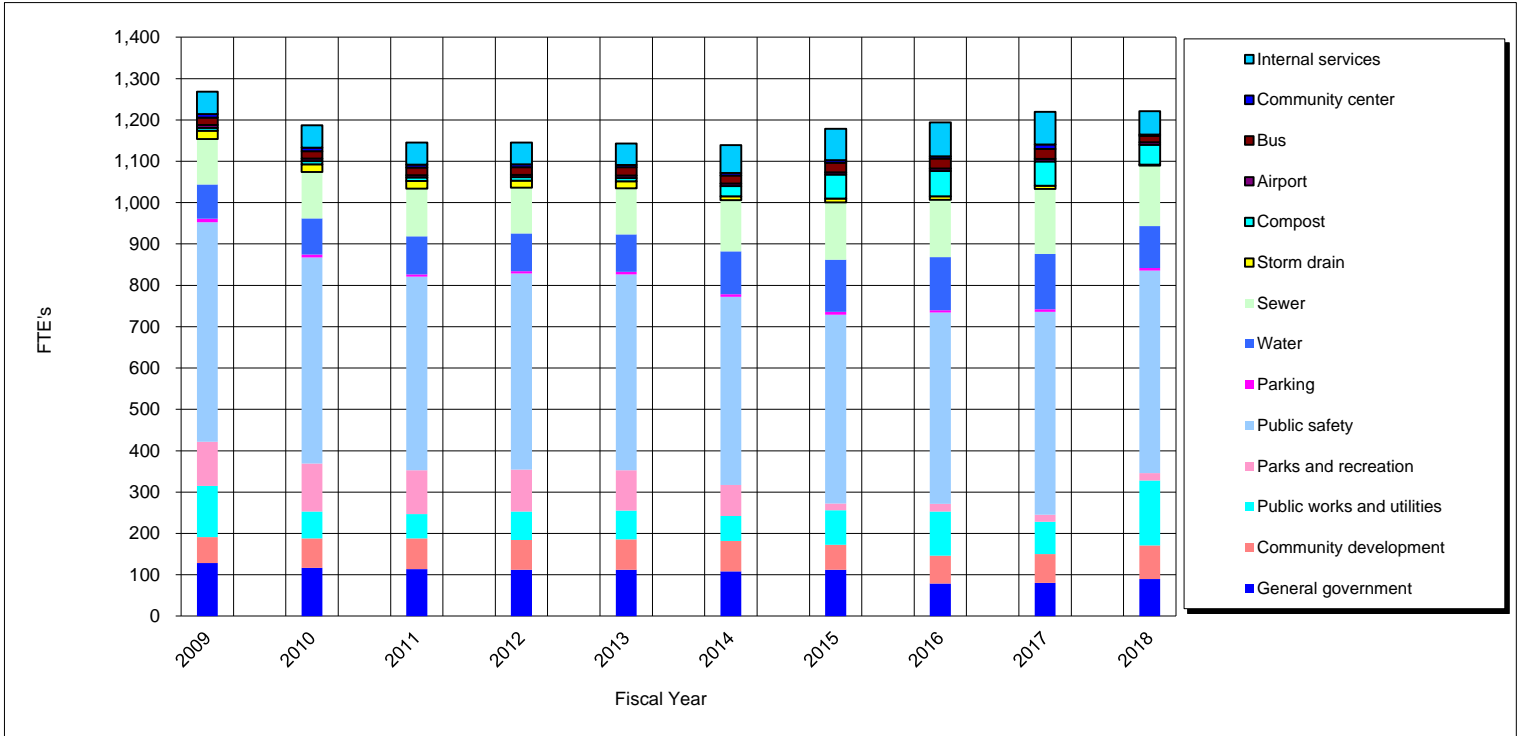
**CITY OF MODESTO
PRINCIPAL PROPERTY TAXPAYERS**

Employer	2017/18			2009/10		
	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	\$ 327,477,112	1	2.17%	\$ 366,532,062	1	2.97%
World International LLC	22,040,608	2	0.15%	22,442,489	2	0.18%
Gallo Glass Co	291,025,616	3	1.93%	309,367,313	3	2.51%
Gallo E & J Winery	260,443,048	4	1.73%	298,892,533	4	2.42%
E & J Gallo Winery	180,210,872	5	1.20%	192,222,588	5	1.56%
Excel Monte Vista LP	138,921,002	6	0.92%	142,948,949	6	1.16%
WR Griffin Patterson LLC	100,198,114	7	0.66%	102,202,076	8	0.83%
Doctors Medical Center	128,328,270	8	0.85%	132,385,410	10	1.07%
Fresno Farming LLC	102,771,626	9				0.00%
Bronco Wine Company	118,932,201	10	0.79%	129,376,238	9	1.05%
Frito Lay Inc			0.00%	149,557,140	7	1.21%
Subtotal	<u>\$ 1,670,348,469</u>		<u>10.40%</u>	<u>\$ 1,845,926,798</u>		<u>14.96%</u>
Total assessed value of \$	\$ 15,080,145,430			\$ 12,345,056,001		

