

CITY OF
Modesto, California

COMPREHENSIVE ANNUAL FINANCIAL REPORT
Fiscal Year Ended June 30, 2006

Prepared by
Finance Department

CITY OF MODESTO
 June 30, 2006
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INTRODUCTORY SECTION



CITY of MODESTO

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December 22, 2006

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

The City of Modesto City Charter and Municipal Code require that a complete financial statement and report on the finances of the City be submitted to the City Council at the end of each fiscal year. This report is being submitted to fulfill that requirement for the fiscal year ended June 30, 2006.

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

The Charter also requires an annual audit by an independent certified public accountant selected by the City Council. The accounting firm of Maze & Associates was selected in 2003 to perform the City's annual financial audits for a period of three years. In 2006, this contract was extended for one year. The auditors have issued an unqualified ("clean") opinion on the financial statements for the year ended June 30, 2006, which is presented on page 3. In addition to meeting the City Charter audit requirements, the audit was also designed to meet the requirements of the federal Single Audit Act of 1996 and related OMB Circular A-133. The auditor's reports related specifically to the Single Audit will be presented separately at a later date.

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

City of Modesto Profile

Modesto is a dynamic city located in the heart of California's San Joaquin Valley and is the retail, service and financial center of Stanislaus County. The City currently occupies a land area of approximately 36 square miles and serves a population of over 208,000. Periodically, as allowed by state statute, the City extends its corporate limits by annexation when deemed appropriate by the City Council.

Incorporated in 1884, Modesto adopted its City Charter on March 12, 1951, and has operated under the council- manager form of government since that date. Under this form of government, policy-making and legislative authority are vested in an elected council consisting of the Mayor

and six members. The Modesto City Council is elected by chair on a non-partisan basis, meaning 6 members represent the entire City rather than specific geographical areas within the City's boundaries. The Mayor is elected separately on a non-partisan basis. The Mayor and City Council are responsible for passing ordinances, adopting and amending the operating and capital budgets, appointing various committee members, and hiring the City Manager, City Attorney, and City Clerk/Auditor. The City Manager of Modesto is charged with carrying out the policies and ordinances of the City Council, overseeing the day-to-day operations of the City, and for appointing the Deputy City Manager and department heads, with general responsibilities for the Economic Development and Health, Safety & Culture components of the City's Vision. Support services departments, like Finance, Personnel and Information Technology report to the City Manager.

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

The City's financial reporting entity includes all funds and activities of the City of Modesto as the primary government and its component units, which are legally separate entities that operate under the auspices of the City and provide services that supplement City services. The City's component units are blended into the City's funds because their governing boards consist of all seven members of the City Council. These component units are the Modesto Municipal Sewer District No. 1, the Redevelopment Agency of the City of Modesto, the Modesto Public Financing Authority and the City of Modesto Community Facilities Districts.

The annual operating budget serves as the foundation for Modesto's financial planning and control. The proposed budget is adopted annually prior to July 1, by passage of a resolution. The Council's legally adopted budget level is at the fund level. During the fiscal year, the budget may be modified. The City Council has also adopted fiscal policies that delegate budget control authority to the Council, City Manager and the Finance Director.

Local economy

Modesto area employment in retail and manufacturing remained strong over the past year. Retail sector jobs account for one-sixth of Stanislaus County's wage and salary workers with the manufacturing sector trailing close behind. Stanislaus County consistently ranks among the top 10 California counties in terms of annual agricultural production values. The county's leading commodities are milk, almonds and poultry.

The unemployment rate has remained fairly steady for the last several years and is approximately 7%. Just over 10 years ago the unemployment rate was 15%. Since 2000, over 8,200 jobs have been added to the local economy, representing cumulative growth of more than 5%. Industries recording the most growth were: educational and health services; retail sales, and construction. Employees within the community enjoy an average commute time of 26 minutes.

Building permit activity has boomed over the past decade. In fiscal year 1996, the City issued 4,186 permits with estimated cost of construction valued at \$114 million. Permit activity peaked in 2001, when 7,155 permits with construction valued at \$477 million were issued, and activity has remained above 5,000 permits annually since 2001. During fiscal year 2006, 5,968 permits were issued valued at \$298 million.

Since 2000, the City's population grew 10.5% to 208,107. This population growth is largely attributable to the relatively low cost of housing compared to the Bay Area and to the growth of employment within the region.

During the past ten years, public safety costs have risen not only in amount, but also as a percentage of total expenditures. Public safety represented 69.2% of total General Fund expenditures in 2006, compared with 62.4% ten years ago. Expenses for other governmental functions have remained steady or decreased compared to total fund expenses during the same time period. Increased population, as well as higher salaries and charges for retirement, have caused this relative increase in public safety charges.

Long-Term Financial Planning

In Fiscal Year 2003, the City Council adopted a policy of maintaining at least 8% of general fund expenditures in reserve. At the end of Fiscal Year 2006, the general fund unreserved and undesignated balance was \$14.7 million representing 12.93% of total general fund outflows (expenditures and transfers out).

State Impacts

Between Fiscal Years 1991 and 2005, the State of California diverted \$36.6 million in local revenues from the City of Modesto into its own coffers. In 2005 the state enacted new legislation known as the Triple-Flip. As the name implies, a series of revenue exchanges take place leaving the City with 25% less sales tax revenue and more property tax revenue in its place. A similar exchange takes place leaving the City with property tax revenue in place of 67% of the In-Lieu Vehicle License Fees. These exchanges not only affect the character and amount of the revenues received by the City but also affect City cash flow, because a monthly stream of payments has been replaced by semi-annual payments.

Important Financial Policies

In 2003, the City Council adopted a series of financial policies that direct how the City's financial business is conducted. In addition to the 8% General Fund reserve level, these policies include direction on departmental annual budget savings, tracking of all transfers to the Redevelopment Agency for future payback, capital budgeting, interfund loan interest rates and investment pool interest allocation. These policies were reviewed and revised at the start of the 2007 Fiscal Year.

Following the implementation of cost reduction strategies which included a hiring "chill" during the 2004-2005 Fiscal Year, the City Council relaxed somewhat the limitation on new appropriations and lifted the hiring "chill" during the current fiscal year.

Major Initiatives

During Fiscal Year 2005, California voters approved Proposition 1A. This initiative places stricter controls on the state's ability to divert local revenue. While this protection is seen as beneficial to local government, local revenues are still affected by the Triple-Flip component of the legislation described above. In Fiscal Year 2006, the last payment to be made under the revised legislation that shifted local property tax dollars to the Education Revenue Augmentation Fund was made.

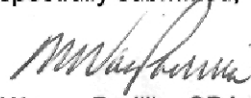
Awards and Acknowledgments

For the twenty-second consecutive year, the Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Modesto for its comprehensive annual financial report for the fiscal year ended June 30, 2005. The report also received the Outstanding Award for Financial Reporting from the California Society of Municipal Finance Officers (CSMFO). To receive this recognition, the City must publish an easily readable and efficiently organized report. The report must satisfy both generally accepted accounting principles and applicable legal requirements. Both awards are valid for a period of one year. Effective with the fiscal year ending June 30, 2006, the CSMFO changed its program and will accept only reports not submitted to GFOA. We

believe that the current Comprehensive Annual Financial Report continues to meet the requirements of the program, and it will be submitted to the GFOA to determine its eligibility.

The Comprehensive Annual Financial Report is the result of the cooperative work of many people. We wish to convey our appreciation to all members of the Finance Department team who assisted and contributed to its successful completion. In particular, we commend the Accounting Division staff responsible for the preparation of the report.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "M. Wayne Padilla".

M. Wayne Padilla, CPA
Director of Finance

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Modesto
California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2005

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



President

Executive Director

CITIZENS OF MODESTO

CITY COUNCIL

Jim Ridenour, Mayor

Bob Dunbar Janice Keating
Brad Hawn Garrad Marsh
Kristin Olsen Will O'Bryant

VOTERS ELECT

City Attorney
Susana Alcalá Wood

City Manager
George Britton

City Clerk & Auditor
Jean Morris

*MAYOR AND
CITY COUNCIL
APPOINT*

Deputy City
Manager
Judith Ray

*CITY MANAGER
APPOINTS DIRECTORS*

Finance
Wayne Padilla
Director

Personnel
Robin
Renwick
Director

Public Works
Nick Pinhey
Director

Information
Technology
Gary Cook
Director

Police
Roy W.
Wasden
Chief

Parks,
Recreation &
Neighborhoods
Jim Niskanen
Director

Community
& Economic
Development
Jim Niskanen
Interim Director

Fire
Jim Miguel
Chief

Citizens Advisory Boards, Commissions and Committees

Airport Advisory Committee
Board of Building Appeals
Board of Zoning Adjustments
Charter Review Committee
Citizen Housing & Community Development
Citizens Advisory Committee on Recycling
Citizens Redevelopment Advisory Committee
Community Qualities Forum
Culture Commission
Disabled Access Appeals Board

Downtown Improvement District Advisory Board
Equal Opportunity/Disability Commission
Golf Courses Committee
Housing Rehabilitation Loan Committee
Human Relations Commission
Landmark Preservation Commission
Local Cable Programming Committee
Planning Commission
Tuolumne River Regional Park Citizens Advisory Committee
Youth Commission

*ALSO
APPOINTED BY
THE MAYOR
AND CITY
COUNCIL*

FINANCIAL SECTION

**INDEPENDENT AUDITOR'S REPORT
ON BASIC FINANCIAL STATEMENTS**

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To the Honorable Mayor and Members of the City Council
City of Modesto, California

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Modesto as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in the United States of America and the standards for 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 as to whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

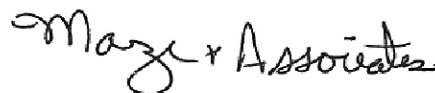
In our opinion the basic financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Modesto as of June 30, 2006 and the respective changes in the financial position and cash flows, where applicable, thereof for the year then ended, in conformity with generally accepted accounting principles in the United States of America.

In accordance with Government Auditing Standards, we have also issued reports dated December 15, 2006 on our consideration of the City's internal control structure and on its compliance with laws and regulations.

Management's Discussion and Analysis and the Budget and Actual statement for the General Fund are not a required part of the basic financial statements but are supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit this information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The Combining and Individual Fund Statements and Schedules listed in the Table of Contents are presented for purposes of additional analysis and are not a required part of the basic statements of the City of Modesto. This information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The introductory section and statistical section listed in the Table of Contents have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.



December 15, 2006

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Management's Discussion and Analysis

This section of the City of Modesto (City) comprehensive annual financial report presents a discussion and analysis of the City's financial performance during the fiscal year ended June 30, 2006. 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 2006 fiscal year by \$702,468,163 (*total net assets*). Of this amount, \$64,246,970 (*unrestricted net assets*) may be used to meet ongoing obligations to citizens and creditors, \$120,937,678 is restricted for a specific purpose (*restricted net assets*), and \$517,283,315 is invested in capital assets, net of related debt.
- The City's total net assets increased by \$69,959,566. Approximately sixty-four percent of this increase is attributable to governmental activities.
- As of June 30, 2006, the City's governmental funds reported combined fund balances of \$149,662,117, an increase of \$30,620,541 in comparison with the prior year. Approximately 71% of the combined fund balances, \$106,790,850 is available to meet the City's current and future needs (*unreserved fund balance*).
- At the end of the fiscal year, the General Fund fund balance was \$23,309,515, or 22% of total General Fund expenditures. Of this, \$2.7 million is reserved for encumbrances and non-current assets, and \$5.9 million is designated for specific purposes, including \$5.8 million appropriated in the fiscal year 2006-07 budget. The unreserved/undesignated balance of \$14,706,248 represents 14.1% of total General Fund outflows. The City Council has adopted a goal of maintaining an 8% reserve level.
- The City's total long-term debt showed a net decrease of \$2,446,523 in comparison with the prior year. The net decrease resulted from updated actuarial valuations for the insurance estimates (\$2.4 million increase) and normal decreases due to payments of principal (\$3.7 million), combined with a decrease in compensated absences of approximately \$800,000.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

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

Management's Discussion and Analysis (continued)

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, the Capital Grants Fund and the Capital Facilities Fund. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* elsewhere in this report.

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

Proprietary funds are maintained two ways. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its Water, Sewer, Parking, Storm Drain, Airport, Bus, Golf and Community Center operations. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its Fleet Management, Central Services, Information and Technology Services, Insurance, Employee Benefits Management and Building Services functions. Because these services predominantly benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements. Internal services benefiting business-type functions have been allocated as "internal balances".

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

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

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

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

Notes to Basic Financial Statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes can be found on pages 29-53 of this report.

Management's Discussion and Analysis *(continued)*

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

Required supplementary information can be found on pages 56-58 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 62 –98 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$702,468,163 at the close of the most recent fiscal year.

Net Assets

	Governmental activities		Business-type activities		Total	
	2006	2005	2006	2005	2006	2005
Current and other assets	235,175,812	\$197,507,688	75,157,357	\$54,304,523	310,330,169	\$251,812,211
Capital assets	362,971,175	355,069,868	284,722,417	281,752,904	647,693,592	636,822,772
Total assets	598,143,987	552,577,556	359,879,774	336,057,427	958,023,761	888,634,983
Current and other liabilities	15,574,156	14,240,830	6,429,320	5,886,911	22,003,476	20,127,741
Long-term liabilities	167,533,635	167,935,092	66,018,487	68,063,553	233,552,122	235,998,645
Total liabilities	183,107,791	182,175,922	72,447,807	73,950,464	255,555,598	256,126,386
Net assets:						
Invested in capital assets, net of related debt	296,401,824	288,391,776	220,881,691	216,558,150	517,283,515	504,949,926
Restricted net assets	120,937,678	88,725,341			120,937,678	88,725,341
Unrestricted net assets	(2,303,306)	(6,715,483)	66,550,276	45,548,813	64,246,970	38,833,330
Total net assets	415,036,196	\$370,401,634	287,431,967	\$262,106,963	702,468,163	\$632,508,597

The largest portion of the City's net assets, \$517,283,515 (74 percent), reflects its investment in capital assets (e.g. land, buildings, improvements, furnishings and equipment, buses and fare boxes, pipelines, and infrastructure), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Another significant portion of the City's net assets represents *unrestricted net assets* of \$64,246,970 (9 percent), which may be used to meet the City's ongoing obligations to citizens and creditors.

The remaining balance of the City's net assets of \$120,937,678 (17 percent) represents resources that are subject to external restrictions on how they may be used.

At the end of the 2006 fiscal year, the City reported positive balances in all three categories of net assets for the City as a whole.

The City's net assets increased by \$69,959,566 during the current fiscal year. Approximately sixty-four percent of this increase is attributable to governmental activities.

Management's Discussion and Analysis *(continued)*

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

	Changes in Net Assets					
	Governmental activities		Business-type activities		Total	
	2006	2005	2006	2005	2006	2005
Revenues:						
Program revenues:						
Charges for services	\$ 39,789,386	\$ 43,486,604	\$ 79,482,231	\$ 67,250,435	\$ 119,271,617	\$ 110,737,039
Operating grants and contributions	11,892,511	13,736,453	8,317,889	7,525,367	20,210,400	21,261,820
Capital grants and contributions	38,484,548	22,799,320	10,467,873	8,498,408	48,952,421	31,297,728
General revenues:						
Taxes	52,816,226	46,294,592	207,749	260,064	53,023,975	46,554,656
Intergovernmental revenue not restricted for specific purposes	48,685,311	44,695,547			48,685,311	44,695,547
Unrestricted investment earnings	3,255,401	4,463,080	2,504,291	1,819,870	5,759,692	6,282,950
Settlements and recoveries			3,784,295	7,396,627	3,784,295	7,396,627
Miscellaneous	2,827,161	3,792,340			2,827,161	3,792,340
Total revenues	<u>197,750,544</u>	<u>179,267,936</u>	<u>104,764,328</u>	<u>92,750,771</u>	<u>302,514,872</u>	<u>272,018,707</u>
Expenses:						
General government	15,529,735	15,273,174			15,529,735	15,273,174
Community development	12,241,213	14,105,411			12,241,213	14,105,411
Highways and streets	26,025,311	23,721,458			26,025,311	23,721,458
Public works	6,491,062	5,263,984			6,491,062	5,263,984
Parks and recreation	11,733,698	13,334,330			11,733,698	13,334,330
Public safety	74,500,043	71,239,341			74,500,043	71,239,341
Interest on long-term debt	5,178,130	4,987,911			5,178,130	4,987,911
Parking			1,287,450	1,162,479	1,287,450	1,162,479
Water			29,989,775	30,691,348	29,989,775	30,691,348
Sewer			22,716,100	22,422,268	22,716,100	22,422,268
Storm drain			5,795,746	6,111,317	5,795,746	6,111,317
Compost			941,919		941,919	
Airport			1,342,645	1,131,889	1,342,645	1,131,889
Bus			12,119,311	11,074,907	12,119,311	11,074,907
Golf			2,461,470	2,354,759	2,461,470	2,354,759
Community center			2,465,644	2,323,169	2,465,644	2,323,169
Total expenses	<u>151,699,192</u>	<u>147,925,609</u>	<u>79,120,060</u>	<u>77,272,136</u>	<u>230,819,252</u>	<u>225,197,745</u>
Increase in net assets before transfers and special item	46,051,352	31,342,327	25,644,268	15,478,635	71,695,620	46,820,962
Transfers	(1,416,790)	(1,306,914)	1,416,790	1,306,914		
Special item			(1,736,054)	(1,938,606)	(1,736,054)	(1,938,606)
Change in net assets	44,634,562	30,035,413	25,325,004	14,846,943	69,959,566	44,882,356
Net assets - beginning	<u>370,401,634</u>	<u>340,366,221</u>	<u>262,106,963</u>	<u>247,260,020</u>	<u>632,508,597</u>	<u>587,626,241</u>
Net assets - ending	<u>\$415,036,196</u>	<u>\$370,401,634</u>	<u>\$287,431,967</u>	<u>\$262,106,963</u>	<u>\$702,468,163</u>	<u>\$632,508,597</u>

Management's Discussion and Analysis (continued)

Governmental activities. Governmental activities increased the City's net assets by \$44,634,562, accounting for 64 percent of the total growth in net assets of the City. Charges for services are down about \$3.7 million, mainly in Community Development and Highways and Streets due to lower building and construction revenues. Taxes (mainly Utility Users, Property and Business License taxes) increased about \$6.3 million over 2005, due to rising tax *bases*; tax *rates* remained the same. Intergovernmental revenues (primarily sales tax) were up about \$4.0 million. However, the largest increase was in capital grants and contributions, with \$30 million coming from Community Facilities District (CFD) bonds issued in 2006. These CFD bonds have no City commitment, so the debt is not reported as long-term debt and the proceeds are recorded as revenues in these financial statements (see Note III. B).