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



	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Function										
General government	128.60	116.60	113.60	112.00	112.00	108.00	112.10	79.00	80.00	90.00
Community development	62.20	71.20	74.20	72.20	74.00	73.80	60.75	67.00	70.00	81.00
Public works and utilities	124.00	65.00	59.00	69.00	69.00	60.00	83.00	107.00	78.00	157.00
Parks and recreation	107.25	116.00	106.23	101.48	97.50	75.38	16.50	18.50	17.50	17.50
Public safety	530.75	499.00	467.75	473.75	474.00	455.00	456.50	462.50	490.50	490.50
Parking	8.00	7.00	6.00	6.00	6.00	6.00	7.00	6.00	6.00	6.00
Water	83.00	87.00	92.00	91.00	91.00	104.00	126.00	128.00	134.00	101.00
Sewer	110.00	112.00	115.00	111.00	111.00	124.00	139.00	139.00	157.00	146.80
Storm drain	20.00	19.00	19.00	17.00	17.00	9.00	9.00	8.00	8.00	2.00
Compost	7.00	8.00	8.00	8.00	8.00	24.80	57.80	61.80	58.80	48.00
Airport	6.75	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00
Bus	18.00	18.00	18.00	18.00	20.00	20.00	23.00	24.00	24.00	16.00
Community center	8.50	8.50	7.25	7.25	5.50	5.50	6.00	5.00	11.00	3.00
Internal services	54.00	54.00	53.00	53.00	52.00	67.30	76.00	82.00	79.00	56.00
Total	1,268.05	1,187.30	1,145.03	1,145.68	1,143.00	1,138.78	1,178.65	1,193.80	1,219.80	1,220.80

Source: City of Modesto

**CITY OF MODESTO
OPERATING INDICATORS BY FUNCTION**

Function/Program	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Public safety:										
Fire:										
Fire calls for service(1)	22,911	20,888	20,400	20,970	22,846	24,281	24,712	21,135	26,288	28,444
Primary fire inspections conducted	1,069	1,012	1,214	1,618	818	989	1,050	764	1,060	1,509
Police:										
Communication Center calls answered	116,383	167,576	154,549	168,242	174,113	123,357	122,270	129,439	129,802	194,931
Police calls for service										
Law violations:										
Part I and Part II crimes	57,844	52,182	49,914	47,175	52,272	53,032	50,729	53,609	53,142	53,543
Physical arrests (adult and juvenile)	12,471	15,105	11,872	11,536	12,418	15,039	18,634	12,303	11,760	13,247
Traffic violations	26,914	30,941	24,278	16,330	14,761	15,477	12,700	11,451	15,428	16,930
Parking violations	21,391	18,041	20,452	15,772	12,150	12,327	5,493	6,139	10,841	9,414
Public works										
Streets:										
Street resurfacing (lane miles)	1	7	6	-	6	12	8	4	12	4
Potholes repaired (square miles)	39,473	39,705	27,724	38,290	13,282	12,573	14,515	24,059	8,745	25,004
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	29	48
Airport:										
Number of passengers enplaned (2)	28,470	25,640	22,514	19,188	16,532	11,703	-	-	-	-
Number of tenant aircraft	184	190	183	184	184	172	162	173	162	153
Number of hangars	109	118	118	118	118	118	119	119	119	119
Number of runways	2	2	2	2	2	2	2	2	2	2
Annual fuel consumption in gallons	672,406	639,971	311,500	645,283	653,153	682,769	582,473	443,272	582,602	580,383
Bus service:										
Number of buses	56	56	63	55	65	55	56	60	59	57
Number of routes	20	20	20	20	20	20	21	21	21	17
Total route miles	362	362	362	362	362	362	362	362	362	245
Average weekday number of passengers	12,599	12,524	10,688	11,553	11,616	12,538	11,598	12,441	10,523	9,354
Total number of passengers carried	3,699,846	3,478,120	3,145,400	3,413,421	3,434,409	3,666,824	3,416,314	3,664,689	3,108,307	2,762,922
Community development										
Building safety & NPU:										
Permits issued	3,242	3,733	3,801	3,288	3,566	3,871	4,511	4,939	4,973	5,033
Estimated cost of construction	\$ 96,127,131	\$ 67,488,906	\$ 73,397,148	\$ 76,362,371	\$ 81,095,370	\$ 58,850,241	\$ 137,453,763	\$ 92,768,634	\$ 118,527,812	\$ 172,595,385
Building Inspections made	32,362	32,846	29,034	25,549	27,816	30,034	31,571	23,187	36,158	42,891
Traffic electrical:										
Street lights	13,764	13,765	13,765	13,765	13,765	13,761	13,764	13,764	13,764	13,764
Traffic signals	146	149	143	143	144	144	147	151	153	155
Lighted ped walks	28	28	28	30	28	29	28	28	28	24
Beacons	1	12	5	8	8	11	11	11	11	3
Four way flashers	9	9	9	9	10	10	10	10	10	5
School flashers	22	22	22	22	22	22	22	23	24	16
CCTV	38	38	38	38	41	41	41	41	41	30
Hubs	5	5	5	5	6	6	6	6	6	2
Culture and recreation:										
Recreation class participants	3,271	3,171	2,297	2,072	264,670	150,514	151,323	150,091	150,500	154,000
Solid waste:										
Recyclables processed (tons per year)	74,288	47,170	50,789	67,317	37,647	46,936	55,020	56,493	71,155	62,701
Yard waste	41,235	48,856	60,408	58,650	55,147	39,117	48,832	58,730	62,859	64,873
Commercial food waste	597	667	814	735	765	827	817	845	914	1,550
Waste tires	5,214	3,683	2,388	1,247	1,674	4,969	4,152	4,497	4,931	4,285

(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>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</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	70	100	98	98	105	105	105	105	104	104
Public works										
Streets:										
Miles of streets (1)	675	675	676	684	684	691	691	692	692	692
Water:										
Miles of water mains	1,007	1,008	1,008	1,008	1,009	1,009	914	887	887	908
Fire hydrants	7,412	7,516	7,536	7,566	7,584	7,596	7,748	7,845	7,859	7,921
Storage capacity (thousands of gallons)	9,400,000	13,100,000	12,300,000	12,300,000	12,300,000	12,300,000	12,300,000	18,300,000	18,300,000	18,300,000
Wastewater:										
Miles of sanitary sewers	642	642	642	642	639	639	639	639	655	656
Miles of storm sewers	183	183	183	183	183	183	183	183	170	170
Number of treatment plants (2)	2	2	2	2	2	2	2	2	2	2
Treatment capacity (millions of gallons)(5)	72	72	72	72	70	70	70	70	19	19
Community services:										
City parks (3)	76	76	76	76	76	76	76	76	76	76
City parks acreage	1,088	1,088	1,088	1,088	1,110	1,110	1,110	1,240	1,240	1,240
Playgrounds	55	55	55	55	55	55	58	58	58	58
City trails	4	4	4	7	7	7	6	6	6	6
City trails miles	12	12	12	14	14	14	15	15	15	16
Regional park acreage	324	324	324	324	324	324	375	375	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	3	3	3
Community gardens	2	2	2	2	2	2	2	2	1	1
Community centers	7	7	6	6	7	7	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	13	13	4	4	4	4	4	4	1	1
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	29	29	29	29	29	29
Splash play in Existing parks	-	-	-	10	10	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.

(5) The City has a new process and permit. Previous permit was 70 MGD seasonal Oct. through May. Current permit is 19 MGD year round.

Source: City of Modesto - Various Departments

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CONTINUING DISCLOSURE
TAB

CONTINUING DISCLOSURE
TAB

**CONTINUING DISCLOSURE
SECTION**

Continuing Disclosure Section

This part of the Comprehensive Annual Financial Report provides information in order to comply with the City's contractual commitment established by certain continuing disclosure undertaking of the City, entered into in accordance with Securities and Exchange Commission Rule 15c2-12 (the "Rule") for the City's bond obligations listed below. In contrast to the financial section, the continuing disclosure section information is not subject to independent audit.