Expenses in total are up \$3.8 million, or .3%, due to salary and wage increases (3-3.5%) and increased public retirement funding rates. Highways and Streets also included large projects for resurfacing Briggsmore Avenue from Oakdale to Claus Roads, and the Pelandale Ave./SR99 interchange.

Business-type activities. Business-type activities increased the City's net assets by \$25,325,004. As detailed in the schedule on page 12, the Water, Sewer, Storm Drain, Compost and Airport enterprises posted net incomes during the period. Net losses were experienced by Parking, Bus, Golf and Community Center operations. Depreciation expense, which is the major cause of these net losses, is not included in these funds' budgets or revenue-setting processes.

Charges for services are up about \$12.2 million, due in part to a 20% City Council-approved water rate increase that became effective on July 1, 2005. Settlements and recoveries revenue decreased \$3.6 million, as PCE settlements slowed pending the outcome of litigation in 2006 (see Note II. L). Finally, expenses across the board are up, primarily due to general increases in salaries and benefits, and the rise in utilities, fuel and materials costs.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

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

At June 30, 2006, the City's governmental funds reported combined fund balances of \$149,662,117, an increase of \$30,620,541 from the prior year. Approximately 71% of the combined fund balances \$106,790,850 constitutes *unreserved fund balance*, which is available to meet the City's current and future needs. The remainder of fund balance is *reserved* to indicate that it is *not* available for new spending because it has been committed: 1) to pay debt service (8,255,446); 2) to reflect advances to other funds, loans receivable and deposits that are long-term that do not represent available spendable resources (\$15,253,461); 3) to liquidate contractual commitments of the period (\$15,116,878); and 4) to meet Redevelopment Agency low and moderate income housing set-aside requirements (\$4,245,482).

The General Fund is the chief operating fund of the City. At June 30, 2006, unreserved fund balance of the General Fund was \$20,607,134 while total fund balance was \$23,309,515. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 20 percent of total fund expenditures, while total fund balance represents 22 percent of that same amount. The prior year ratios were 18% and 20%, respectively. The use of the fund balance reserves was planned and budgeted during the year.

Revenues of governmental funds totaled \$194,420,231 in fiscal year 2005-2006, which represents an increase of 14.3% from fiscal year 2004-2005.

Expenditures of governmental funds totaled \$161,262,932 in fiscal year 2005-2006, representing an increase of 3.5% over the prior year.

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

Management's Discussion and Analysis *(continued)*

Revenues by Source	Revenues Classified by Source – Governmental Funds					
	FY 2006		FY 2005		Increase (decrease)	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent Change
Taxes	52,816,596	27.2%	\$ 46,295,678	27.2%	6,520,918	14.1%
Licenses and permits	146,854	0.1%	128,754	0.1%	18,100	14.1%
Intergovernmental	64,759,658	33.3%	73,889,063	43.5%	(9,129,405)	-12.4%
Charges for services	37,802,149	19.4%	41,660,016	24.5%	(3,857,867)	-9.3%
Special assessments	65,909	0.0%	107,696	0.1%	(41,787)	-38.7%
Interest and rent	3,755,169	1.9%	3,146,452	1.9%	608,717	19.3%
Net increase (decrease) in fair value	103,036	0.1%	186,515	0.1%	(83,479)	-44.8%
Fines and forfeits	1,675,926	0.9%	1,646,472	1.0%	29,454	1.8%
Contribution from property owners	30,473,773	15.7%			30,473,773	100.0%
Miscellaneous	2,821,161	1.5%	2,991,745	1.7%	(170,584)	-5.7%
Total	\$194,420,231	100.0%	\$170,052,391	100.0%	\$24,367,840	14.3%

- Taxes –Utility Users taxes, Property taxes, Redevelopment Agency Tax Increment (an allocation of property taxes) and Business license taxes all increased over the prior year (\$2, \$3.1, \$6, and \$6 million, respectively), while the other tax categories showed only slight increases.
- Intergovernmental – State sales taxes and motor vehicle license fees make up over half of these revenues. Sales tax was up \$3 million, but vehicle license fees were down \$1.4 million because 2005 included a one-time receipt of \$3.2 million due from the State of California for payments withheld in prior years. The balance of the overall decline is due to lower grant revenues because several large capital projects were completed in the prior year.
- Charges for services – Included in this category are the Capital Facilities and Community Facility District Fees charged to mitigate the impact of new development on City infrastructure needs. These fees decreased \$3.8 million from the prior year, due to an overall slowing of new construction.
- Contributions from property owners – This source is new this year, and represents the proceeds of bonds issued by the Community Facility Districts which will be repaid by district charges to property owners. The City has no commitment for the repayment of these bonds.

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

Expenditures by Function	Expenditures By Function Governmental Funds					
	FY 2006		FY 2005		Increase/(Decrease)	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent Change
General government	14,111,535	8.8%	\$ 11,819,603	7.6%	2,291,932	19.4%
Community development	12,296,072	7.6%	12,832,640	8.2%	(536,568)	-4.2%
Highways and streets	14,357,041	8.9%	12,152,087	7.8%	2,204,954	18.1%
Public works	5,647,023	3.5%	5,053,030	3.2%	593,993	11.8%
Parks and recreation	11,662,263	7.2%	12,021,937	7.7%	(359,674)	-3.0%
Public safety	74,527,875	45.9%	70,882,176	45.5%	3,645,699	5.1%
Capital outlay	21,563,774	13.3%	24,412,735	15.7%	(2,848,961)	-11.7%
Debt Service-principal retirement	1,901,827	1.2%	1,666,764	1.1%	235,063	14.1%
Debt Service-interest charges	4,576,780	2.8%	4,425,980	2.8%	150,800	3.4%
Debt Service-other	618,742	0.4%	553,645	0.4%	65,097	11.8%
Total	\$161,262,932	100.0%	\$155,820,597	100.0%	\$5,442,334	3.5%

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

Management's Discussion and Analysis *(continued)*

- General government –Expenditures increased about \$2.3 million, or 19.4% over the prior year. \$1.2 million was for outside legal counsel for new litigation and \$900k was an allocation to the workers compensation Insurance internal service fund.
- Highways and streets – Expenditures increased \$2.2 million or 18.1%, including \$1.2 million in the Capital Facility Fees fund.
- Public safety –Expenditures increased about \$3 million, or 5.1% over the prior year. An increase in employer-paid PERS retirement contributions and cost of living increases contributed significantly toward this increase.
- Capital outlay –The decrease of \$2.8 million reflects the completion of the replacement of the 9th Street Bridge and Kansas/Needham Overpass in the prior year.

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

	Other Financing Sources (Uses)				
	<u>Governmental Funds</u>				
	FY 2006	FY 2005	Increase/(Decrease)		
		Amount	Percent		
Transfers in	\$17,724,718	\$17,962,442	(237,724)	-1.3%	
Transfers out	(20,267,476)	(19,644,937)	(622,539)	-3.2%	
Sale of assets	6,000	928,595	(922,595)	100.00%	
Net financing sources (uses)	<u>\$(2,536,758)</u>	<u>\$ (753,900)</u>	<u>\$(1,782,858)</u>	<u>236.5%</u>	

- Transfers - The City uses interfund transfers to: (1) move revenues from the funds that collect them in accordance with statutory and/or budgetary requirements, (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.

The net transfers *from* governmental funds for 2006 were \$2,543,028, compared to \$1,682,495, in the prior year. This net transfer is *to* the proprietary funds, and consists mainly of the operating subsidy to Community Center operations and funding to the Fleet internal services fund for vehicle and equipment replacement.

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

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

	Statement of Revenues, Expenditures, and Changes in Fund Balances							
	<u>Governmental Funds</u>							
	<u>Major Funds</u>				<u>Nonmajor Funds</u>			
	General Fund	Capital Grants Fund	Capital Facility Fees Fund	Community Facility Districts	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	Total
Revenues	\$114,810,175	\$2,854,861	\$13,208,912	\$35,553,805	\$22,508,256	\$ 2,763,248	\$2,720,974	\$194,420,231
Expenditures	(104,287,942)	(6,917,486)	(9,334,329)	(6,758,111)	(26,308,813)	(1,438,612)	(6,217,639)	(161,262,932)
Other financing sources/ (uses), net	(7,627,777)	2,295,683	10,494	(234,194)	717,011	(1,590,073)	3,892,098	(2,536,758)
Net change in fund balances	2,894,456	(1,766,942)	3,885,077	28,561,500	(3,083,546)	(265,437)	395,433	30,620,541
Fund balance July 1	20,415,059	(2,669,258)	38,222,036	13,573,867	30,525,477	11,114,382	7,860,013	119,041,576
Fund balance June 30	<u>\$23,309,515</u>	<u>\$(4,436,200)</u>	<u>\$42,107,113</u>	<u>\$42,135,367</u>	<u>\$27,441,931</u>	<u>\$10,848,945</u>	<u>\$8,255,446</u>	<u>\$149,662,117</u>

Management's Discussion and Analysis *(continued)*

The fund balance of the City's General Fund increased by \$2,894,456 during the fiscal year. Total revenues increased \$8.4 million, while expenditures increased \$4.7 million over the prior year.

The Capital Grants Fund's fund balance deficit is due to the timing difference that exists between the realization of expenditures on reimbursable grant projects and the actual receipt of funding from the granting agency.

Capital Facility Fee revenues decreased \$1.6 million from the prior year, while expenditures on capital projects increased by \$5.6 million. Yet, revenues still exceeded expenditures by \$3.9 million.

Community Facility Districts became a major fund in 2006 because of the receipt \$30 million from bonds issued during the year, as previously discussed. Regular CFD charges were \$1.4 million less than 2005, but expenditures increased almost \$2 million. Significant expenditures on capital projects are expected to occur within the next 3 years.

Proprietary funds. The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

The following table shows actual revenues, expenses and results of operations of enterprise funds for the current fiscal year:

	Major Funds		Nonmajor Funds							Total
	Water	Sewer	Parking	Storm Drain	Compost	Airport	Bus	Golf	Community Center	
Operating revenues	\$42,639,348	\$23,083,280	\$1,176,061	\$5,277,304	\$1,317,105	\$577,688	\$2,645,622	\$2,222,738	\$543,085	\$79,482,231
Operating expenses	(28,672,955)	(20,809,387)	(1,279,104)	(5,889,410)	(950,637)	(1,326,453)	(12,171,868)	(2,159,640)	(2,484,552)	(75,744,006)
Operating income (loss)	13,966,393	2,273,893	(103,043)	(612,106)	366,468	(748,765)	(9,526,246)	63,098	(1,941,467)	3,738,225
Non-operating revenues (expenses), net	318,834	1,007,528	5,448	22,010	(9,189)	419,117	8,655,787	(228,937)	502,918	10,693,516
Income (loss) before capital contributions, transfers and special items	14,285,227	3,281,421	(97,595)	(590,096)	357,279	(329,648)	(870,459)	(165,839)	(1,438,549)	14,431,741
Contributions, transfers and special items	3,345,787	2,215,159		1,327,331	696,690	1,327,301	467,053	65,288	704,000	10,148,609
Net income (loss)	\$17,631,014	\$5,496,580	\$ (97,595)	\$737,235	\$1,053,969	\$997,635	\$ (403,406)	\$ (100,551)	\$ (734,549)	\$24,580,350

The Water, Sewer, Storm Drain, Compost and Airport enterprises posted net incomes during the period. It is important to note that while the Water and Sewer funds show rather healthy operating results, capital improvement expenditures and debt service principal payments incurred during the year are not reflected in the expenditure totals shown above. Net losses were experienced by the other enterprise funds. Golf and Community Center normally receive annual operating subsidies from the General fund, but these subsidies do not cover depreciation expenses, resulting in net losses overall. Also, the Golf fund did not receive a subsidy in 2006. Revenues in the Water utility fund rose during the year due to an average 15% rate increase, as well as normal growth in the customer base. Compost operations were previously part of the Sewer enterprise fund because of the use of bio-solids in the compost mixture. Since that nexus has been significantly reduced, compost operations are now reported as a stand-alone enterprise fund.

GENERAL FUND BUDGETARY HIGHLIGHTS

Budget to actual information for the major governmental funds are presented as Required Supplementary Information, beginning on page 56 of this report.

While the City Council amended the budget several times, the differences between the original budget and the final amended budget for the General Fund were relatively minor. The estimated revenues increased about \$7.6 million,

Management's Discussion and Analysis *(continued)*

while total appropriations were increased \$4.6 million, or about 4.4%. These amendments, generally, were to adjust the actual beginning balances and carryovers after closing the prior fiscal year, and to reflect adjustments to current estimates based on the periodic monitoring of revenue and expenditures throughout the year.

Revenues came in \$4 million more than estimates, primarily in Motor Vehicle License fees (\$3 million) due to budgetary uncertainties with the State's "triple flip" restructuring. Also, interest revenues came in about \$700,000 more than estimated, due to higher returns on investments.

Expenditures, overall, were \$3.3 million under budget, primarily due to efforts of departments to realize savings, and certain purchases being deferred to future periods.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital assets

The City's investment in capital assets for its governmental and business-type activities as of June 30, 2006, amounted to \$636,822,772 (net of accumulated depreciation). The total increase in the City's investment in capital assets for the current period was 1.7 percent.

Capital assets, net of depreciation, for the governmental and business-type activities are presented below to illustrate changes from the prior year:

	Governmental activities		Business-type activities		Total		Increase, (Decrease) Percent Change
	2006	2005	2006	2005	2006	2005	
Land	\$ 22,982,481	\$22,081,279	\$26,539,639	\$26,001,514	\$49,522,120	\$48,082,793	3.0%
Buildings	21,142,099	19,313,523	48,322,570	50,762,320	69,464,669	70,075,843	-0.9%
Improvements	16,668,974	16,990,103	59,863,277	64,197,749	76,532,251	81,187,852	-5.7%
Furnishings and equipment	8,059,702	7,550,416	2,893,008	3,154,512	10,952,710	10,704,928	2.3%
Equipment pool	15,232,410	14,245,320			15,232,410	14,245,320	6.9%
Streets	234,966,127	233,954,645			234,966,127	233,954,645	0.4%
Signalization	6,583,733	6,700,751			6,583,733	6,700,751	-1.7%
Bridges	25,239,107	25,024,283			25,239,107	25,024,283	0.9%
Buses and fare boxes			8,197,997	8,914,629	8,197,997	8,914,629	-8.0%
Pipelines			110,263,919	107,571,640	110,263,919	107,571,640	2.5%
Construction in progress	12,096,542	9,209,548	28,642,007	21,150,540	40,738,549	31,360,088	34.2%
Total	\$362,971,175	\$355,069,868	\$284,722,417	\$281,752,904	\$647,693,592	\$636,822,772	1.7%

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

- Construction in progress – Work continued on the Virginia Corridor Pedestrian/Bicycle trail on the old Union Pacific railroad right of way, as well as other parks development such as Merle Park, Maddux Youth Center and a joint fire/police/recreation facility at Marshall Park.
- Equipment – The Fire department purchased a new ladder truck costing \$700,000.

The City's infrastructure assets are recorded at historical cost in the government-wide financial statements. Depreciation expense is recorded using the straight-line method, based on estimated useful life of the asset. Additional information on the City's capital assets can be found in note II.B on pages 39-40 of this report.

Long-term debt

At June 30, 2006, the City had total long-term liabilities outstanding of \$233,552,122, net of unamortized discounts and deferred amounts on refunding, as compared to \$235,998,645 in the prior year. This amount was comprised of \$62,505,000 of lease revenue bonds, \$46,275,078 of certificates of participation, \$36,842,020 of revenue bonds payable, \$61,616,953 of estimated compensated absences, \$16,331,110 of claims liability, \$2,601,674 of loans payable, \$2,177,761 of developer advances, \$667,492 of capital leases, and \$4,535,034 of notes payable. During the year, retirement of debt and other reductions amounted to \$18,832,635, and new debt and other additions totaled \$16,386,112. The additions were related to new estimates for compensated absences and claims liabilities (\$8.9 and

Management's Discussion and Analysis *(continued)*

\$7.5 million, respectively). Additional information on the City's long-term debt can be found in note II.C on pages 39-43 of this report.

Modesto maintains an Employee Benefits internal service fund (EBF) to pay a portion of retiree health benefits and other employee related expenses. While the City has yet to implement GASB Statement No. 45 related to Other Post Employment Benefits, the City has consistently included an estimate of its retiree health care obligation from sick-leave conversion in its compensated absences liability. As of June 30, 2006, this amounts to approximately \$54.6 million of the \$61.6 million listed above. This contributes significantly to the EBF's unfunded liability of more than \$45 million. Additional information on the City's EBF can be found in Notes II-H and III-G.

Economic Factors and Next Year's Budget and Rates

- *Consumer Price Index* - The national CPI has been relatively stable during the past six years. In 2000, the CPI-Western Urban was 3.5 %. In June 2006, the CPI-Western Urban increased 4.1%.
- *Taxable Sales* - Taxable sales growth has ranged from 11% to 5.7% during the last couple of years. In future years, annual taxable sales growth is projected at 4.4%.
- *Building Permit Activity* - Building permit activity, which had been extremely robust for several years, has leveled off with 5,797 total permits in 2004, 5,892 in 2005 and 5,968 for the year ended June 30, 2006. The average construction value of these permits decreased from about \$57,000 to \$50,000.
- *Utility Service Charges* - Water utility rates were increased an average of 15% effective July 1, 2006. This is one in a series of increases adopted by the City Council and is intended to fund major capital improvements to the water system.