1. Wastewater Revenue Refunding Bonds, Series 2015
2. Wastewater Revenue Refunding Bonds, Series 2018A
3. Water Revenue Refinancing Certificates of Participation, 2008 Series A
4. Modesto Irrigation District Financing Authority Domestic Water Project Refunding Revenue Bonds, Series 2013G
5. Modesto Irrigation District Financing Authority Domestic Water Project Revenue Bonds, Series 2007F

CITY OF MODESTO
CONTINUING DISCLOSURE REQUIREMENTS INFORMATION
YEAR ENDED JUNE 30, 2018

Wastewater Revenue Refunding Bonds, Series 2018 A (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>Customer Base by Type of Account</u>		
	<u>Number of Accounts</u>	<u>% of Total Accounts</u>	<u>% of Sewer Fee Operating Revenue</u>
Residential	58,180	94.61%	45.56%
Commercial	3,269	5.32%	9.61%
Industrial	43	0.07%	27.39%
Total	61,492	100.00%	82.56%

Ten Largest Users of Sewer Facilities, Year Ended 6/30/18

<u>User</u>	<u>Sewer Fee Revenue</u>	<u>% of Sewer Fee Operating Revenue</u>
1) E & J Gallo Winery	\$ 1,669,020	3.46%
2) Stanislaus Food Products	\$ 1,659,616	3.44%
3) City of Ceres	\$ 1,655,054	3.43%
4) Foster Farms	\$ 1,257,150	2.60%
5) Frito-Lay, Inc	\$ 1,092,458	2.26%
6) Del Monte Foods	\$ 1,018,152	2.11%
7) Seneca	\$ 496,647	1.03%
8) Sunopta	\$ 460,681	0.95%
9) Nestle Food Company	\$ 436,209	0.90%
10) Rizo Lopez Foods	\$ 381,606	0.79%
Total (Top Ten Customers)	\$ 10,126,593	20.97%
Total (All Customers)	\$ 48,306,469	

The average single-family residence monthly sewer charge is: \$35.78

<u>Commercial Group</u>	<u>Charge Per 1,000 Gallons</u>	<u>Fixed Charge</u>
Group 1 (no food, just toilets or working facilities)	\$3.01	\$4.42
Group 2 (commercial laundromats, service stations, hotels without food)	\$4.07	\$4.42
Group 3 (industrial laundromats, hotels with food)	\$5.13	\$4.42
Group 4 (restaurants, bakeries, auto steam, markets)	\$6.40	\$4.42

Industrial users pay a minimum account charge of \$4.40 with additional charges of: \$2,604.00 per million gallons of flow, \$213.00 per 1,000 pounds of excess biochemical oxygen demand (BOD), and \$441.00 per 1,000 pounds of Total Suspended Solids (TSS) during the months of July and August.

Industrial users pay a minimum account charge of \$4.42 with additional charges of: \$2,888.00 per million gallons of flow, \$226.00 per 1,000 pounds of excess biochemical oxygen demand (BOD), and \$454.00 per 1,000 pounds of Total Suspended Solids (TSS) during the months of September through June.

Industrial users on the Cannery Segregation line pay a minimum account charge of \$4.40 with additional charges of: \$2,680.00 per \$1.39 per 1,000 pounds of biochemical oxygen demand (BOD), and \$4.04 per 1,000 pounds of Total Suspended Solids (TSS) while in production during the months of July and August.

Industrial users on the Cannery Segregation line pay a minimum account charge of \$4.42 with additional charges of: \$2,841.00 per \$1.48 per 1,000 pounds of biochemical oxygen demand (BOD), and \$4.29 per 1,000 pounds of Total Suspended Solids (TSS) while in production during the month of September.

(a) In the Fiscal Year ending June 30, 2018, the 2018A Wastewater bonds were issued, refunding the 2006A bonds.

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

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

Statement of Revenues, Expenses and Changes in Fund Net Position	Page 25	
Principal Amount of Bonds and Other Parity Debt	Page 49-50	(Note III-C)
Historical Debt Service Coverage	Page 139	
	(continued)	

**CITY OF MODESTO
WASTEWATER COMPARISON INFORMATION
 YEAR ENDED JUNE 30, 2018**

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>
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
2016-17	6.00
2017-18	6.00

Comparative Monthly Wastewater Service Charges.

The City's residential charges as of July 1, 2017 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, 2017**

<u>City</u>	<u>Monthly Residential Charge</u>
Fresno	\$25.75
Lodi	\$25.40
Modesto	\$31.36
Stockton	\$38.36
Tracy	\$34.00
Turlock	\$28.95

CITY OF MODESTO
CONTINUING DISCLOSURE REQUIREMENTS
YEAR ENDED JUNE 30, 2018

CITY OF MODESTO
WASTEWATER SYSTEM
Wastewater Connection Fees Comparison
As of July 1, 2017

<u>City</u>	<u>Connection Fee</u>
Fresno (1)	\$2,119.00
Lodi (2)	\$2,831.00
Modesto	\$2,643.00
Stockton	\$2,174.35
Tracy	\$6,727.00
Turlock	\$2,250.00