All of these factors were considered in preparing the City's budget for fiscal year 2006.

During the current fiscal year, unreserved fund balance in the General Fund increased by \$3,047,129, to \$20,507,134. Of this amount, \$5.9 million is designated for specific purposes, including \$5.8 million appropriated in the fiscal year 2006-07 budget. The unreserved/undesignated balance of \$14,706,248 presents 14.1% of total General Fund outflows, versus the City Council's target of 8%. The budget adopted for fiscal year 2006-2007 maintains this target reserve level.

Requests for Information

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

BASIC FINANCIAL STATEMENTS

CITY OF MODESTO
STATEMENT OF NET ASSETS

June 30, 2006

	Governmental Activities	Business-type Activities	Total
<u>ASSETS</u>			
Cash and cash equivalents	\$ 179,383,700	\$ 59,095,752	\$ 238,479,452
Accounts receivable, net	1,665,060	426,296	2,091,356
Interest receivable	920,077	393,977	1,314,054
Utility billings receivable, net	856,362	8,291,254	9,147,616
Taxes receivable	11,094,539	3,940	11,098,479
Due from governments, net	11,100,278	3,635,812	14,736,090
Notes receivable, net	13,270,036		13,270,036
Prepaid expenses	780,000	1,003,000	1,783,000
Property held for resale		630,000	630,000
Internal balances	(837,201)	837,201	
Inventories	516,919		516,919
Unamortized costs of debt issuance		840,125	840,125
Investments in joint ventures	16,423,042		16,423,042
Capital assets:			
Land and construction in progress	35,079,023	55,181,646	90,260,669
Other capital assets, net of accumulated depreciation	327,892,152	229,540,771	557,432,923
Total assets	598,143,987	359,879,774	958,023,761
<u>LIABILITIES</u>			
Accounts payable	7,610,606	2,415,957	10,026,563
Accrued salaries and benefits	1,341,285	227,808	1,569,093
Approved loans payable	589,219		589,219
Interest payable	1,244,326	633,918	1,878,244
Unearned revenues	2,728,304	2,124,426	4,852,730
Refundable deposits	2,060,416	1,027,211	3,087,627
Long-term liabilities:			
Due within one year	9,960,789	3,000,479	12,961,268
Due in more than one year	157,572,846	63,018,008	220,590,854
Total liabilities	183,107,791	72,447,807	255,555,598
<u>NET ASSETS</u>			
Invested in capital assets, net of related debt	296,401,824	220,881,691	517,283,515
Restricted for:			
Capital projects	78,526,510		78,526,510
Housing and community development	18,188,683		18,188,683
Other purposes	21,114,567		21,114,567
Unrestricted	804,612	66,550,276	67,354,888
Total net assets	\$ 415,036,196	\$ 287,431,967	\$ 702,468,163

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

CITY OF MODESTO
STATEMENT OF ACTIVITIES
Year ended June 30, 2006

FUNCTIONS/PROGRAMS:	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities:				
General government	\$ 15,529,735	\$ 4,179,505		
Community development	12,241,213	9,466,082		\$ 30,473,773
Highways and streets	26,025,311	12,104,089	\$ 4,699,992	5,762,921
Public works	6,491,062	1,986,957	316,384	
Parks and recreation	11,733,698	4,928,366	3,222,811	2,247,854
Public safety	74,500,043	7,124,387	3,653,324	
Interest on long-term debt	5,178,130			
Total governmental activities	151,699,192	39,789,386	11,892,511	38,484,548
Business-type activities:				
Parking	1,287,450	1,176,061		
Water	29,989,775	42,639,348		4,156,357
Sewer	22,716,100	23,083,280		3,343,231
Storm Drain	5,795,746	5,277,304		1,132,034
Compost	941,919	1,317,105		30,070
Airport	1,342,645	577,688	50,351	1,327,385
Bus	12,119,311	2,645,622	8,267,538	478,796
Golf	2,461,470	2,222,738		
Community Center	2,465,644	543,085		
Total business-type activities	79,120,060	79,482,231	8,317,889	10,467,873
Total	\$ 230,819,252	\$ 119,271,617	\$ 20,210,400	\$ 48,952,421

General revenues:

Taxes:

 Utility users tax

 Property taxes, levied for general purposes

 Property taxes, generated by and allocated to the airport

 Tax increments for redevelopment agency

 Transient occupancy tax

 Franchise tax

 Business license tax, levied for general purposes

 Business license tax, levied for downtown improvement district

 Business license tax, generated by and allocated to the airport

 Intergovernmental revenue not restricted to specific programs:

 Sales tax

 Motor vehicle license fee

 Other

 Unrestricted investment earnings

 Miscellaneous

 Transfers, net

 Settlements and recoveries

 Special item - PCE legal fees

Total general revenues, transfers and special item

Change in net assets

Net assets, July 1

Net assets, June 30

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

Net (Expense) Revenue and
Changes in Net Assets

Governmental Activities	Business-type Activities	Total
\$ (11,350,230)		\$ (11,350,230)
27,698,642		27,698,642
(3,458,309)		(3,458,309)
(4,187,721)		(4,187,721)
(1,334,667)		(1,334,667)
(63,722,332)		(63,722,332)
(5,178,130)		(5,178,130)
<u>(61,532,747)</u>		<u>(61,532,747)</u>
	\$ (111,389)	(111,389)
	16,805,930	16,805,930
	3,710,411	3,710,411
	613,592	613,592
	405,256	405,256
	612,779	612,779
	(727,355)	(727,355)
	(238,732)	(238,732)
	<u>(1,922,559)</u>	<u>(1,922,559)</u>
	<u>19,147,933</u>	<u>19,147,933</u>
<u>(61,532,747)</u>	<u>19,147,933</u>	<u>(42,384,814)</u>
17,583,690		17,583,690
14,318,747		14,318,747
	166,641	166,641
4,450,836		4,450,836
2,181,467		2,181,467
3,693,307		3,693,307
10,374,157		10,374,157
214,022		214,022
	41,108	41,108
29,627,835		29,627,835
14,986,883		14,986,883
4,070,593		4,070,593
3,255,401	2,504,291	5,759,692
2,827,161		2,827,161
(1,416,790)	1,416,790	
	3,784,295	3,784,295
	<u>(1,736,054)</u>	<u>(1,736,054)</u>
<u>106,167,309</u>	<u>6,177,071</u>	<u>112,344,380</u>
44,634,562	25,325,004	69,959,566
<u>370,401,634</u>	<u>262,106,963</u>	<u>632,508,597</u>
<u>\$ 415,036,196</u>	<u>\$ 287,431,967</u>	<u>\$ 702,468,163</u>

CITY OF MODESTO
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2006

	General	Capital Grants	Capital Facility Fees	Community Facilities Districts	Other Governmental	Total Governmental
<u>ASSETS</u>						
Cash and cash equivalents	\$ 9,141,367	\$ 257	\$ 44,019,271	\$ 13,977,058	\$ 21,994,093	\$ 89,132,046
Cash and cash equivalents with fiscal agent				29,091,868	11,072,496	40,164,364
Receivables:						
Accounts	354,635	9,341	33		466,993	831,002
Interest	272,623		210,696	58,998	158,201	700,518
Utilities, net	824,856				31,506	856,362
Taxes	10,485,306			104,390	504,843	11,094,539
Due from governments	548,231	5,416,376	84,108		5,012,876	11,061,591
Due from other funds	5,572,000					5,572,000
Notes receivable, net	92,283				13,177,753	13,270,036
Prepaid expenses/expenditures					780,000	780,000
Restricted assets:						
Cash and cash equivalents	1,845,018			214,297		2,059,315
Advances to other funds	1,644,193				148,451	1,792,644
Total assets	\$ 30,780,512	\$ 5,425,974	\$ 44,314,108	\$ 43,446,611	\$ 53,347,212	\$ 177,314,417
<u>LIABILITIES AND FUND BALANCES</u>						
Liabilities:						
Accounts payable	\$ 2,241,841	\$ 623,716	\$ 748,685	\$ 684,018	\$ 1,795,856	\$ 6,094,116
Accrued salaries and benefits	1,116,500			4,553	135,797	1,256,850
Approved loans payable					589,219	589,219
Due to other funds		4,443,000			1,129,000	5,572,000
Deferred revenues	364,061	4,795,458	17,434	408,376	2,798,250	8,383,579
Payable from restricted assets:						
Refundable deposits	1,845,119			214,297	1,000	2,060,416
Advances from other funds	1,903,476		1,440,876		351,768	3,696,120
Total liabilities	7,470,997	9,862,174	2,206,995	1,311,244	6,800,890	27,652,300
Fund balances:						
Reserved	2,702,381	1,337,898	1,992,255	3,231,123	33,607,610	42,871,267
Unreserved:						
Designated, reported in:						
General fund	5,900,886					5,900,886
Special revenue funds					12,314,680	12,314,680
Capital projects funds			40,114,858	38,904,244	(492,592)	78,526,510
Undesignated, reported in:						
General fund	14,706,248					14,706,248
Special revenue funds					1,116,624	1,116,624
Capital projects funds		(5,774,098)				(5,774,098)
Total fund balances	23,309,515	(4,436,200)	42,107,113	42,135,367	46,546,322	149,662,117
Total liabilities and fund balances	\$ 30,780,512	\$ 5,425,974	\$ 44,314,108	\$ 43,446,611	\$ 53,347,212	\$ 177,314,417

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

CITY OF MODESTO
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS - GOVERNMENTAL ACTIVITIES
June 30, 2006

Total fund balances - total governmental funds \$ 149,662,117

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

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

General capital assets:

Nondepreciable	\$ 34,257,990	
Depreciable	78,434,583	
Accumulated depreciation on general capital assets	(36,249,289)	

Infrastructure:

Depreciable	465,959,564	
Accumulated depreciation on infrastructure	<u>(199,170,597)</u>	343,232,251

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

Deferred in the governmental funds, or	\$ 5,655,275	
Investments in joint ventures	<u>16,423,042</u>	22,078,317

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

(9,277,625)

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

Bonds payable and other long-term debt	\$ (89,414,538)	
Accrued interest	<u>(1,244,326)</u>	<u>(90,658,864)</u>

Net assets of governmental activities \$ 415,036,196

CITY OF MODESTO
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
Year ended June 30, 2006

	General	Capital Grants	Capital Facility Fees	Community Facility Districts	Other Governmental	Total Governmental
REVENUES:						
Taxes	\$ 47,349,236				\$ 5,467,360	\$ 52,816,596
Licenses and permits	96,081				50,773	146,854
Intergovernmental	48,205,287	\$ 2,854,861	\$ 112,128		13,587,382	64,759,658
Charges for services	14,953,869		12,186,244	\$ 4,615,308	6,046,728	37,802,149
Special assessments levied	65,909					65,909
Interest and rent	1,217,293		884,879	423,364	1,229,633	3,755,169
Net increase in fair value of investments	16,814		25,661	33,735	26,826	103,036
Fines and forfeits	877,376				798,550	1,675,926
Contribution from property owners				30,473,773		30,473,773
Miscellaneous	2,028,310			7,625	785,226	2,821,161
Total revenues	<u>114,810,175</u>	<u>2,854,861</u>	<u>13,208,912</u>	<u>35,553,805</u>	<u>27,992,478</u>	<u>194,420,231</u>
EXPENDITURES:						
Current:						
General government	13,336,716		96,077		678,742	14,111,535
Community development	5,146,011			1,884,276	5,265,785	12,296,072
Highways and streets		603,259	1,572,273		12,181,509	14,357,041
Public works	1,719,587				3,927,436	5,647,023
Parks and recreation	11,471,198	158,085	14,544		18,436	11,662,263
Public safety	72,205,341		6,413		2,316,121	74,527,875
Capital outlay	398,112	6,156,142	7,187,022	4,873,835	2,948,663	21,563,774
Debt service:						
Principal retirement	9,916		421,468		1,470,443	1,901,827
Interest	1,061		36,532		4,539,187	4,576,780
Other					618,742	618,742
Total expenditures	<u>104,287,942</u>	<u>6,917,486</u>	<u>9,334,329</u>	<u>6,758,111</u>	<u>33,965,064</u>	<u>161,262,932</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>10,522,233</u>	<u>(4,062,625)</u>	<u>3,874,583</u>	<u>28,795,694</u>	<u>(5,972,586)</u>	<u>33,157,299</u>
OTHER FINANCING SOURCES (USES):						
Transfers in	2,111,925	2,295,683	969,002	65,806	12,282,302	17,724,718
Transfers out	(9,739,702)		(964,508)	(300,000)	(9,263,266)	(20,267,476)
Sale of Assets			6,000			6,000
TOTAL OTHER FINANCING SOURCES (USES)	<u>(7,627,777)</u>	<u>2,295,683</u>	<u>10,494</u>	<u>(234,194)</u>	<u>3,019,036</u>	<u>(2,536,758)</u>
NET CHANGE IN FUND BALANCES	2,894,456	(1,766,942)	3,885,077	28,561,500	(2,953,550)	30,620,541
FUND BALANCES, July 1	<u>20,415,059</u>	<u>(2,669,258)</u>	<u>38,222,036</u>	<u>13,573,867</u>	<u>49,499,872</u>	<u>119,041,576</u>
FUND BALANCES, June 30	<u>\$ 23,309,515</u>	<u>\$ (4,436,200)</u>	<u>\$ 42,107,113</u>	<u>\$ 42,135,367</u>	<u>\$ 46,546,322</u>	<u>\$ 149,662,117</u>

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

CITY OF MODESTO
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES -GOVERNMENTAL ACTIVITIES
Year Ended June 30, 2006

Net change in fund balances - total governmental funds \$ 30,620,541

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	\$ 21,563,774	
Depreciation expense	<u>(14,984,083)</u>	6,579,691

In the statement of activities, only the gain or loss on the sales of capital assets is reported, whereas in the governmental funds, the proceeds from such sales increase financial resources. Thus, the change in net assets differs from the change in fund balances by the cost of the assets sold. (1,595,152)

Developer donations of infrastructure assets are not included in the fund statements. Thus, the change in net assets differs from the change in fund balance by the value of these asset donations. 1,529,376

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

Change in deferred revenue	\$ 2,397,741	
Change in investment in joint venture	<u>(1,519,073)</u>	878,668

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

Principal retirement 1,901,827

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

Change in accrued interest 28,933

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. 4,690,678

Change in net assets of governmental activities \$ 44,634,562

CITY OF MODESTO
STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
June 30, 2006

	Enterprise				Internal Service
	Water	Sewer	Other Enterprise	Total Enterprise	
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 23,549,341	\$ 23,764,487	\$ 6,247,047	\$ 53,560,875	\$ 48,027,975
Cash and cash equivalents with fiscal agent	273,350	3,621,532	612,784	4,507,666	
Receivables:					
Accounts	1,440	58,709	366,147	426,296	834,058
Interest	124,354	208,228	61,395	393,977	219,559
Utilities, net	5,292,161	2,440,681	558,412	8,291,254	
Taxes	3,940			3,940	
Due from governments		127,064	3,508,748	3,635,812	38,687
Prepaid expenses	1,003,000			1,003,000	
Inventories					516,919
Property held for resale			630,000	630,000	
Advances to other funds					1,903,476
Total current assets	<u>30,247,586</u>	<u>30,220,701</u>	<u>11,984,533</u>	<u>72,452,820</u>	<u>51,540,674</u>
Noncurrent assets:					
Restricted assets-cash and cash equivalents	664,110	363,101		1,027,211	
Unamortized costs of issuance	240,613	599,512		840,125	
Land and construction in progress	10,241,729	26,615,981	18,323,936	55,181,646	821,033
Other capital assets, net of accumulated depreciation	<u>65,827,962</u>	<u>104,251,720</u>	<u>59,461,089</u>	<u>229,540,771</u>	<u>18,917,891</u>
Total assets	<u>107,222,000</u>	<u>162,051,015</u>	<u>89,769,558</u>	<u>359,042,573</u>	<u>71,279,598</u>
LIABILITIES					
Current liabilities:					
Accounts payable	\$ 818,584	\$ 341,524	\$ 1,255,849	\$ 2,415,957	\$ 1,516,490
Accrued salaries and benefits	68,500	99,803	59,505	227,808	84,435
Interest payable	275,213	302,907	55,798	633,918	
Current portion - compensated absences					2,769,104
Current portion - claims liability					5,156,560
Current portion - long-term debt	977,764	1,650,000	275,955	2,903,719	26,587
Current portion - developer advances	96,760			96,760	
Deferred revenues			2,124,426	2,124,426	
Total current liabilities	<u>2,236,821</u>	<u>2,394,234</u>	<u>3,771,533</u>	<u>8,402,588</u>	<u>9,553,176</u>
Noncurrent liabilities:					
Payable from restricted assets - refundable deposits	664,110	363,101		1,027,211	
Compensated absences					58,847,850
Claims liability					11,174,550
Long-term debt:					
Revenue bonds payable		35,192,020		35,192,020	
Loan payable	1,958,276			1,958,276	
Notes payable					144,446
Obligations under capital leases			151,633	151,633	
Certificates of participation	17,985,078		5,650,000	23,635,078	
Developer advances	2,081,001			2,081,001	
Total noncurrent liabilities	<u>22,688,465</u>	<u>35,555,121</u>	<u>5,801,633</u>	<u>64,045,219</u>	<u>70,166,846</u>
Total liabilities	<u>24,925,286</u>	<u>37,949,355</u>	<u>9,573,166</u>	<u>72,447,807</u>	<u>79,720,022</u>
NET ASSETS					
Invested in capital assets, net of related debt	55,148,573	94,025,681	71,707,437	220,881,691	19,567,891
Unrestricted	<u>27,148,141</u>	<u>30,075,979</u>	<u>8,488,955</u>	<u>65,713,075</u>	<u>(28,008,315)</u>
Total net assets	<u>\$ 82,296,714</u>	<u>\$ 124,101,660</u>	<u>\$ 80,196,392</u>	286,594,766	<u>\$ (8,440,424)</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.				<u>837,201</u>	
Net assets of business-type activities					<u>\$ 287,431,967</u>

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

CITY OF MODESTO
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET ASSETS - PROPRIETARY FUNDS
Year ended June 30, 2006

	Water	Sewer	Other Enterprise	Total Enterprise	Internal Service
OPERATING REVENUES:					
Charges for services	\$ 42,639,348	\$ 23,057,564	\$ 13,450,725	\$ 79,147,637	\$ 73,979,591
Sales					2,616,588
Cost of sales					(2,604,232)
Miscellaneous		25,716	308,878	334,594	
Total operating revenues	<u>42,639,348</u>	<u>23,083,280</u>	<u>13,759,603</u>	<u>79,482,231</u>	<u>73,991,947</u>
OPERATING EXPENSES:					
Salaries and wages	3,921,478	4,991,009	3,574,322	12,486,809	4,072,026
Contractual services	1,716,729	2,791,417	10,808,264	15,316,410	1,013,441
Utilities	1,703,202	1,048,853	576,197	3,328,252	473,011
Maintenance and supplies	3,425,200	2,542,441	3,660,229	9,627,870	4,085,997
Water purchases	10,674,717			10,674,717	
Insurance	133,175	245,008	176,119	554,302	11,054,260
Claims expense					7,458,436
Employee benefits	1,427,839	1,852,398	1,290,449	4,570,686	37,751,321
Administration services	2,186,919	1,425,147	1,599,526	5,211,592	1,492,365
Allocated indirect administrative costs	1,049,489	760,932	684,216	2,494,637	264,010
Other	50,641	124,429	235,925	410,995	160,718
Depreciation	2,383,566	5,027,753	3,656,417	11,067,736	2,838,477
Total operating expenses	<u>28,672,955</u>	<u>20,809,387</u>	<u>26,261,664</u>	<u>75,744,006</u>	<u>70,664,062</u>
OPERATING INCOME (LOSS)	<u>13,966,393</u>	<u>2,273,893</u>	<u>(12,502,061)</u>	<u>3,738,225</u>	<u>3,327,885</u>
NONOPERATING REVENUES (EXPENSES)					
Operating grants			8,317,889	8,317,889	
Gain (Loss) on disposition of capital assets	(241,380)	(46,939)	(24,043)	(312,362)	(241,883)
Tax revenue			207,749	207,749	
Tax expense	(84,556)	(91,215)	(17,286)	(193,057)	
Interest income	487,165	694,320	161,180	1,342,665	895,959
Net increase in fair value of investments	14,009	32,123	7,089	53,221	20,310
Rental income	33,060	39,182	1,036,163	1,108,405	
Settlements and recoveries	1,334,259	2,450,036		3,784,295	
Interest expense	(1,209,884)	(2,034,714)	(321,587)	(3,566,185)	(11,541)
Amortization of costs of issuance	(13,839)	(35,265)		(49,104)	
Total nonoperating revenues (expenses)	<u>318,834</u>	<u>1,007,528</u>	<u>9,367,154</u>	<u>10,693,516</u>	<u>662,845</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	14,285,227	3,281,421	(3,134,907)	14,431,741	3,990,730
Capital contributions	4,156,357	3,343,231	2,968,285	10,467,873	318,634
Transfers in		608,400	1,741,437	2,349,837	1,712,361
Transfers out	(95,385)	(715,603)	(122,059)	(933,047)	(586,393)
Special item	(715,185)	(1,020,869)		(1,736,054)	
CHANGE IN NET ASSETS	17,631,014	5,496,580	1,452,756	24,580,350	5,435,332
NET ASSETS, July 1	<u>64,665,700</u>	<u>118,605,080</u>	<u>78,743,636</u>		<u>(13,875,756)</u>
NET ASSETS, June 30	<u>\$ 82,296,714</u>	<u>\$ 124,101,660</u>	<u>\$ 80,196,392</u>		<u>\$ (8,440,424)</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.				<u>744,654</u>	
Change in net assets of business-type activities				<u>\$ 25,325,004</u>	

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

CITY OF MODESTO
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
Year ended June 30, 2006

	Enterprise				Internal Service
	Water	Sewer	Other Enterprise	Total Enterprise	
CASH FLOWS FROM OPERATING ACTIVITIES:					
Receipts from customers and users	\$ 41,033,042	\$ 23,086,747	\$ 14,635,268	\$ 78,755,057	\$ 1,076,798
Receipts from interfund services provided	797,367	119,091	23,910	940,368	72,377,540
Payments to suppliers	(18,027,267)	(6,229,721)	(13,430,505)	(37,687,493)	(16,163,026)
Payment of insurance claims					(5,089,127)
Payments to employees	(5,331,913)	(6,812,624)	(4,847,597)	(16,992,134)	(42,611,729)
Payments for interfund services used	(3,541,710)	(4,078,294)	(3,924,272)	(11,544,276)	(2,200,479)
Net cash provided (used) by operating activities	<u>14,929,519</u>	<u>6,085,199</u>	<u>(7,543,196)</u>	<u>13,471,522</u>	<u>7,389,977</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:					
Operating grants received			6,593,915	6,593,915	
Taxes received			207,749	207,749	
Settlements and recoveries	1,334,259	2,450,036		3,784,295	
Transfers in		608,400	1,438,124	2,046,524	1,712,361
Transfers out	(95,385)	(1,643,481)	(122,059)	(1,860,925)	(586,393)
Repayments of advances to other funds					96,524
Net cash provided (used) by noncapital financing activities	<u>1,238,874</u>	<u>1,414,955</u>	<u>8,117,729</u>	<u>10,771,558</u>	<u>1,222,492</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Acquisition and construction of capital assets	(5,170,271)	(1,126,014)	(1,904,104)	(8,200,389)	(4,264,019)
Principal repayments	(1,033,670)	(990,000)	(262,899)	(2,286,569)	(45,588)
Interest paid	(1,123,749)	(1,926,462)	(323,310)	(3,373,521)	(11,541)
Capital grants received			1,550,637	1,550,637	
Connection fees for capital purposes	3,029,293	705,614		3,734,907	
Net cash used by capital and related financing activities	<u>(4,298,397)</u>	<u>(3,336,862)</u>	<u>(939,676)</u>	<u>(8,574,935)</u>	<u>(4,321,148)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:					
Interest received	445,467	660,350	165,747	1,271,564	875,832
Net increase in the fair value of investments	14,009	32,123	7,089	53,221	20,310
Net cash provided by investing activities	<u>459,476</u>	<u>692,473</u>	<u>172,836</u>	<u>1,324,785</u>	<u>896,142</u>
Net increase (decrease) in cash and cash equivalents	12,329,472	4,855,765	(192,307)	16,992,930	5,138,677
CASH AND CASH EQUIVALENTS, JULY 1	<u>12,157,329</u>	<u>22,893,355</u>	<u>7,052,138</u>	<u>42,102,822</u>	<u>42,889,298</u>
CASH AND CASH EQUIVALENTS, JUNE 30	<u>\$ 24,486,801</u>	<u>\$ 27,749,120</u>	<u>\$ 6,859,831</u>	<u>\$ 59,095,752</u>	<u>\$ 48,027,975</u>
RECONCILIATION TO STATEMENT OF NET ASSETS:					
Cash and cash equivalents	\$ 23,549,341	\$ 23,764,487	\$ 6,247,047	\$ 53,560,875	\$ 48,027,975
Cash and cash equivalents with fiscal agent	273,350	3,621,532	612,784	4,507,666	
Restricted assets-cash and cash equivalents	664,110	363,101		1,027,211	
TOTAL CASH AND CASH EQUIVALENTS	<u>\$ 24,486,801</u>	<u>\$ 27,749,120</u>	<u>\$ 6,859,831</u>	<u>\$ 59,095,752</u>	<u>\$ 48,027,975</u>

(continued)

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

CITY OF MODESTO
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS (Continued)
Year ended June 30, 2006

	Enterprise				Internal Service
	Water	Sewer	Other Enterprise	Total Enterprise	
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:					
Operating income (loss)	\$ 13,966,393	\$ 2,273,893	\$ (12,502,061)	\$ 3,738,225	\$ 3,327,885
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation	2,383,566	5,027,753	3,656,417	11,067,736	2,838,477
Rental income	33,060	39,182	1,036,163	1,108,405	
Taxes paid	(84,556)	(91,215)	(17,084)	(192,855)	
Special item	(715,185)	(1,020,869)		(1,736,054)	
Change in assets and liabilities:					
(Increase) in accounts receivable	(1,440)	109,052	(38,880)	68,732	(537,609)
(Increase) in utilities receivable	(1,002,841)	(73,545)	(9,538)	(1,085,924)	
(Increase) in taxes receivable	(569)			(569)	
Decrease in notes receivable					3,096
(Increase) in prepaid expenses	(61,825)			(61,825)	
(Increase) in inventories					(141,322)
(Decrease) in accounts payable and accrued expenses	232,661	(257,704)	402,985	377,942	321,619
Increase in accrued salaries and benefits	17,404	30,783	17,174	65,361	31,873
Increase in compensated absences					(823,351)
(Decrease) in claims liability					2,369,309
Increase in deferred revenues			(88,372)	(88,372)	
Increase (decrease) in refundable deposits	162,851	47,869		210,720	
Total adjustments	<u>963,126</u>	<u>3,811,306</u>	<u>4,958,865</u>	<u>9,733,297</u>	<u>4,062,092</u>
Net cash provided (used) by operating activities	<u>\$ 14,929,519</u>	<u>\$ 6,085,199</u>	<u>\$ (7,543,196)</u>	<u>\$ 13,471,522</u>	<u>\$ 7,389,977</u>
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:					
Capital assets transferred in	\$ 862,587	\$ 45,682	\$ 749,502	\$ 1,657,771	\$ 318,634
Developer infrastructure contributions	264,477	2,591,935	370,166	3,226,578	

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

CITY OF MODESTO
STATEMENT OF FIDUCIARY NET ASSETS -AGENCY FUNDS
June 30, 2006

	<u>Agency Funds</u>
<u>ASSETS</u>	
Cash and cash equivalents	\$ 2,546,703
Cash and cash equivalents held with fiscal agent	<u>4,512,890</u>
	<u>\$ 7,059,593</u>
<u>LIABILITIES</u>	
Due to special district bondholders	\$ 5,763,312
Deposits held as agent for others	<u>1,296,281</u>
	<u>\$ 7,059,593</u>

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

**CITY OF MODESTO
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2006**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. THE FINANCIAL REPORTING ENTITY

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

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

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

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

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

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary 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 that

are 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. 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. 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.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest expenditures are recorded as fund liabilities when due or when amounts have been accumulated in the debt service funds for payments to be made early in the following year.

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

The City reports the following major governmental funds:

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

The Capital Grants Fund accounts for receipts and disbursements of a variety of Governmental Fund capital grants.

The Capital Facility Fees Fund accounts for special fees collected on new building permits to be used for construction of growth related projects, including police department expansion, fire department expansion, expressway loop, street lights, parks, new traffic signals, city hall expansion, wastewater treatment, streets, public transportation, and air quality improvements.

The Community Facilities Districts Fund accounts for the construction of public improvements deemed to benefit properties against which special taxes are levied.

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.

Additionally, the City reports the following fund types:

Internal service funds account for fleet management, central services, technology and information services, insurance, employee benefits management, and building services provided to other departments or agencies of the City on a cost-reimbursement basis.

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

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

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

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

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

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

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

D. ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY

1. Cash and Cash Equivalents

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

2. Restricted Assets - Cash and Cash Equivalents

Refundable deposits of the General Fund and the Community Facilities Districts Capital Projects Fund are classified as restricted assets – cash and cash equivalents on the governmental funds balance sheet because their use is restricted for repayment of those refundable deposits. Refundable deposits in the Water and Sewer funds are also classified as restricted assets on the proprietary funds statement of net assets.

3. Receivables and Payables

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

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

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

Grant and entitlement revenues are recorded as receivables in the funds when they are susceptible to accrual (i.e., when all eligibility requirements have been met). The corresponding governmental fund revenues are recorded when they become available, with the differences recorded as deferred revenue. The corresponding proprietary fund revenues are recorded as 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, 2006 is \$14,736,090.

Utility service accounts receivable are reported net of \$383,084 allowance for doubtful collections and include unbilled receivables using actual amounts billed in July for June services. Accounts receivable are reported net of \$1,061,498 allowance for doubtful collections, and are based on miscellaneous receivables from the City's invoice system as well as other receivables accrued at year end.

4. Inventories

Inventories of material and supplies held by proprietary funds are stated at average cost.

5. Capital Assets

Capital assets, which include property, plant and equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an

initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

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.

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, 30 to 50 years for streets, 20 years for signalization, and 50 years for bridges. Operating expenses include depreciation on all depreciable capital assets.

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

6. Compensated Absences

All earned vacation, holiday, and compensating time, and a portion of accumulated sick leave payable upon termination or retirement, are accrued in the Employee Benefits Management Internal Service Fund as compensated absences. Estimated sick leave termination payments have been calculated using the Governmental Accounting Standards Board Statement 16 vesting method. Under this method, a liability is accrued for a portion of the sick leave balances of all employees who are currently eligible, or are assumed to become eligible in the future, to receive a payment for sick leave upon termination, as well as amounts set aside to pay future health care premiums. As of June 30, 2006, the total estimated liability for all compensated absences, including sick leave, is \$61,616,953. The estimated current portion of \$2,769,103 is funded by charges to all operating funds. The estimated long-term portion is \$58,847,850.

7. Fund Equity

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

E. OTHER SIGNIFICANT ACCOUNTING POLICIES

1. Employee Benefits

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

2. Interfund Transactions

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

II. DETAILED NOTES

A. CASH AND INVESTMENTS

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

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

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

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality	Maximum Percentage Of Portfolio	Maximum Investment in One Issuer
City of Modesto Bonds	5 years	N/A	None	None
U.S. Treasury Obligations	5 years	N/A	None	None
State of California Securities	5 years	AAA	None	None
California Municipal Securities	5 years	AAA	None	None
Federal Agency Securities	5 years	N/A	None	None
Bankers' Acceptances	180 days	N/A	40%	10% or \$1 million
Commercial Paper	270 days	Top rating category	25%	10%
Certificates of Deposit	1 year	N/A	20% of surplus	None
Negotiable Certificates of Deposit	5 years	AA	30%	None
Repurchase Agreements	90 days	Top rating category	None	None
Reverse Repurchase Agreements	92 days	N/A	20%	None
Medium Term Corporate Notes	5 years	AA -	30%	None
Money Market Funds	N/A	Top rating category	None	None
California Local Agency Investment Fund	N/A	N/A	None	None
Mortgage and Asset-Backed Securities	5 years	AA	20% of surplus	None

Investments are stated at fair value. The City's investment in the Local Agency Investment Fund (LAIF) is \$44,118,475. The value of the pool shares in LAIF, which may be withdrawn on demand, is determined on an amortized cost basis, which is not materially different than the fair value of the City's portion in the pool. The total amount invested by all public agencies in LAIF is \$63,366,260,064. The Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members as designated by state statute.

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. In addition some bond indentures authorize investments in guaranteed investment contracts with maturity dates of September 1, 2033 and November 1, 2016 and a repurchase agreement with a maximum maturity of May 27, 2013.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The following table summarizes the City's interest rate risk, based on maturity dates of various investments:

Investment Type	Total	Remaining Time to Maturity			
		Less Than 1 Year	1 – 2 Years	2 – 3 Years	Over 5 Years
U.S. Treasury Notes	\$24,465,131	\$4,943,750	\$16,509,790	\$3,011,591	
Federal agency securities					
Bonds	20,265,938	11,671,874	8,594,064		
Notes	64,154,962	32,592,295	11,075,574	20,487,093	
Discount notes	5,941,255	5,941,255			
Commercial Paper	38,739,006	38,739,006			
LAIF	44,118,475	44,118,475			
Cash in banks (overdraft)	(1,212,329)	(1,212,329)			
Held by trustee:					
Money market funds	3,254,702	3,254,702			
Commercial Paper	5,360,534	5,360,534			
U.S. Treasury Bill	1,684,559	1,684,559			
U.S. Treasury Notes	1,296,313	1,296,313			
Federal Agency discount Notes	13,661,439	13,661,439			
Federal agency securities notes	16,536,319	13,394,169	3,142,150		
Repurchase agreements	1,977,051				\$1,977,051
Guaranteed investment contracts	5,295,690				5,295,690
Total	\$245,539,045	\$175,446,042	\$39,321,578	\$23,498,684	\$7,272,741

Maturity dates for callable notes are based on call dates.