(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, 2018

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 6/30/18	\$ 4,011,410
Surety Policy Value:	\$ (2,082,513)
Balance in Parity Reserve Account as of 6/30/18	<u>\$ (1,968,589)</u>
Shortfall/(Excess) Reserve Coverage:	<u>\$ (39,692)</u>

Ten Largest Customers of Water Utility System, Year Ended 6/30/18

<u>Customer</u>	<u>Business Type</u>	<u>Usage (ccf) (2)</u>	<u>% of Total Usage</u>	<u>Water Sales Revenue (\$)</u>	<u>% of Total Water Sales Revenue</u>
1) Modesto City Schools	Education	398,205	1.78%	\$967,813	1.47%
2) City of Modesto - Stores	Local Government	318,683	1.42%	\$955,543	1.46%
3) Stanislaus Food Products	Cannery	471,602	2.10%	\$899,062	1.37%
4) Foster Farms	Dairy Processor	333,773	1.49%	\$615,521	0.94%
5) Seneca Foods	Cannery	276,589	1.23%	\$525,461	0.80%
6) Stanislaus Housing Authority	Housing Authority	148,285	0.66%	\$401,201	0.61%
7) Modesto Irrigation District	Power Company	173,126	0.77%	\$373,793	0.57%
8) Sunpota	Cannery	183,243	0.82%	\$345,178	0.53%
9) Yosemite Community College	Education	112,995	0.50%	\$286,791	0.44%
10) STANCO	Local Government	84,110	0.37%	\$266,369	0.41%
Total Top Ten		<u>2,500,611</u>	<u>11.14%</u>	<u>\$5,636,732</u>	<u>8.60%</u>

Total Flat/Metered Revenues (Water Sales)	<u>\$65,619,235</u>
(1) Grover Landscaping maintains City parks	
(2) "ccf" means "hundred cubic feet"	

Water Sales Revenue, Year Ended 6/30/2018

Residential - flat rates	\$ 5,506,216
Commercial, industrial and municipal - metered rates	\$ 60,113,019
Total Water Sales	<u>\$ 65,619,235</u>

The average monthly flat rate service charge for residential customers is:	<u>\$ 56.23</u>
--	-----------------

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

<u>Meter Size</u>	
3/4"	\$ 21.47
1"	\$ 30.39
1 1/2"	\$ 52.71
2"	\$ 79.49
3"	\$ 164.30
4"	\$ 289.28
6"	\$ 588.33
8"	\$ 1,079.32
10"	\$ 1,704.21
12"	\$ 2,239.84

In addition to these minimum charges, commercial accounts are charged \$1.82 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 6/30/2018, the balance of the 2013 G Bond was \$26,335,000 and the balance of the 2007 F Bond was \$93,190,000.

(2) Water sales only reflect the revenues in the Water Operating Fund and do not include revenue generated from developer fees and fleet replacement revenues.