Disclosures Related to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the rating as of June 30, 2006 for each investment type:

Investment Type	Total	Exempt from Disclosure	AAA and A-1+	Not Rated
U.S. Treasury Notes	\$24,465,131	\$24,465,131		
Federal agency securities	90,362,155		\$90,362,155	
Commercial Paper	38,739,006		38,739,006	
LAIF	44,118,475			44,118,475
Cash in banks (overdraft)	(1,212,329)	(1,212,329)		
Held by trustee:				
Money market funds	3,254,702		3,254,702	
Commercial Paper	5,360,534		5,360,534	
U.S. Treasury Bill	1,684,559	1,684,559		
U.S. Treasury Notes	1,296,313	1,296,313		
Federal Agency notes	13,661,439		13,661,439	
Federal agency securities notes	16,536,319		16,536,319	
Repurchase agreements	1,977,051			\$1,977,051
Guaranteed investment contracts	5,295,690			5,295,690
Total	\$245,539,045	\$26,233,674	\$167,914,155	\$51,391,216

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, 2006:

Issuer	Investment Type	Reported Amount	Percent of Portfolio
Fannie Mae (FNMA)	Federal agency securities	\$35,714,087	15.0%
Freddie Mac (FHLMC)	Federal agency securities	53,751,134	22.5%
Federal Home Loan Bank	Federal agency securities	31,094,639	13.0%

Investments in any one issuer, other than U. S. Treasury securities, mutual funds, and external investment pools, that represent 5% or more of governmental fund investments, fund level investments were as follows at June 30, 2006:

Issuer	Investment Type	Reported Amount
Community Facilities Districts:		
Fannie Mae (FNMA)	Federal agency securities	\$ 6,688,076
Freddie Mac (FHLMC)	Federal agency securities	14,024,225
Federal Home Loan Bank	Federal agency securities	2,889,469
Merrill Lynch	Commercial paper	2,338,729
Other Governmental Funds:		
AIGMFL Investment Agreement	Guaranteed investment contract	4,981,284
Lehman Government Securities	Repurchase agreement	1,977,051

Investments in any one issuer, other than U. S. Treasury securities, mutual funds, and external investment pools, that represent 5% or more of enterprise funds were for the Sewer Enterprise Fund as follows at June 30, 2006:

Issuer	Investment Type	Reported Amount
Fannie Mae (FNMA)	Federal agency securities	\$3,453,839

Investments in any one issuer, other than U. S. Treasury securities, mutual funds, and external investment pools, that represent 5% or more of Agency Fund investments were as follows at June 30, 2006:

Issuer	Investment Type	Reported Amount
Freddie Mac (FHMLC)	Federal agency securities	\$1,587,025
Fannie Mae (FNMA)	Federal agency securities	1,555,125
Credit Suisse First Boston	Commercial paper	700,571

Custodial Credit Risk

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

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

B. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2006 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$22,081,279	\$1,439,327	\$ 538,125	\$22,982,481
Construction in progress	9,209,548	2,886,994		12,096,542
Total capital assets, not being depreciated	<u>31,290,827</u>	<u>4,326,321</u>	<u>538,125</u>	<u>35,079,023</u>
Capital assets, being depreciated:				
Buildings	28,504,623	2,724,322		31,228,945
Improvements other than buildings	36,813,148	1,075,864		37,889,012
Furnishings and equipment	16,253,004	2,029,250	320,837	17,961,417
Equipment pool	26,101,661	3,609,642	1,666,132	28,045,171
Streets	414,200,120	12,032,915	253,303	425,979,732
Signalization	13,399,019	827,281		14,226,300
Bridges	25,499,161	254,371		25,753,532
Total capital assets, being depreciated	<u>560,770,736</u>	<u>22,553,645</u>	<u>2,240,272</u>	<u>581,084,109</u>
Less accumulated depreciation for:				
Buildings	(9,191,100)	(895,746)		(10,086,846)
Improvements other than buildings	(19,823,045)	(1,396,993)		(21,220,038)
Furnishings and equipment	(8,702,588)	(1,418,489)	219,359	(9,901,715)
Equipment pool	(11,856,341)	(2,359,360)	1,402,940	(12,812,761)
Streets	(180,245,475)	(10,768,130)		(191,013,605)
Signalization	(6,698,268)	(944,299)		(7,642,567)
Bridges	(474,878)	(39,547)		(514,425)
Total accumulated depreciation	<u>(236,991,695)</u>	<u>(17,822,561)</u>	<u>1,622,299</u>	<u>(253,191,957)</u>
Total capital assets, being depreciated, net	<u>323,779,041</u>	<u>4,731,084</u>	<u>617,973</u>	<u>327,892,152</u>
Governmental activities capital assets, net	<u>\$355,069,868</u>	<u>\$9,057,405</u>	<u>\$1,156,098</u>	<u>\$362,686,175</u>
	Beginning Balance	Additions	Deletions	Ending Balance
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$26,001,514	\$ 538,125		26,539,639
Construction in progress	21,150,540	7,763,333	\$271,906	28,642,007
Total capital assets, not being depreciated	<u>47,152,054</u>	<u>8,301,498</u>	<u>271,906</u>	<u>55,181,646</u>
Capital assets, being depreciated:				
Buildings	82,823,385	84,540		82,907,925
Improvements other than buildings	136,472,897	1,281,460		134,754,357
Furnishings and equipment	5,743,215	228,086		5,971,301
Buses and fareboxes	15,116,742	104,445		15,221,187
Pipelines	127,554,420	4,309,126		131,863,546
Total capital assets, being depreciated	<u>367,710,659</u>	<u>6,007,657</u>		<u>373,718,316</u>
Less accumulated depreciation for:				
Buildings	(32,061,065)	(2,524,290)		(34,585,355)
Improvements other than buildings	(72,275,148)	(5,615,932)		(77,891,080)
Furnishings and equipment	(2,588,703)	(489,590)		(3,078,293)
Buses and fareboxes	(6,202,113)	(821,077)		(7,023,190)
Pipelines	(19,982,780)	(1,616,847)		(21,599,627)
Total accumulated depreciation	<u>(133,109,809)</u>	<u>(11,067,736)</u>		<u>(144,177,545)</u>
Total capital assets, being depreciated, net	<u>234,600,850</u>	<u>(5,060,079)</u>		<u>229,540,771</u>
Business-type activities capital assets, net	<u>\$281,752,904</u>	<u>\$3,241,419</u>	<u>\$271,906</u>	<u>\$284,722,417</u>

Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
General government	\$ 97,218
Community development	83,778
Highways and streets, including depreciation of general infrastructure assets	11,818,154
Public works	981,022
Parks and recreation	359,275
Public safety	1,644,637
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	<u>2,838,477</u>
Total depreciation expense – governmental activities	<u>\$17,822,561</u>
Business-type activities:	
Parking	\$ 388,499
Water	2,383,566
Sewer	5,027,753
Storm Drain	577,784
Compost	65,227
Airport	411,413
Bus	1,125,709
Golf	311,818
Community center	<u>775,967</u>
Total depreciation expense – business-type activities	<u>\$11,067,736</u>

C. LONG-TERM DEBT

Loans Payable

Governmental activities:

Loan payable to the California Energy Commission for the purpose of reimbursing the City for costs of replacing incandescent bulbs for traffic signals with Light Emitting diodes (LED's); interest at 3%; semi-annual installments on December 22 and June 22, in the amount of \$20,776 , including interest, through June 22, 2007. \$ 40,634

No-interest loan payable to the Stanislaus County Economic Development Bank loan program, to pay master plan costs incurred by the City's Redevelopment Agency for the Kansas Avenue Business Park Project; no obligation to begin repayments until project is complete and revenue stream begins; final payment due in 2015 if not repaid sooner. 405,000

Total governmental activities loans payable \$ 445,634

Business-type activities:

Water Enterprise Fund:

Loan payable to the State of California Department of Water Resources, assumed from Del Este Water Company at acquisition, for purposes of upgrading the water delivery system; interest at 3.2%; semi-annual installments on April 1 and October 1 of \$132,360, including interest, through October 1, 2015. \$ 2,156,040

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

<u>Year Ending June 30,</u>	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 40,634	\$917	\$ 197,764	\$ 66,955
2008			203,976	60,743
2009			210,745	53,974
2010			217,380	47,339
2011			224,343	40,376
2012-2016	<u>405,000</u>		<u>1,101,832</u>	<u>89,404</u>
Total	<u><u>\$445,634</u></u>	<u><u>\$917</u></u>	<u><u>\$2,156,040</u></u>	<u><u>\$358,791</u></u>

Certificates of Participation

Governmental activities:

1993 Refunding Certificates of Participation (Community Center Project); serial certificates with annual maturities on November 1, in amounts from \$835,000 to \$1,040,000; interest rates from 5.4% - 5.6%; term certificates at 5.6% in the amount of \$4,740,000 maturing November 1, 2014, and in the amount of \$12,235,000 at 5.0% maturing November 1, 2023, with annual payments of \$1,090,000 to \$1,610,000 beginning in 2011.

\$ 21,655,000

Business-type activities:

Golf Enterprise Fund:

1993 Refunding Certificates of Participation (Golf Course Project); serial certificates with annual maturities on November 1, in amounts from \$205,000 to \$235,000; interest rates from 5.4% to 5.5%; term certificates at 5.6% in the amount of \$1,390,000 due November 1, 2014, and in the amount of \$3,585,000 at 5.0% due November 1, 2023, with annual payments ranging from \$250,000 to \$480,000 beginning in 2010.

\$ 5,855,000

Water Enterprise Fund:

1997 Refunding Certificates of Participation (Water Utility System Project); serial certificates with annual maturities on October 1, in amounts from \$780,000 to \$1,050,000; interest rates from 4.625% to 5.0%; term certificates at 5.4% in the amount of \$6,145,000 maturing on October 1, 2017, and in the amount of \$7,965,000 at 5.43% maturing on October 1, 2022, with annual payments from \$1,015,000 to \$1,765,000 beginning in 2013.

20,450,000

Total principal balances – business-type activities

26,305,000

Less:

Unamortized bond discount – Water Enterprise Fund

(385,551)

Deferred amount on refunding – Water Enterprise Fund

(1,299,371)

Total business-type activities certificates of participation

\$ 24,620,078

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

<u>Year Ending June 30,</u>	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 835,000	\$ 1,111,365	\$ 985,000	\$ 1,313,655
2008	885,000	1,064,925	1,030,000	1,265,125
2009	935,000	1,015,318	1,080,000	1,213,460
2010	985,000	962,517	1,135,000	1,158,241
2011	1,040,000	906,310	1,195,000	1,099,103
2012-2016	6,080,000	3,574,330	7,005,000	4,476,789
2017-2021	6,295,000	1,968,125	9,060,000	2,427,601
2022-2024	4,600,000	352,750	4,815,000	283,981
Total	<u>\$21,655,000</u>	<u>\$10,955,640</u>	<u>\$26,305,000</u>	<u>\$13,237,955</u>

Lease Revenue Bonds – Governmental activities:

1997 Lease Revenue Bonds (John Thurman Field Renovation Project); term certificates bearing interest at 6.125% maturing November 1, 2016, with mandatory annual redemption of amounts from \$165,000 to \$305,000 on November 1. \$ 2,500,000

1998 Lease Revenue Bonds (Capital Improvements and Refinancing Project); serial certificates with annual maturities on September 1, in amounts from \$380,000 to \$910,000; interest payments at 4.1% to 4.8%; term certificates totaling \$55,305,000, maturing in 2016, 2020, 2024, 2029, and 2033, bearing interest rates of 4.75% to 5.125%, with annual payments beginning in 2014. Of the total principal, \$18,405,000 is payable through a reimbursement agreement with the Redevelopment Agency. 60,005,000

Total lease revenue bonds \$ 62,505,000

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 545,000	\$ 3,124,228
2008	580,000	3,097,520
2009	635,000	3,068,427
2010	685,000	3,036,508
2011	795,000	3,000,224
2012-2016	5,835,000	14,231,419
2017-2021	8,335,000	12,386,365
2022-2026	12,675,000	9,855,349
2027-2031	18,575,000	6,011,083
2032-2034	13,845,000	1,088,678
Total	<u>\$62,505,000</u>	<u>\$58,899,801</u>

Revenue Bonds – Business-type activities:

Sewer Enterprise Fund:

Wastewater Treatment Facility Revenue Bonds, Series 2005 Series A and B; Series A (non-taxable) interest payable on November 1 and May 1; serial certificates with annual maturities on November 1, in amounts from \$575,000 to \$3,230,000, with interest rates from 3.0% to 5.25%; Series B (taxable) interest payable on November 1 and May 1; serial certificates with annual maturities on November 1, in amounts from \$1,075,000 to \$1,115,000, with interest rates from 4.14% to 4.40%. \$ 38,245,000

Plus: Unamortized bond premium 2,172,605

Less: Deferred amount on refunding (3,575,585)

Total business-type activities revenue bonds \$ 36,842,020

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 1,650,000	\$1,786,563
2008	1,710,000	1,722,230
2009	1,660,000	1,663,875
2010	1,710,000	1,613,325
2011	1,765,000	1,543,550
2012-2016	10,290,000	6,262,625
2017-2021	13,165,000	3,410,544
2022-2023	6,295,000	334,819
Total	<u>\$38,245,000</u>	<u>\$18,337,531</u>

Notes Payable – Governmental activities:

Note payable to the Federal Housing and Development Department for the purpose of constructing the Neighborhood Center at Marshall Park and the expansion of the Maddux Youth Center; to be repaid using future Community Development Block Grant revenue; interest rates from 2.31% to 6.01%; semi-annual installments on August 1 and February 1 through August 2024.

\$4,364,000

Fleet Management Internal Service Fund:

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

171,034

Total notes payable

\$4,535,034

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 169,588	\$ 238,940
2008	178,226	232,373
2009	187,968	224,759
2010	196,816	216,184
2011	207,778	206,685
2012-2016	1,026,658	881,955
2017-2021	1,286,000	572,603
2022-2025	1,282,000	157,947
Total	<u>\$4,535,034</u>	<u>\$2,731,446</u>

Changes in Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2006, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Loans payable	\$ 485,077		\$ 39,443	\$ 445,634	\$ 40,634
Certificates of participation	22,455,000		800,000	21,655,000	835,000
Lease revenue bonds	63,000,000		495,000	62,505,000	545,000
Notes payable	4,696,076		161,042	4,535,034	169,588
Obligations under capital leases	896,833		451,929	444,904	444,904
Compensated absences	62,440,305	\$8,927,676	9,751,028	61,616,953	2,769,103
Claims liability	13,961,801	7,458,436	5,089,127	16,331,110	5,156,560
Governmental activities long-term liabilities	<u>\$167,935,092</u>	<u>\$16,386,112</u>	<u>\$16,787,569</u>	<u>\$167,533,635</u>	<u>\$9,960,789</u>
Business-type activities:					
Loan payable	\$ 2,347,602		\$191,562	\$ 2,156,040	\$ 197,764
Certificates of participation	27,240,000		935,000	26,305,000	985,000
Unamortized discounts	(407,726)		(22,175)	(385,551)	
Deferred amount on refunding	(1,374,107)		(74,736)	(1,299,371)	
Revenue bonds	39,235,000		990,000	38,245,000	1,650,000
Unamortized premium	2,300,405		127,800	2,172,605	
Deferred amount on refunding	(3,847,977)		(272,392)	(3,575,585)	
Capital lease	290,487		67,899	222,588	70,955
Developer advances	2,279,869		102,108	2,177,761	96,760
Business-type activities long-term liabilities	<u>\$68,063,553</u>		<u>\$2,045,066</u>	<u>\$66,018,487</u>	<u>\$3,000,479</u>

Principal balances are reported on the government-wide and enterprise funds statements of net assets net of unamortized issuance discounts and deferred amounts on refunding.

Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for them are included as part of the above totals for governmental activities. At year end \$171,034 of internal service funds obligations under notes payable are included in the above amounts. Also, the compensated absences and claims liability balances relate to the internal service funds, and as such they are liquidated by the internal service funds.

D. OBLIGATIONS UNDER CAPITAL LEASES

Governmental Funds:

The City has acquired ballfield parking lot lighting and land for a park under capital lease agreements. The related liability is included in obligations under capital leases under governmental activities. The following is a schedule of the future minimum lease payments on the capital lease as of June 30, 2006:

<u>Year Ending June 30,</u>	
2007	<u>\$463,803</u>
Total minimum lease payments	463,803
Less: amount representing interest	<u>(18,899)</u>
Present value of minimum lease payments	<u>\$444,904</u>

Assets subject to the above capital leases valued at \$2,062,962, net of \$34,787 accumulated depreciation, have been presented under governmental activities. Rental expenses incurred under operating leases are not material.

Enterprise Funds

Two wheel loaders, valued at \$371,458, net of \$44,520 accumulated depreciation, are being leased under a capital lease arrangement. The following is a schedule of the future minimum lease payments on this capital lease as of June 30, 2006:

<u>Year Ending June 30,</u>	
2007	\$ 80,971
2008	80,972
2009	<u>80,972</u>
Total minimum lease payments	242,915
Less: amount representing interest	<u>(20,327)</u>
Present value of minimum lease payments	<u>\$222,588</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, 2006, the total outstanding balance due under the agreements is \$2,177,761. The total annual payments fluctuate depending on the ending date of each agreement. At June 30, 2006, the amount of \$96,760 due during fiscal year 2007, has been reported as "current portion-developer advances" on the Proprietary Funds statement of net assets. The remaining \$2,081,001 of outstanding principal has been reported under noncurrent liabilities, as "developer advances."

F. INTERFUND BALANCES

Interfund balances as of June 30, 2006 consist of the following:

<u>Due to General Fund from:</u>	
Capital Grants Fund	\$4,443,000
Non Major Special Revenue Funds	1,129,000
Total due to/due from	<u>\$5,572,000</u>
 <u>Advances from General Fund to:</u>	
Capital Facility Fees Fund	\$1,292,425
Other governmental funds	351,768
Total advances from General Fund	1,644,193
Advances from other governmental funds to Capital Facility Fees Fund	148,451
Advances from internal service funds to General Fund	1,903,476
Total advances from/advances to	<u>\$3,696,120</u>

All balances reported as "due to/due from" are short-term loans to cover temporary fund cash shortages as of June 30, 2006, and were repaid early in fiscal year 2007. 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. \$3,411,626 of advances are not currently scheduled for repayment during 2007.

G. RESERVES AND DESIGNATIONS OF FUND BALANCES

The City's reserves and designations at June 30, 2006 are comprised of the following:

	<u>General</u>	<u>Capital Grants</u>	<u>Capital Facility Fees</u>	<u>Community Facility Districts</u>	<u>Other Governmental</u>
<u>Reserved for:</u>					
Encumbrances	\$965,905	\$1,337,898	\$1,992,255	\$3,231,123	\$7,589,697
Loan programs and prepaids	92,283				13,368,534
Interfund advances	1,644,193				148,451
Set-aside requirement					4,245,482
Debt service					8,255,446
 Total reserved	 <u>\$2,702,381</u>	 <u>\$1,337,898</u>	 <u>\$1,992,255</u>	 <u>\$3,231,123</u>	 <u>\$33,607,610</u>
<u>Designated for:</u>					
Pending projects			\$40,114,858	\$38,904,244	\$14,930,006
Subsequent year expenditures	<u>\$5,900,886</u>				
 Total designated	 <u>\$5,900,886</u>	 <u>\$1,337,898</u>	 <u>\$40,114,858</u>	 <u>\$38,904,244</u>	 <u>\$14,930,006</u>

1. Reserve for encumbrances - Amounts reserved for encumbrances represent the total of outstanding purchase orders and contracts which are scheduled for reappropriation in the next fiscal year.
2. Reserve for loan programs - Amounts equal to the outstanding housing program and small business notes receivable are reserved in the Housing and Community Development Fund Special Revenue Fund, General Fund and the Redevelopment Agency Capital Projects Fund.
3. Reserve for interfund advances - The City reserves an amount in each fund equal to the advances to other funds.
4. Reserve for Redevelopment Agency set-aside requirement - The portion of fund balance relating to State required low-to-moderate income housing set-aside, has been reserved in the Redevelopment Agency Capital Projects Fund.
5. Reserve for debt service - The total fund balances of the debt service funds are reserved for future debt service requirements.
6. Designation for pending projects - Designations for pending projects are established to fund projects approved but not yet appropriated.
7. Designation for subsequent year expenditures - Designations for subsequent year expenditures represent that portion of fund balance set aside for fiscal year 2006/07.

H. DEFICIT FUND EQUITY

The Capital Grants Capital Projects Fund has a deficit fund balance of \$4,436,200. Recognition of deferred revenue is expected to cure this deficit.

The Golf Enterprise Fund has a net assets deficit of \$1,474,655, 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 is struggling due to competition and lagging revenues. Depreciation expense further contributes to the deficit.

The Employee Benefits Management Internal Service Fund has a net assets deficit of \$45,402,585. It exists partially because the total compensated absences balance previously classified as debt of the governmental funds was included in this fund at its inception several years ago, and has never been fully funded. In addition, the City normally contracts for an actuarial valuation of the sick leave liability on an annual basis. Because the City will be required to implement GASB 45, which will change the way post-retirement benefits are presented, it was decided that for this fiscal year the sick leave would again be estimated. 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.

I. INTERFUND TRANSFERS

The following is a schedule of interfund transfers.

Transfers to:	Transfers from:								Total
	General Fund	Capital Grants	Capital Facility Fees	Community Facility Districts	Other Govern mental	Sewer	Other Enterprise	Internal Service	
General Fund			\$565,772		\$6,120,902	\$608,400	\$1,059,288	\$1,386,150	\$9,739,702
Capital Facility Fees	\$345,000	\$112,542		\$60,755	120,000			326,211	964,508
Community Facility District			300,000						300,000
Other Governmental	1,480,779	2,183,141			5,583,817		15,529		9,263,266
Water	95,385								95,385
Sewer	171,932			5,051			538,620		715,603
Other Enterprise	18,829		103,230						122,059
Internal Service					458,393		128,000		586,393
Grand Total	\$2,111,925	\$2,295,683	\$969,002	\$65,806	\$12,282,302	\$608,400	\$1,741,437	\$1,712,361	\$21,786,916

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

J. NOTES RECEIVABLE

The notes receivable in the Other Governmental Funds of \$13,177,753, net of \$73,182, allowance for doubtful accounts, consist of loans made for low-income housing rehabilitation, property improvement and small business origination. The loans are collateralized by deeds of trust on the improved properties, are generally interest free with the exception of a small number of direct loans bearing annual interest at 3 or 5 percent and, with a few exceptions, require no repayment of principal until the loans reach maturity.

The General Fund notes receivable of \$92,283 consist of small business loans. These notes were determined to be ineligible for federal grant funds; therefore, the General Fund purchased them from the Housing and Community Development Special Revenue Fund.

K. APPROVED LOANS PAYABLE

The approved loans payable in the Housing and Community Development Special Revenue Fund of \$589,219 consist of amounts being held for rehabilitation of properties using funds provided by federal grants. The liability is expected to be liquidated within one year.

L. SPECIAL ITEMS

These expenses in the Water and Sewer Enterprise funds represent legal costs incurred in pursuit of mitigating damages from the manufacturers of perchlorethylene, or PCE, a common chemical used in the dry cleaning industry. This chemical has seeped into the groundwater through sewer lines when improperly disposed, and threatens the City's groundwater supplies. Modesto has been proactive in attempting to recover damages and future cleanup costs from the dry cleaners and their insurers, and has also instituted litigation with the manufacturers. In the current year the City received \$3,784,295 in insurance recoveries and settlements from some of the smaller defendants.

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 as follows: workers' compensation \$750,000; liability \$1,000,000; employee disability \$216,000; and dental care \$1,200. In July 1995, the City dropped its self-insured health plan, and now offers a variety of commercial plans to its employees. 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 \$4,000,000. 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 two excess layers of \$10,000,000 each, for an additional \$20,000,000 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, 2006 is \$16,331,110 consisting of \$13,267,000 workers' compensation, \$2,599,000 general liability, \$305,535 dental, \$114,060 disability, and \$45,515 vision. Workers' compensation and general liability claims liabilities are estimated on an actuarial basis. The current portion of the total claims liability is estimated to be \$5,156,560 and the balance of \$11,174,550 is reported as a long-term liability on the statement of net assets. These claim estimates are based on the requirements of Governmental Accounting Standards Board Statement 10, and include estimated claims incurred but not yet reported and allocated loss adjustment expenses as of June 30, 2006. Changes in the Insurance Fund claims liability during the fiscal years ended June 30, 2005 and June 30, 2006 were:

	Claims Liability July 1	Current-Year Claims and Changes in Estimates	Current-Year Claim Payments	Claims Liability June 30
2004-05	\$16,089,306	\$2,874,266	\$(5,001,771)	\$13,961,801
2005-06	\$13,961,801	\$7,458,436	\$(5,089,127)	\$16,331,110

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, 2006, the balance of these districts' outstanding debt was as follows:

Issue	Outstanding Amount
Village One #2 Community Facilities District	\$31,085,000
Fairview Village Community Facilities District	\$4,960,000

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, 2006 there were seven series of conduit revenue bonds outstanding. The aggregate principal amount payable for these multiple-family housing and health care facility bond issues, issued between 1993 and 2002, was \$44,960,000.

D. COMMITMENTS AND CONTINGENCIES

The City is involved in litigation relating to tort claims, workers' compensation claims and other claims such as contract actions and inverse condemnation actions for which the City is self-insured. Management and the City's legal counsel anticipate there will be no material effect on the financial statements beyond the amounts accrued in the Insurance Internal Service Fund.

The City receives funding from a number of federal, state and local grant programs, principally the Federal Highway Administration, Community Development Block Grants, and Federal Transit Administration grants.

These programs are subject to financial and compliance review by the grantors. Accordingly, the City's compliance with applicable grant requirements will be determined at some future date. Expenditures, if any, which may be disallowed by the granting agencies cannot be determined at this time. The City does not expect the undeterminable amounts of disallowed expenditures, if any, to materially affect the basic financial statements. Receipt of these federal, state and local grant revenues is not assured in the future.

The City has commitments of \$28,547,529 of June 30, 2006 for contracts awarded but not completed and other outstanding purchase orders. This amount consists of \$965,905 in the General Fund, \$1,337,898 in the Capital Grants Fund, \$1,992,256 in the Capital Facility Fees Fund, \$3,231,123 in the Community Facilities Districts Funds, \$7,589,697 in other governmental funds, \$11,563,255 in the enterprise funds, and \$1,867,391 in the internal service funds. Commitments of the governmental funds are recorded as fund balance reserves for encumbrances on the balance sheet. As of June 30, 2006, there are major contracts and other purchase orders outstanding for the 9th Street bridge replacement, various new parks, storm drain improvements, water and sewer system improvements, a sewer emergency repair, major street improvements, and the purchase of replacement trucks for the City fleet.

E. JOINT VENTURES AND JOINTLY GOVERNED ORGANIZATION

Tuolumne River Regional Park

The City participates with Stanislaus County and the City of Ceres in the operation and development of the Tuolumne River Regional Park (TRRP). The governing body consists of 2 members from the County Board of Supervisors, 2 members from the Modesto City Council, and 1 member from the Ceres City Council. The TRRP board prepares the annual budget, which must be approved by both cities' councils and the board of supervisors. Each participant has an equity interest in the capital assets of TRRP based on the percentage of cumulative contributions paid. The City's contribution to TRRP was \$132,4861 for the fiscal year ended June 30, 2006. As of June 30, 2006 the City's investment in this joint venture was \$1,032,840, and is included in governmental activities on the statement of net assets. Financial statements for TRRP are prepared by the City of Modesto Finance Department.

Stanislaus Drug Enforcement Agency

Stanislaus County (County) and the cities of Modesto, Oakdale, Ceres, Patterson, Turlock, Riverbank and Newman are the participants in the Stanislaus Drug Enforcement Agency (SDEA). The purpose of the SDEA is to maintain a specially trained police unit to assist each of the participating agencies in the enforcement of drug control laws, and to study, plan, and set priorities for effective enforcement of such laws throughout Stanislaus County. The governing board consists of the sheriff of Stanislaus County and the chief of police of each participating city. All participants contribute to the funding of the SDEA budgeted expenditures, based on population and assessed property value. The City's contribution to the SDEA for the fiscal year ended June 30, 2006 was \$608,266, consisting of a \$209,038 cash contribution and in-kind services valued at \$399,228. The City's investment in this joint venture was estimated to be \$416,016 as of June 30, 2006, based on the most recent available information. This amount is reported in governmental activities in the statement of net assets. Financial statements of the SDEA are prepared by the City of Modesto Finance Department.

City-County Capital Improvements and Financing Agency

The City and Stanislaus County formed the City-County Capital Improvements and Financing Agency (Agency) to provide for the design, construction, ownership, operation, management and financing of a City-County administration center located in Modesto's downtown redevelopment area. The governing body is a commission consisting of 2 members of the City Council, 2 members of the County Board of Supervisors, the County Chief Executive Officer, and the City Manager. The commission is responsible for developing an annual budget and determining the annual contribution rates, subject to approval by both the City and the County. The Stanislaus County Auditor Controller was the fiscal administrator during the construction phase, which was finalized at the end of June 2003. Since then, the City of Modesto has been the fiscal administrator. For the fiscal year ended June 30, 2006, the City's contribution to the Agency was \$631,986. The City's equity interest in the Agency is

\$14,974,186, equal to its fixed asset contributions to date net of depreciation, and is reported in governmental activities as investments in joint ventures in the Statement of Net Assets. Financial statements of the Agency will be available from the Agency after the initial audit of the Agency's books has been completed.

Stanislaus Waste-to-Energy Financing Agency

The City participates with Stanislaus County in the Stanislaus Waste-to-Energy Financing Agency (Agency). The Agency was created to provide financing for a facility that generates power from solid waste. The costs of operating the Agency, if any, are shared equally by the participants. The governing body consists of 2 members each from the County Board of Supervisors and the Modesto City Council. As of June 30, 2006, the City has no equity interest. Stanislaus County Treasurer's office prepares the Agency's financial statements.

Regional Fire Training Center

The City has entered into an agreement with the Yosemite Community College District (YCCD) and Stanislaus County for the use and management of the regional fire training center at Modesto Junior College. The executive board consists of the YCCD Chancellor, the President of Modesto Junior College, the City Manager of the City of Modesto, and the Chief Executive Officer of Stanislaus County. The YCCD is responsible for accounting and for monitoring the center's budget. All three entities share in the operating costs. Initial construction costs were paid by the YCCD from borrowed funds, with the City and County reimbursing a portion of these costs in exchange for future use of the center. The City has paid its share of the construction costs in full. Title to the constructed asset is held by the YCCD; therefore, the City has no equity interest.

F. TREATMENT AND DELIVERY AGREEMENT

In 1992, the City entered into a treatment and delivery agreement with the Modesto Irrigation District (MID) and the Del Este Water Company (Del Este). The City assumed Del Este's interest and obligations under the agreement when it acquired Del Este in July 1995. Under the agreement, MID built and operates a surface water treatment plant on the Tuolumne River for the purpose of providing a long-term source of domestic treated water for the City. MID is the sole owner of the project, and has all management and operations responsibility. In exchange for the treated water, the City has agreed to pay: all debt service on bonds issued by MID for the construction of the project; a raw water charge as set forth in the agreement; project operation, administration, and maintenance costs; and insurance on the project. Gross revenues of the City's Water Fund are irrevocably pledged for the punctual payment of the MID debt service and all obligations of the City under any parity debt. Current parity debt of the City consists of the 1997 Water System Improvement Project Refunding Certificates of Participation, and the California Safe Drinking Water Act loan (Note II-C). The minimum annual amount payable to MID, consisting of the debt service component only, is \$6,690,994. The treatment plant completed all tests and began commercial operations on May 15, 1995, at which time the City began paying for raw water and operations. The total cash paid to MID during the fiscal year ended June 30, 2006 was \$10,736,542, which is reported as "water purchases" expense on the proprietary funds statement of revenues, expenses and changes in net assets in the amount of \$10,674,717, and as prepaid expense of \$1,003,000. Prior year prepaid expense of \$941,175 reduced the amount of cash paid during the current fiscal year. The total outstanding on the MID bonds is \$76,710,000.

G. POST-RETIREMENT HEALTH CARE BENEFITS

In addition to the pension benefits described below in Note III-H, the City provides health care benefits to employees who retire from the City, under contractual agreements with all employee groups. All full-time employees, except firefighters who receive a cash payout, are eligible to set aside a percentage of accumulated sick leave upon retirement, to be used for payment of future health care premiums to a choice of four insurance plans. The City has no obligation to pay premiums for retirees with no accumulated sick leave. The estimated liability for current retirees' future premiums is \$14,534,598 as of June 30, 2006. The estimated current portion of \$1,659,707 is fully funded. The long-term portion \$12,874,891 is partially funded, with the balance being funded over time by charges to the City's operating funds. The current and long-term portions are reported in the Employee Benefits Management Fund as part of the compensated absences liability balances.

H. DEFINED BENEFIT PENSION PLAN

Plan Description

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

Funding Policy

Participants are required to contribute 7% (9% for safety employees) of their annual covered salary, of which the City pays the majority on behalf of the employees. The City is required to contribute at an actuarially determined rate; the current rate is 9.029% of annual covered payroll for non-safety employees and 25.370% for safety employees. The contribution requirements of plan members and the City are established and may be amended by CalPERS.

Annual Pension Cost

For 2006, the City's annual pension cost of \$11,748,699 for CalPERS was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 2003 actuarial valuation using the entry age normal actuarial cost method. This is a projected benefit cost method, which takes into account those benefits that are expected to be earned in the future as well as those already accrued. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses), (b) projected annual merit or seniority salary increases that vary by length of service, and (c) no post-retirement benefit increases. Both (a) and (b) included an inflation component of 3.0%. The actuarial value of the City's CalPERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a three-year period (smoothed market value). The City's CalPERS unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2005 was 32 years for both the miscellaneous and safety plans.

THREE-YEAR TREND INFORMATION FOR PERS – ALL PLANS

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/04	\$4,348,620	100%	-
6/30/05	\$8,276,570	100%	-
6/30/06	\$11,748,699	100%	-

SCHEDULE OF FUNDING PROGRESS FOR PERS

Actuarial Valuation Date	Actuarial Value of Assets (A)	Entry Age Actuarial Accrued Liability (B)	Overfunded (Underfunded) Actuarial Accrued Liability (A – B)	Funded Ratio (A/B)	Covered Payroll (C)	Overfunded (Underfunded) Actuarial Liability as Percentage of Covered Payroll [(A – B)/C]
6/30/03:						
Misc.	\$194,253,457	\$198,259,563	\$(4,006,106)	98.0%	\$39,440,399	10.2%
Safety	208,797,417	237,995,854	(29,198,437)	87.7%	25,316,473	(115.3)%
6/30/04:						
Misc.	\$204,261,809	\$212,669,957	\$(8,408,148)	96.0%	\$41,083,600	20.5%
Safety	221,621,121	257,554,567	(35,933,446)	86.0%	29,085,514	(123.5)%
6/30/05:						
Misc.	\$218,307,677	\$231,079,054	\$12,771,377	94.5%	\$62,221,273	30.2%
Safety	239,178,942	273,741,974	34,563,032	87.4%	30,117,501	114.8%

I. SUBSEQUENT EVENTS

1. On November 2, 2006, the City issued \$46,275,000 of Water Revenue Certificates of Participation. The proceeds of the certificates will be used to finance the acquisition and construction of various additions, betterments, extensions and improvements to the City's water system. The proceeds will also be used to fund a parity reserve fund and to provide for payment of the interest estimated to accrue on the certificates through October 1, 2007.
2. On December 14, 2006, the City issued \$16,535,000 of Wastewater Revenue Bonds. The proceeds of the bonds will be used to finance the planning, design, acquisition, construction and improvement of its wastewater treatment and conveyance facilities. The proceeds will also be used to fund a parity reserve fund and pay the costs of issuance.
3. In the 1950's and 1960's, the City operated a landfill facility outside the city limits. This facility was closed in 1968, to the standards in effect at that time. Testing has indicated that methane emissions in the area have recently exceeded State standards. The City is in the process of engaging a consultant to 1) assess the cause and magnitude of these methane emissions, and 2) develop and recommend a plan of mitigation. Potential costs of mitigation are not known at this time.