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

CITY WATER UTILITY SYSTEM
Historical Debt Service Coverage

	2009	2010	2011	2012	2013 (1)	2014	2015 (11)	2016 (12)	2017	2018
Charges for services	\$ 52,990,138	\$ 51,572,801	\$ 51,876,505	\$ 53,453,708	\$ 56,906,488	\$ 56,940,812	\$ 54,779,417	\$ 51,489,077	\$ 63,253,114	\$ 68,928,504
Connection charges	1,113,082	647,579	452,021	516,839	295,632	357,432	1,024,626	935,987	1,435,654	1,661,151
Refunds, damages & recoveries	29,033	428,083	460,766	166,522	260,802	215,271	20,988	511,063	57,533	(121,929)
Interest and rental income	2,055,531	1,006,611	588,917	670,046	174,224	235,246	353,305	535,823	574,899	689,500
Draw from (deposit to) rate stabilization fund	-	-	-	-	-	-	-	-	-	-
Service credits ⁽²⁾	501,671	2,170,367	2,562,986	2,966,465	3,201,951	2,678,999	3,033,487	3,026,911	3,304,911	3,408,238
Miscellaneous	32,586	25,782	58,083	118,203	150,949	154,700	365,808	2,979,500	231,134	1,117,571
Total gross operating revenues	56,722,041	55,851,223	55,999,278	57,891,783	60,990,046	60,582,460	59,577,631	59,478,361	68,857,245	75,683,035
Operating expenses ⁽³⁾	28,359,392	30,219,002	26,638,348	30,755,822	28,530,554	36,598,298	33,773,198	38,722,320	35,508,887	35,685,576
Operating transfers ⁽⁴⁾⁽⁵⁾	482,503	765,000	776,000	1,257,406	838,421	765,000	765,000	765,954	765,000	1,239,943
CIP expenses moved to operating ⁽⁶⁾	3,054,407	1,127,185	-	-	-	-	-	-	-	-
Total operating expenses⁽⁷⁾	31,896,302	32,111,187	27,414,348	32,013,228	29,368,975	37,363,298	34,538,198	39,488,274	36,273,887	36,925,519
Net operating revenues	\$ 24,825,739	\$ 23,740,036	\$ 28,584,930	\$ 25,878,555	\$ 31,621,071	\$ 23,219,162	\$ 25,039,433	\$ 19,990,087	\$ 32,583,358	\$ 38,757,516
1997 Refunding Certificate of Participation ⁽⁸⁾	1,792,258	1,794,688	1,797,013	-	-	-	-	-	-	-
2006 Revenue Certificates of Participation	-	-	-	-	-	-	-	-	-	-
2008 Revenue Certificates of Participation	2,262,117	2,145,966	2,271,034	2,684,462	2,632,225	2,648,783	2,531,179	2,313,857	2,468,593	2,268,298
MID Treatment & Delivery Agreement ⁽⁹⁾	6,672,406	7,455,918	10,794,041	10,888,790	10,889,760	8,885,208	9,930,040	10,203,352	10,202,108	10,208,384
CDWR Loan	263,079	264,719	264,719	255,942	264,719	264,719	262,692	131,322	-	-
ARRA Grant	-	-	-	5,137	36,289	36,103	36,095	36,089	36,084	36,080
Total debt service	\$ 10,989,860	\$ 11,661,291	\$ 15,126,807	\$ 13,834,331	\$ 13,822,993	\$ 11,834,813	\$ 12,760,006	\$ 12,684,620	\$ 12,706,785	\$ 12,512,762
Debt service coverage (14)	2.26	2.04	1.89	1.87	2.29	1.96	1.96	1.58	2.56	3.10

(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. Reduced fiscal year 2016 Operating Expenses as the 131,322 CDWR Loan payment (along with 2 dollars attributed to rounding error) were counted both in Operating Expense and in the debt service section.

(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. Fiscal year 2016 Total operating expense reduced from 39,619,604 to 39,488,274 since the Operating expenses was adjusted (see note 3)

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

(9) Increased fiscal year 2014-15 2008 Revenue Certificates of Participation from 2,501,891 to 2,531,179 to account for actual expenditure instead of the internal transfer.

(10) Debt service payment increased by \$4.1 million in fiscal year 2010-11 due to the expiration of capitalized interest. Fiscal year 2015 MID Treatment & Delivery Agreement increased from 9,905,923 to 9,930,040 to account for actual expenditure.

(11) Reduced fiscal year 2014-15 Operating expenses from 40,349,338 to 33,773,198.

(12) 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. Reduced fiscal year 2015-16 Operating Expenses as the 131,322 Del Estate Water Company loan payment (along with 2 dollars attributed to rounding error) were counted both in Operating Expense and in the Debt service section.

(13) Del Estate Water Company (CDWR) loan payment for fiscal year 2014-15 was reduced from 264,719 to 262,692 and fiscal year 2015-16 reduced from 264,719 to 131,322. Loan repayment was completed in fiscal year 2015-16.

(14) Changed fiscal year 2014-15 ARRA Grant from 36,290 to 36,095 and changed fiscal year 2015-16 ARRA Grant from 36,290 to 36,089. Fiscal Year 2013 rate was reported incorrectly in previous reports.

(15) Fiscal year 2015-16 Debt service coverage increased from 1.55 to 1.57 and fiscal year 2014-15 Debt service coverage increased from 1.45 to 1.96 after above stated changes were made.

(16) The financial figures reported only reflect net operating revenues in the Water Operating Fund.

(17) 2018 Miscellaneous revenues include \$1,048,863 of one-time transfer as result of the dissolution of the Central Stores Fund.

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 2019-23. 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 2019	Fiscal Year Projected 2020	Fiscal Year Projected 2021 (5)	Fiscal Year Projected 2022	Fiscal Year Projected 2023
Charges for services ⁽²⁾	\$ 69,052,601	\$ 78,508,512	\$ 85,574,278	\$ 85,574,278	\$ 85,574,278
Connection charges	1,267,014	1,292,354	1,318,201	1,344,565	1,384,902
Refunds, damages & recoveries	205,550	209,661	213,854	218,131	224,675
Interest and rental income	170,549	171,329	172,125	172,937	178,125
Draw from (deposit to) rate stabilization fund	-	-	-	-	-
Service credits	2,632,089	2,658,410	2,684,994	2,711,844	2,793,199
Miscellaneous	13,000	13,260	47,795	494,561	494,561
GF (parks loan) P/I	53,500	-	-	-	-
Total gross operating revenues	<u>\$73,394,303</u>	<u>\$82,853,526</u>	<u>\$90,011,247</u>	<u>\$90,516,316</u>	<u>\$90,649,740</u>
Operating expenses ⁽³⁾	45,843,403	46,904,990	47,906,202	48,938,241	51,385,153
Operating transfers	3,142,028	765,000	765,000	765,000	765,000
Total operating expenses ⁽⁴⁾	<u>\$48,985,431</u>	<u>\$47,669,990</u>	<u>\$48,671,202</u>	<u>\$49,703,241</u>	<u>\$52,150,153</u>
Net operating revenues	<u>24,408,872</u>	<u>35,183,536</u>	<u>41,340,045</u>	<u>40,813,075</u>	<u>38,499,587</u>
2008 Revenue Certificates of Participation	2,503,979	2,486,377	2,466,438	2,476,598	2,476,598
MID Treatment & Delivery Agreement	10,213,453	10,161,247	10,161,247	10,161,247	10,161,247
CDWR Loan	-	-	-	-	-
ARRA Grant	36,289	36,289	36,289	36,290	36,290
New Future Debt	-	-	-	-	-
Total debt service	<u>12,753,721</u>	<u>\$ 12,683,913</u>	<u>\$ 12,663,974</u>	<u>\$ 12,674,135</u>	<u>\$ 12,674,135</u>
Debt service coverage	1.91	2.77	3.26	3.22	3.04

* Please note that fiscal year 2018 thru fiscal year 2021 projection is derived from the May 2016 Water Rate and Fee Study. Fiscal year 2011-22 has been kept flat until another Water Rate and Fee Study is completed.

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

(3) Operating expenses have assumed an inflationary rate of 2% in 2018-22 thru fiscal year 2021-22.

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

(5) Increase in Debt Service Coverage from fiscal year 2017-18 to fiscal year 2020-21 is due to larger increase in water rates compared to operating expenses. See note (2) and note (3). The increase in water rates is intended to fund pay-as-you-go CIPs not reflected on this table.

Source: City of Modesto.

**CITY OF MODESTO
CITY WATER UTILITY SYSTEM STATISTICS
CONTINUING DISCLOSURE REQUIREMENTS
YEAR ENDED JUNE 30, 2018**

**CITY WATER UTILITY SYSTEM STATISTICS
(Calendar Years 2009 through 2018)**

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Number of Service Accounts	76,899.0	76,508.0	76,983.0	76,788.0	75,357.0	75,006.0	74,665.0	72,825.0	73,135.0	73,423.0
Total Water Production (MG)(1)	23,824.0	21,712.0	20,892.0	21,765.0	21,606.0	20,630.0	17,692.0	15,155.0	15,319.5	16,782.0
Capacity (MGD)(2)	166.0	166.0	166.0	175.2	175.2	175.2	175.2	175.2	175.2	168.0
Peak Daily Distribution (MGD)	113.0	110.0	98.5	97.2	99.8	95.3	84.6	74.7	84.3	77.5
Average Daily Distribution (MGD)	65.3	59.5	57.2	59.5	59.2	56.5	48.5	41.5	42.0	46.0

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

**CITY WATER UTILITY SYSTEM
Service Area Total Production (Billion Gallons)
(Fiscal Years 2009 through 2018)**

Fiscal Year Ended	Well Water	Surface Water	Total
2009	14.14	9.69	23.83
2010	11.32	10.39	21.71
2011	11.72	9.17	20.89
2012	11.57	10.19	21.76
2013	10.62	10.99	21.61
2014	10.72	9.91	20.63
2015	10.63	5.85	16.48
2016	9.22	5.02	14.24
2017	8.63	5.86	14.49
2018	9.82	6.23	16.05

**CITY WATER UTILITY SYSTEM
Average Monthly Water Rates Comparison
Flat Rate (1" Service)
As of July 1, 2017**

City	Flat Rate Typical Home
Fresno (1)	\$ 17.90
Lodi (2)	\$ 26.92
Modesto	\$ 56.23
Stockton (1)	\$ 31.00
Tracy (2)	\$ 24.72
Turlock (1)	\$ 26.50

- (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, 2018

The following table sets forth connection fees for all users except multi-family units by meter size for year 2017-2018:

CITY WATER UTILITY SYSTEM
Connection Fees Comparison
Except Multiple Family Units
(Fiscal Year 2017-2018)