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REQUIRED SUPPLEMENTARY INFORMATION

CITY OF MODESTO
SCHEDULE OF REVENUES - BUDGET (GAAP BASIS)
AND ACTUAL - GENERAL FUND
Year ended June 30, 2006

	Budget		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
<u>TAXES:</u>				
Utility users tax	\$ 16,694,128	\$ 16,694,128	\$ 17,584,060	\$ 889,932
Property tax	12,840,000	15,128,738	14,318,747	(809,991)
Transient occupancy tax	2,217,721	2,217,721	2,181,467	(36,254)
Franchise tax	2,677,701	2,751,373	2,890,805	139,432
Business license tax	10,078,122	10,078,122	10,374,157	296,035
Total taxes	44,507,672	46,870,082	47,349,236	479,154
<u>LICENSES AND PERMITS</u>	154,440	154,440	96,081	(58,359)
<u>INTERGOVERNMENTAL:</u>				
Sales tax	22,204,353	22,204,353	22,287,940	83,587
In-lieu sales tax	6,888,771	7,339,967	7,339,967	
Motor vehicle license fees	10,385,000	12,044,703	14,986,883	2,942,180
State	1,913,000	2,420,678	2,605,856	185,178
County	148,600	148,600	245,808	97,208
Federal	295,000	308,804	86,129	(222,675)
Other intergovernmental	511,657	630,007	652,704	22,697
Total intergovernmental	42,346,381	45,097,112	48,205,287	3,108,175
<u>CHARGES FOR SERVICES:</u>				
General government	3,024,636	3,024,636	3,099,666	75,030
Community development	3,879,109	3,954,109	3,528,268	(425,841)
Public works	945,609	1,052,418	1,054,087	1,669
Parks and recreation	1,922,645	1,939,233	1,853,623	(85,610)
Public safety	1,466,014	1,858,195	2,268,970	410,775
Other current charges for services	263,000	263,000	263,000	
Indirect cost recovery	2,890,495	2,890,495	2,886,255	(4,240)
Total charges for services	14,391,508	14,982,086	14,953,869	(28,217)
<u>SPECIAL ASSESSMENT</u>	156,000	156,000	65,909	(90,091)
<u>INTEREST AND RENT</u>	512,530	559,963	1,217,293	657,330
<u>NET INCREASE (DECREASE) IN FAIR VALUE OF INVESTMENTS</u>			16,814	16,814
<u>FINES AND FORFEITURES</u>	609,000	941,000	877,376	(63,624)
<u>MISCELLANEOUS:</u>				
Mandated cost recovery		100,000	227,254	127,254
Other	556,893	1,967,286	1,801,056	(166,230)
Total miscellaneous	556,893	2,067,286	2,028,310	(38,976)
Total revenues	\$ 103,234,424	\$ 110,827,969	\$ 114,810,175	\$ 3,982,206

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

CITY OF MODESTO
SCHEDULE OF EXPENDITURES BY FUNCTION - BUDGET
(GAAP BASIS) AND ACTUAL - GENERAL FUND
Year ended June 30, 2006

	Budget		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
General government:				
City council	\$ 213,253	\$ 213,253	\$ 194,297	\$ 18,956
Personnel/training	1,424,308	1,542,847	1,382,206	160,641
City manager	1,186,362	1,262,041	1,115,329	146,712
City attorney	1,806,534	3,043,626	2,898,489	145,137
City clerk/auditor	508,834	542,057	476,692	65,365
Finance	5,860,772	6,322,477	5,845,693	476,784
Other		1,205,702	1,457,450	(251,748)
Total general government	<u>11,000,063</u>	<u>14,132,003</u>	<u>13,370,156</u>	<u>761,847</u>
Community development	<u>5,525,049</u>	<u>5,849,006</u>	<u>5,201,794</u>	<u>647,212</u>
Public works:				
Engineering and Transportation Dept:				
Construction administration/permits	735,457	799,127	688,819	110,308
Engineering administration	1,024,723	1,157,164	1,030,768	126,396
Total public works	<u>1,760,180</u>	<u>1,956,291</u>	<u>1,719,587</u>	<u>236,704</u>
Parks and recreation:				
Operations and Maintenance Dept:				
Service and maintenance	5,820,624	5,918,250	5,173,051	745,199
Graffiti abatement	297,697	297,697	294,357	3,340
Community Services & Neighborhood Connection:				
Administration	783,575	815,162	741,999	73,163
Planning and development	514,749	461,549	448,734	12,815
Culture	1,288,596	1,318,798	1,280,629	38,169
Recreation division	2,930,130	3,015,585	2,983,009	32,576
Facilities	644,804	696,790	638,250	58,540
Total parks and recreation	<u>12,280,175</u>	<u>12,523,831</u>	<u>11,560,029</u>	<u>963,802</u>
Public safety:				
Fire protection	23,960,376	23,989,693	23,865,064	124,629
Police protection	48,510,517	49,159,177	48,560,335	598,842
Total public safety	<u>72,470,893</u>	<u>73,148,870</u>	<u>72,425,399</u>	<u>723,471</u>
Total expenditures by department	<u>103,036,360</u>	<u>107,610,001</u>	<u>104,276,965</u>	<u>3,333,036</u>
Debt service:				
Principal retirement	9,917	9,917	9,916	1
Interest	1,061	1,061	1,061	
Total debt service	<u>10,978</u>	<u>10,978</u>	<u>10,977</u>	<u>1</u>
Total expenditures	<u>\$ 103,047,338</u>	<u>\$ 107,620,979</u>	<u>\$ 104,287,942</u>	<u>\$ 3,333,037</u>

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

CITY OF MODESTO
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2006

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

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

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

**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.

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

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

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

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

Nonmajor Capital Projects Funds

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

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

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

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

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

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

Nonmajor Debt Service Funds

Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest. Nonmajor Debt Service Funds include:

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

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

CITY OF MODESTO
COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
June 30, 2006

	Special Revenue				
	Operating Grants	Local Transportation	Traffic Safety	Special Gas Tax Street Improvement	Downtown Improvement District
<u>ASSETS</u>					
Cash and cash equivalents	\$ 691,189	\$ 353	\$ 200,667	\$ 6,300,726	\$ 57,188
Cash and cash equivalents with fiscal agent					
Receivables:					
Accounts	386,283				
Interest	6,232	15,965		31,225	2,409
Utilities, net	8,364			23,142	
Taxes				206,773	
Due from governments	930,967	3,088,176		556,156	
Notes receivable, net					
Prepaid expenses/deposits					
Advances to other funds					
Total assets	\$ 2,023,035	\$ 3,104,494	\$ 200,667	\$ 7,118,022	\$ 59,597
 <u>LIABILITIES AND FUND BALANCES</u>					
Liabilities:					
Accounts payable	\$ 160,709	\$ 31,310	\$ 27,727	\$ 611,927	
Accrued salaries and benefits	57,912			67,758	
Due to other funds		1,129,000			
Approved loans payable					
Deferred revenues	619,951	1,934,910		243,389	
Refundable deposits					
Advances from other funds					
Total liabilities	838,572	3,095,220	27,727	923,074	
Fund balances:					
Reserved for:					
Encumbrances	74,591	2,522		962,607	
Loan programs and prepaids					
Interfund advances					
Set-aside requirement					
Debt service					
Unreserved/designated for:					
Pending projects			172,940	5,232,341	\$ 59,597
Unreserved/undesignated	1,109,872	6,752			
Total fund balances	1,184,463	9,274	172,940	6,194,948	59,597
Total liabilities and fund balances	\$ 2,023,035	\$ 3,104,494	\$ 200,667	\$ 7,118,022	\$ 59,597

Housing and Community Development	Strategic Planning and Development	Capital Projects				
		Special Fund for Capital Outlays	Parks	McHenry Mansion Restoration	Redevelop- ment Agency	Improvem- ment Districts
\$ 2,382,261	\$ 1,641,097	\$ 1,913,617	\$ 1,406,735	\$ 6,352	\$ 6,141,457	\$ 27,597
3,793,980						
80,710						
6,750	7,160	5,816	4,833	191	15,757	
437,577						
12,245,270					932,483	
					780,000	
		148,451				
<u>\$ 18,946,548</u>	<u>\$ 1,648,257</u>	<u>\$ 2,067,884</u>	<u>\$ 1,411,568</u>	<u>\$ 6,543</u>	<u>\$ 7,869,697</u>	<u>\$ 27,597</u>
\$ 158,519	\$ 16,231	\$ 146,425	\$ 30		\$ 7,524	\$ 27,597
10,127						
589,219						
					1,000	
			351,768			
<u>757,865</u>	<u>16,231</u>	<u>146,425</u>	<u>351,798</u>		<u>8,524</u>	<u>27,597</u>
17,407	1,297,449	4,880,926			354,195	
11,656,051					1,712,483	
		148,451			4,245,482	
6,515,225	334,577		1,059,770	\$ 6,543	1,549,013	
		(3,107,918)				
<u>18,188,683</u>	<u>1,632,026</u>	<u>1,921,459</u>	<u>1,059,770</u>	<u>6,543</u>	<u>7,861,173</u>	
<u>\$ 18,946,548</u>	<u>\$ 1,648,257</u>	<u>\$ 2,067,884</u>	<u>\$ 1,411,568</u>	<u>\$ 6,543</u>	<u>\$ 7,869,697</u>	<u>\$ 27,597</u>

(continued)

CITY OF MODESTO
COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS (Continued)
June 30, 2006

	Debt Service		Total
	Redevelopment Agency	Public Financing Authority	
<u>ASSETS</u>			
Cash and cash equivalents	\$ 1,224,854		\$ 21,994,093
Cash and cash equivalents with fiscal agent	1,979,630	\$ 5,298,886	11,072,496
Receivables:			
Accounts			466,993
Interest	61,863		158,201
Utilities, net			31,506
Taxes	298,070		504,843
Due from governments			5,012,876
Notes receivable, net			13,177,753
Prepaid expenses/deposits			780,000
Advances to other funds			148,451
Total assets	\$ 3,564,417	\$ 5,298,886	\$ 53,347,212
<u>LIABILITIES AND FUND BALANCES</u>			
Liabilities:			
Accounts payable	\$ 607,857		\$ 1,795,856
Accrued salaries and benefits			135,797
Due to other funds			1,129,000
Approved loans payable			589,219
Deferred revenues			2,798,250
Refundable deposits			1,000
Advances from other funds			351,768
Total liabilities	607,857		6,800,890
Fund balances:			
Reserved for:			
Encumbrances			7,589,697
Loan programs			13,368,534
Interfund advances			148,451
Set-aside requirement			4,245,482
Debt service	2,956,560	\$ 5,298,886	8,255,446
Unreserved/designated for:			
Pending projects			14,930,006
Unreserved/undesignated			(1,991,294)
Total fund balances	2,956,560	5,298,886	46,546,322
Total liabilities and fund balances	\$ 3,564,417	\$ 5,298,886	\$ 53,347,212

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CITY OF MODESTO
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
Year ended June 30, 2006

	Special Revenue				
	Operating Grants	Local Transportation	Traffic Safety	Special Gas Tax Street Improvement	Downtown Improvement District
REVENUES:					
Taxes				\$ 802,502	\$ 214,022
Licenses and permits	\$ 44,000			6,773	
Intergovernmental	1,943,352	\$ 2,711,734		5,614,266	
Charges for services	3,111,846			1,585,804	
Interest and rent	36,552	19,618		74,855	1,265
Net increase (decrease) in fair value of investments	6,592	705		1,144	36
Fines and forfeits	5,280		\$ 793,270		
Miscellaneous	495,355			78,391	
Total revenues	5,642,977	2,732,057	793,270	8,163,735	215,323
EXPENDITURES:					
Current:					
General government	678,742				
Community development					200,743
Highways and streets		20,779		12,160,034	
Public works	3,784,471				
Parks and recreation	10,152				
Public safety	1,955,764		360,357		
Capital outlay:					
General government					
Community development					
Highways and streets		377,428		1,302,346	
Public works		1,658			
Parks and recreation	321,134				
Public safety	88,336				
Debt service:					
Principal retirement				39,443	
Interest				2,110	
Other					
Total expenditures	6,838,599	399,865	360,357	13,503,933	200,743
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(1,195,622)	2,332,192	432,913	(5,340,198)	14,580
OTHER FINANCING SOURCES (USES):					
Transfers in	1,349,628			5,157,376	
Transfers out		(2,322,918)	(1,130,000)	(574,189)	
TOTAL OTHER FINANCING SOURCES (USES)	1,349,628	(2,322,918)	(1,130,000)	4,583,187	
NET CHANGE IN FUND BALANCES	154,006	9,274	(697,087)	(757,011)	14,580
FUND BALANCES, July 1	1,030,457		870,027	6,951,959	45,017
FUND BALANCES, June 30	\$ 1,184,463	\$ 9,274	\$ 172,940	\$ 6,194,948	\$ 59,597

Housing and Community Development	Strategic Planning and Development	Capital Projects				
		Special Fund for Capital Outlays	Parks	McHenry Mansion Restoration	Redevelop- ment Agency	Improve- ment Districts
					\$ 2,268,387	
\$ 3,151,545		\$ 166,485				
97,545	\$ 1,226,000	4,878	\$ 20,655			
300,545	40,385	75,352	21,820	\$ 140	122,703	
11,029	994	988	531	4	2,676	
21,687	111,164	31,500	47,129			
<u>3,582,351</u>	<u>1,378,543</u>	<u>279,203</u>	<u>90,135</u>	<u>144</u>	<u>2,393,766</u>	
2,940,389	1,266,621				830,436	\$ 27,596
		696				
		142,965				
			8,284			
		14,411				
429,126						
		93,947	141,863			
		178,414				
136,000						
233,180						
<u>3,738,695</u>	<u>1,266,621</u>	<u>430,433</u>	<u>150,147</u>		<u>830,436</u>	<u>27,596</u>
(156,344)	111,922	(151,230)	(60,012)	144	1,563,330	(27,596)
(1,462,886)	(300,000)	91,755	898,293			
		(850,579)	(330,330)		(1,399,212)	
(1,462,886)	(300,000)	(758,824)	567,963		(1,399,212)	
(1,619,230)	(188,078)	(910,054)	507,951	144	164,118	(27,596)
19,807,913	1,820,104	2,831,513	551,819	6,399	7,697,055	27,596
<u>\$ 18,188,683</u>	<u>\$ 1,632,026</u>	<u>\$ 1,921,459</u>	<u>\$ 1,059,770</u>	<u>\$ 6,543</u>	<u>\$ 7,861,173</u>	<u>\$</u>

(continued)

CITY OF MODESTO
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS (Continued)
Year ended June 30, 2006

	Debt Service		Total
	Redevelopment Agency	Public Financing Authority	
REVENUES:			
Taxes	\$ 2,182,449		\$ 5,467,360
Licenses and permits			50,773
Intergovernmental			13,587,382
Charges for services			6,046,728
Interest and rent	268,774	\$ 267,624	1,229,633
Net increase (decrease) in fair value of investments	2,127		26,826
Fines and forfeits			798,550
Miscellaneous			785,226
Total revenues	2,453,350	267,624	27,992,478
EXPENDITURES:			
Current:			
General government			678,742
Community development			5,265,785
Highways and streets			12,181,509
Public works			3,927,436
Parks and recreation			18,436
Public safety			2,316,121
Capital outlay:			
General government			14,411
Community development			429,126
Highways and streets			1,679,774
Public works			1,658
Parks and recreation			556,944
Public safety			266,750
Debt service:			
Principal retirement	800,000	495,000	1,470,443
Interest	1,155,110	3,148,787	4,539,187
Other	610,706	8,036	618,742
Total expenditures	2,565,816	3,651,823	33,965,064
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(112,466)	(3,384,199)	(5,972,586)
OTHER FINANCING SOURCES (USES):			
Transfers in	1,399,212	3,386,038	12,282,302
Transfers out	(893,152)		(9,263,266)
TOTAL OTHER FINANCING SOURCES (USES)	506,060	3,386,038	3,019,036
NET CHANGE IN FUND BALANCES	393,594	1,839	(2,953,550)
FUND BALANCES, July 1	2,562,966	5,297,047	49,499,872
FUND BALANCES, June 30	\$ 2,956,560	\$ 5,298,886	\$ 46,546,322

CITY OF MODESTO
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET (GAAP BASIS) AND ACTUAL - OPERATING GRANTS SPECIAL REVENUE FUND
Year ended June 30, 2006

	Budget		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Licenses and permits	\$ 50,000	\$ 50,000	\$ 44,000	\$ (6,000)
Intergovernmental	3,629,019	4,724,725	1,943,352	(2,781,373)
Charges for services	2,959,169	3,132,208	3,111,846	(20,362)
Interest and rent - interest			36,552	36,552
Net increase in fair value of investments			6,592	6,592
Fines and forfeits	300	300	5,280	4,980
Miscellaneous	362,665	377,065	495,355	118,290
Total revenues	<u>7,001,153</u>	<u>8,284,298</u>	<u>5,642,977</u>	<u>(2,641,321)</u>
EXPENDITURES:				
General government	1,178,630	1,244,990	678,742	566,248
Public works	4,093,257	4,525,644	3,784,471	741,173
Parks and recreation	53,740	577,020	331,286	245,734
Public safety	3,474,801	4,029,091	2,044,100	1,984,991
Total expenditures	<u>8,800,428</u>	<u>10,376,745</u>	<u>6,838,599</u>	<u>3,538,146</u>
DEFICIENCY OF REVENUES (UNDER) EXPENDITURES	<u>(1,799,275)</u>	<u>(2,092,447)</u>	<u>(1,195,622)</u>	<u>896,825</u>
OTHER FINANCING SOURCES:				
Transfers in	<u>1,353,211</u>	<u>1,353,211</u>	<u>1,349,628</u>	<u>(3,583)</u>
NET CHANGE IN FUND BALANCE	(446,064)	(739,236)	154,006	893,242
FUND BALANCES, JULY 1	<u>1,030,457</u>	<u>1,030,457</u>	<u>1,030,457</u>	
FUND BALANCES, JUNE 30	<u>\$ 584,393</u>	<u>\$ 291,221</u>	<u>\$ 1,184,463</u>	<u>\$ 893,242</u>

CITY OF MODESTO
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET (GAAP BASIS) AND ACTUAL - LOCAL TRANSPORTATION SPECIAL REVENUE FUND
Year ended June 30, 2006