<u>Meter Size</u>	<u>Connection Fees</u>
5/8" meter**	\$2,202
1" meter	\$3,671
1-1/2" meter	\$7,341
2" meter	\$11,746
3" meter	\$25,695
4" meter	\$46,250
6" meter	\$95,437
8" meter	\$176,191
10" meter	\$278,970
12" meter	\$367,065

**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, 2018**

**CITY WATER UTILITY SYSTEM
Sale of Water
(Year Ended June 30, 2018)***

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenues (\$000)										
Residential (Flat Rates)	\$30,585,450	\$21,256,928	\$16,888,754	\$14,464,689	\$12,955,005	\$10,723,594	\$9,037,477	\$7,320,096	\$6,767,446	\$5,506,216
Commercial, Industrial and Municipal (Metered)	20,445,393	28,758,412	33,190,426	37,162,861	42,452,862	44,093,862	43,118,855	40,242,493	51,960,729	60,113,019
Total Water Sales	<u>\$51,030,843</u>	<u>\$50,015,340</u>	<u>\$50,079,180</u>	<u>\$51,627,550</u>	<u>\$55,407,867</u>	<u>\$54,817,456</u>	<u>\$52,156,332</u>	<u>\$47,562,589</u>	<u>\$58,728,175</u>	<u>\$65,619,235</u>

The table below sets forth the adopted single family residential flat rates approved through fiscal year 2017-18.

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

Lot Size	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	Effective July 1, 2016	Effective July 1, 2017
0-5,000 sq. ft. lot	\$37.23	\$37.23	\$38.01	\$38.69	\$39.89	\$40.81	\$40.81	\$40.81	\$47.38	\$48.77
5,001-7,000 sq. ft. lot	42.31	42.31	43.20	43.98	45.34	46.38	46.38	46.38	54.72	56.23
7,001-11,000 sq. ft. lot	50.21	50.21	51.26	52.18	53.80	55.04	55.04	55.04	69.22	70.98
11,001-17,000 sq. ft. lot	53.30	53.30	54.42	55.40	57.12	58.43	58.43	58.43	90.88	93.00
over 17,000 sq. ft. lot	62.66	62.66	63.98	65.13	67.15	68.69	68.69	68.69	101.80	104.10

(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, 2018

The following table sets forth the adopted monthly service charge and volume charge for commercial accounts through fiscal year 2017-18.

CITY WATER UTILITY SYSTEM
Water Rates and Charges
Commercial Accounts

	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	Effective July 1, 2016	Effective July 1, 2017
Volume-based Rate (\$/hcf)	\$1.28	\$1.28	\$1.33	\$1.33	\$1.37	\$1.40	\$1.40	\$1.40	\$1.79	\$1.82
Fixed Monthly Meter Charge (in addition to volume-based charges)										
5/8"-3/4" meter	\$13.71	\$13.71	\$14.00	\$14.25	\$14.69	\$15.03	\$15.03	\$15.03	\$20.79	\$21.47
1" meter	19.45	19.45	19.86	20.22	20.85	21.33	21.33	21.33	29.30	30.39
1-1/2" meter	33.66	33.66	34.37	34.99	36.07	36.90	36.90	36.90	50.58	52.71
2" meter	50.79	50.79	51.86	52.79	54.43	55.68	55.68	55.68	76.11	79.49
3" meter	96.51	96.51	98.54	100.31	103.42	105.80	105.80	105.80	156.98	164.30
4" meter	147.88	147.88	150.99	153.71	158.48	162.13	162.13	162.13	276.14	289.28
6" meter	290.51	290.51	296.61	301.95	311.31	318.47	318.47	318.47	561.28	588.33
8" meter	461.75	461.75	471.45	479.94	494.82	506.20	506.20	506.20	1,029.42	1,079.32
10" meter	661.58	661.58	675.47	687.63	708.95	725.26	725.26	725.26	1,625.23	1,704.21
12" meter	1,232.31	1,232.31	1,258.19	1,280.84	1,320.55	1,350.92	1,350.92	1,350.92	2,135.93	2,239.84

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

**CITY OF MODESTO
BOND RATINGS
FISCAL YEAR ENDED JUNE 30, 2018**

<u>Bonds</u>	<u>Moody's Rating</u>	<u>Standard & Poor's Rating</u>	<u>Fitch Rating</u>
1993 Golf Certificates of Participation			
Wastewater Revenue Bonds, Series 2006A	A1		AA-
2008 Lease Revenue Bonds		A/A-1	A+
2008 Water Certificates of Participation	Aa3	AA+/A-1	
Wastewater Revenue Bonds, Series 2018A		AA+/A-1+	

Sources: www.moody.com
www.standardandpoors.com
www.Fitchratings.com

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