	Budget		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Intergovernmental	\$ 3,357,708	\$ 3,357,708	\$ 2,711,734	\$ (645,974)
Interest and rent - interest			19,618	19,618
Net increase in fair value of investments			705	705
Total revenues	<u>3,357,708</u>	<u>3,357,708</u>	<u>2,732,057</u>	<u>(625,651)</u>
EXPENDITURES:				
Highways and streets	1,520,879	1,520,879	398,207	1,122,672
Parks and recreation	1,658	1,658	1,658	
Total expenditures	<u>1,522,537</u>	<u>1,522,537</u>	<u>399,865</u>	<u>1,122,672</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>1,835,171</u>	<u>1,835,171</u>	<u>2,332,192</u>	<u>497,021</u>
OTHER FINANCING SOURCES (USES):				
Transfers out	<u>(2,377,000)</u>	<u>(2,285,094)</u>	<u>(2,322,918)</u>	<u>(37,824)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(2,377,000)</u>	<u>(2,285,094)</u>	<u>(2,322,918)</u>	<u>(37,824)</u>
NET CHANGE IN FUND BALANCE	(541,829)	(449,923)	9,274	459,197
FUND BALANCES, JULY 1	<u> </u>	<u> </u>	<u> </u>	<u> </u>
FUND BALANCE (DEFICITS), JUNE 30	<u>\$ (541,829)</u>	<u>\$ (449,923)</u>	<u>\$ 9,274</u>	<u>\$ 459,197</u>

CITY OF MODESTO
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET (GAAP BASIS) AND ACTUAL - TRAFFIC SAFETY SPECIAL REVENUE FUND
Year ended June 30, 2006

	<u>Budget</u>		<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Motor vehicle fines	\$ 825,000	\$ 825,000	\$ 793,270	\$ (31,730)
EXPENDITURES;				
Public safety		502,738	360,357	142,381
EXCESS OF REVENUES OVER EXPENDITURES	825,000	322,262	432,913	(174,111)
OTHER FINANCING USES:				
Transfers out	(1,130,000)	(1,130,000)	(1,130,000)	
NET CHANGE IN FUND BALANCE	(305,000)	(807,738)	(697,087)	(174,111)
FUND BALANCES, JULY 1	870,027	870,027	870,027	
FUND BALANCES, JUNE 30	\$ 565,027	\$ 62,289	\$ 172,940	\$ (174,111)

CITY OF MODESTO
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL - SPECIAL
GAS TAX STREET IMPROVEMENT SPECIAL REVENUE FUND
Year ended June 30, 2006

	<u>Budget</u>		<u>Actual</u>	Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>		<u>(Negative)</u>
REVENUES:				
Intergovernmental:				
State grants	\$ 3,693,720	\$ 4,359,444	\$ 4,476,986	\$ 117,542
Federal grants	782,603	782,603	1,137,280	354,677
Other grants	100	100		(100)
Total intergovernmental revenues	<u>4,476,423</u>	<u>5,142,147</u>	<u>5,614,266</u>	<u>472,119</u>
Taxes	700,000	788,961	802,502	13,541
Licenses and permits	10,724	10,724	6,773	(3,951)
Charges for services	1,302,713	1,581,713	1,585,804	4,091
Interest and rent			74,855	74,855
Net decrease in fair value of investments			1,144	1,144
Miscellaneous	21,328	49,165	78,391	29,226
Total revenues	<u>6,511,188</u>	<u>7,572,710</u>	<u>8,163,735</u>	<u>591,025</u>
EXPENDITURES:				
Current:				
Highway and streets	13,354,741	14,735,748	13,462,380	1,273,368
Debt service:				
Principal retirement	39,443	39,443	39,443	
Interest	2,110	2,110	2,110	
Total expenditures	<u>13,396,294</u>	<u>14,777,301</u>	<u>13,503,933</u>	<u>1,273,368</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>(6,885,106)</u>	<u>(7,204,591)</u>	<u>(5,340,198)</u>	<u>1,864,393</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	5,128,227	5,128,227	5,157,376	29,149
Transfers out	(86,882)	(87,082)	(574,189)	(487,107)
TOTAL OTHER FINANCING SOURCES (USES)	<u>5,041,345</u>	<u>5,041,145</u>	<u>4,583,187</u>	<u>(457,958)</u>
NET CHANGE IN FUNDS BALANCE	(1,843,761)	(2,163,446)	(757,011)	1,406,435
FUND BALANCES, JULY 1	<u>6,951,959</u>	<u>6,951,959</u>	<u>6,951,959</u>	
FUND BALANCES, JUNE 30	<u>\$ 5,108,198</u>	<u>\$ 4,788,513</u>	<u>\$ 6,194,948</u>	<u>\$ 1,406,435</u>

CITY OF MODESTO
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCE - BUDGET (GAAP BASIS) AND ACTUAL - DOWNTOWN
IMPROVEMENT DISTRICT SPECIAL REVENUE FUND
Year ended June 30, 2006

	Budget		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Taxes - business license tax	\$ 210,000	\$ 210,000	\$ 214,022	\$ 4,022
Interest and rent - interest	500	500	1,265	765
Net increase in fair value of investments			36	36
Total revenues	<u>210,500</u>	<u>210,500</u>	<u>215,323</u>	<u>4,823</u>
EXPENDITURES - community development				
Downtown improvement district administration:				
Professional and contractual services	160,260	165,260	166,239	(979)
Materials and supplies	7,500	7,500	7,092	408
Other	28,000	28,000	27,412	588
Total expenditures	<u>195,760</u>	<u>200,760</u>	<u>200,743</u>	<u>17</u>
NET CHANGE IN FUND BALANCE	14,740	9,740	14,580	4,840
FUND BALANCES, JULY 1	<u>45,017</u>	<u>45,017</u>	<u>45,017</u>	
FUND BALANCES, JUNE 30	<u>\$ 59,757</u>	<u>\$ 54,757</u>	<u>\$ 59,597</u>	<u>\$ 4,840</u>

CITY OF MODESTO
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL - HOUSING
AND COMMUNITY DEVELOPMENT SPECIAL REVENUE FUND
Year ended June 30, 2006

	Budget		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Intergovernmental - federal grants	\$ 4,332,932	\$ 4,646,202	\$ 3,151,545	\$ (1,494,657)
Charges for services	127,496	127,496	97,545	(29,951)
Interest and rent - interest	400,000	420,000	300,545	(119,455)
Net increase in fair value of investments			11,029	11,029
Miscellaneous			21,687	21,687
Total revenues	<u>4,860,428</u>	<u>5,193,698</u>	<u>3,582,351</u>	<u>(1,611,347)</u>
EXPENDITURES - community development				
Housing program	2,764,933	2,625,203	1,925,183	700,020
Removal of architectural barriers	2,539,173	2,999,689	1,444,332	1,555,357
Debt service:				
Principal retirement	136,000	136,000	136,000	
Interest	233,180	233,180	233,180	
Total expenditures	<u>5,673,286</u>	<u>5,994,072</u>	<u>3,738,695</u>	<u>2,255,377</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>(812,858)</u>	<u>(800,374)</u>	<u>(156,344)</u>	<u>644,030</u>
OTHER FINANCING USES:				
Transfers out		(1,624,669)	(1,462,886)	161,783
TOTAL OTHER FINANCING SOURCES (USES)		<u>(1,624,669)</u>	<u>(1,462,886)</u>	<u>161,783</u>
NET CHANGE IN FUND BALANCE	(812,858)	(2,425,043)	(1,619,230)	805,813
FUND BALANCES, JULY 1	<u>19,807,913</u>	<u>19,807,913</u>	<u>19,807,913</u>	
FUND BALANCES, JUNE 30	<u>\$ 18,995,055</u>	<u>\$ 17,382,870</u>	<u>\$ 18,188,683</u>	<u>\$ 805,813</u>

CITY OF MODESTO
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL - STRATEGIC
PLANNING AND DEVELOPMENT SPECIAL REVENUE FUND
Year ended June 30, 2006

	Budget		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Charges for services	\$ 1,294,509	\$ 1,294,509	\$ 1,226,000	\$ (68,509)
Interest and rent - interest			40,385	40,385
Net increase in fair value of investments			994	994
Miscellaneous	111,114	111,114	111,164	50
Total revenues	<u>1,405,623</u>	<u>1,405,623</u>	<u>1,378,543</u>	<u>(27,080)</u>
EXPENDITURES:				
Community development		3,272,595	1,266,621	2,005,974
Total expenditures		<u>3,272,595</u>	<u>1,266,621</u>	<u>2,005,974</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	1,405,623	(1,866,972)	111,922	1,978,894
OTHER FINANCING USES:				
Transfers out	(300,000)	(300,000)	(300,000)	
TOTAL OTHER FINANCING SOURCES (USES)	<u>(300,000)</u>	<u>(300,000)</u>	<u>(300,000)</u>	
NET CHANGE IN FUND BALANCE	1,105,623	(2,166,972)	(188,078)	1,978,894
FUND BALANCES, JULY 1	<u>1,820,104</u>	<u>1,820,104</u>	<u>1,820,104</u>	
FUND BALANCES, JUNE 30	<u>\$ 2,925,727</u>	<u>\$ (346,868)</u>	<u>\$ 1,632,026</u>	<u>\$ 1,978,894</u>

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Nonmajor Enterprise Funds

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

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

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

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

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

BUS FUND – Pursuant to the terms of a Federal grant agreement, the City has agreed to provide mass transportation service. All operating, maintenance, and capital expenditures are appropriated in this fund. Buses are operated by a private contractor under the terms of a supervisory agreement with the City. A separate contract agreement provides Dial-a-Ride service for the elderly and handicapped.

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

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

CITY OF MODESTO
COMBINING STATEMENT OF NET ASSETS - NON MAJOR ENTERPRISE FUNDS
June 30, 2006

	Parking	Storm Drain	Compost
<u>ASSETS</u>			
Current assets:			
Cash and cash equivalents	\$ 1,067,156	\$ 883,536	\$ 366,544
Cash and cash equivalents with fiscal agent			
Receivables:			
Accounts	8,825	5,930	263,172
Interest	3,442	37,951	822
Utilities, net		558,412	
Due from governments		4,538	
Property held for resale	630,000		
Total current assets	1,709,423	1,490,367	630,538
Capital assets:			
Land and construction in progress	3,142,479	1,818,415	
Other capital assets, net of accumulated depreciation	8,003,588	15,658,887	658,317
Total assets	12,855,490	18,967,669	1,288,855
<u>LIABILITIES</u>			
Current liabilities:			
Accounts payable	30,572	102,789	3,704
Accrued salaries and benefits	4,400	18,549	3,641
Interest payable			4,953
Current portion - long-term debt			70,955
Deferred revenues		(9,684)	
Total current liabilities	34,972	111,654	83,253
Noncurrent liabilities:			
Obligations under capital leases			151,633
Certificates of participation			
Total liabilities	34,972	111,654	234,886
<u>NET ASSETS</u>			
Invested in capital assets, net of related debt	11,146,067	17,477,302	587,362
Unrestricted	1,674,451	1,378,713	466,607
Total net assets	\$ 12,820,518	\$ 18,856,015	\$ 1,053,969

<u>Airport</u>	<u>Bus</u>	<u>Golf</u>	<u>Community Center</u>	<u>Total</u>
\$ 1,390,515	\$ 1,846,214	\$ 253,324	\$ 439,758	\$ 6,247,047
		612,784		612,784
11,621	6,026	16,607	53,966	366,147
4,412	9,148	5,394	226	61,395
				558,412
422,629	3,080,432	1,149		3,508,748
				630,000
<u>1,829,177</u>	<u>4,941,820</u>	<u>889,258</u>	<u>493,950</u>	<u>11,984,533</u>
3,697,735	5,405,525	494,938	3,764,844	18,323,936
<u>5,612,652</u>	<u>14,627,250</u>	<u>3,259,831</u>	<u>11,640,564</u>	<u>59,461,089</u>
<u>11,139,564</u>	<u>24,974,595</u>	<u>4,644,027</u>	<u>15,899,358</u>	<u>89,769,558</u>
398,288	683,643	3,540	33,313	1,255,849
6,199	16,104		10,612	59,505
		50,845		55,798
		205,000		275,955
13,425	1,911,388	209,297		2,124,426
<u>417,912</u>	<u>2,611,135</u>	<u>468,682</u>	<u>43,925</u>	<u>3,771,533</u>
		5,650,000		151,633
				5,650,000
<u>417,912</u>	<u>2,611,135</u>	<u>6,118,682</u>	<u>43,925</u>	<u>9,573,166</u>
9,310,387	20,032,775	(2,100,231)	15,405,408	71,859,070
<u>1,411,265</u>	<u>2,330,685</u>	<u>625,576</u>	<u>450,025</u>	<u>8,337,322</u>
<u>\$ 10,721,652</u>	<u>\$ 22,363,460</u>	<u>\$ (1,474,655)</u>	<u>\$ 15,855,433</u>	<u>\$ 80,196,392</u>

CITY OF MODESTO
COMBINING STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET ASSETS - NON MAJOR ENTERPRISE FUNDS
Year ended June 30, 2006

	<u>Parking</u>	<u>Storm Drain</u>	<u>Compost</u>
OPERATING REVENUES:			
Charges for services	\$ 1,176,061	\$ 5,273,902	\$ 1,317,105
Miscellaneous		3,402	
Total operating revenues	<u>1,176,061</u>	<u>5,277,304</u>	<u>1,317,105</u>
OPERATING EXPENSES:			
Salaries and wages	245,229	1,074,081	238,417
Contractual services	251,374	1,651,553	74,483
Utilities	104,984	100,190	1,914
Maintenance and supplies	74,033	881,600	346,691
Insurance	26,264	7,647	3,065
Employee benefits	51,378	436,164	131,585
Administration services	101,249	899,490	83,851
Allocated indirect administrative costs	26,679	249,352	
Other	9,415	11,549	5,404
Depreciation	388,499	577,784	65,227
Total operating expenses	<u>1,279,104</u>	<u>5,889,410</u>	<u>950,637</u>
OPERATING INCOME (LOSS)	<u>(103,043)</u>	<u>(612,106)</u>	<u>366,468</u>
NONOPERATING REVENUES (EXPENSES)			
Operating grants			
Gain (Loss) on disposition of capital assets		4,912	
Tax revenue			
Tax expense	(16,551)		
Interest income	21,414	16,665	140
Net increase in fair value of investments	585	433	3,743
Rental income			
Interest expense			(13,072)
Total nonoperating revenues (expenses)	<u>5,448</u>	<u>22,010</u>	<u>(9,189)</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	<u>(97,595)</u>	<u>(590,096)</u>	<u>357,279</u>
Capital contributions		1,132,034	30,070
Transfers in		298,647	666,620
Transfers out		(103,350)	
CHANGE IN NET ASSETS	<u>(97,595)</u>	<u>737,235</u>	<u>1,053,969</u>
NET ASSETS (DEFICIT), July 1	<u>12,918,113</u>	<u>18,118,780</u>	
NET ASSETS (DEFICIT), June 30	<u>\$ 12,820,518</u>	<u>\$ 18,856,015</u>	<u>\$ 1,053,969</u>

<u>Airport</u>	<u>Bus</u>	<u>Golf</u>	<u>Community Center</u>	<u>Total</u>
\$ 574,011	\$ 2,352,734	\$ 2,222,736	\$ 534,176	\$ 13,450,725
3,677	292,888	2	8,909	308,878
577,688	2,645,622	2,222,738	543,085	13,759,603
322,823	847,030		846,742	3,574,322
103,593	7,041,782	1,628,646	56,833	10,808,264
93,413	85,250	3,565	186,881	576,197
99,906	1,877,910	57,740	322,349	3,660,229
63,347	17,322	10,012	48,462	176,119
118,147	324,870		228,305	1,290,449
21,463	432,479	50,580	10,414	1,599,526
38,256	277,794	92,135		684,216
54,092	141,722	5,144	8,599	235,925
411,413	1,125,709	311,818	775,967	3,656,417
1,326,453	12,171,868	2,159,640	2,484,552	26,261,664
(748,765)	(9,526,246)	63,098	(1,941,467)	(12,502,061)
50,351	8,267,538			8,317,889
(28,955)				(24,043)
207,749				207,749
(735)				(17,286)
25,900	70,450	24,813	1,798	161,180
677	1,554	95	2	7,089
164,130	316,245	54,670	501,118	1,036,163
419,117	8,655,787	(308,515)	502,918	(321,587)
(329,648)	(870,459)	(228,937)	502,918	9,367,154
1,327,385	478,796			2,968,285
	6,882	65,288	704,000	1,741,437
(84)	(18,625)			(122,059)
997,653	(403,406)	(100,551)	(734,549)	1,452,756
9,723,999	22,766,866	(1,374,104)	16,589,982	78,743,636
\$ 10,721,652	\$ 22,363,460	\$ (1,474,655)	\$ 15,855,433	\$ 80,196,392

CITY OF MODESTO
COMBINING STATEMENT OF CASH FLOWS - NONMAJOR ENTERPRISE FUNDS
Year ended June 30, 2006

	Parking	Storm Drain	Compost
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers and users	\$ 1,171,223	\$ 5,244,115	\$ 1,164,719
Receipts from interfund services provided		23,910	
Payments to suppliers	(400,574)	(1,822,347)	(255,998)
Payments to employees	(293,534)	(1,505,418)	(369,630)
Payments for interfund services used	(196,523)	(1,947,221)	(279,644)
Net cash provided (used) by operating activities	280,592	(6,961)	259,447
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Operating grants received			
Taxes received			
Transfers in		298,647	363,307
Transfers out		(103,350)	
Net cash provided (used) by noncapital financing activities		195,297	363,307
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Acquisition and construction of capital assets	(2)	(109,720)	(6,569)
Principal repayments			(67,899)
Interest paid			(13,072)
Capital grants received		96,906	
Net cash used by capital and related financing activities	(2)	(12,814)	(87,540)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest received	20,682	17,804	(1,310)
Net increase in the fair value of investments	585	433	3,743
Net cash provided by investing activities	21,267	18,237	2,433
Net increase (decrease) in cash and cash equivalents	301,857	193,759	537,647
CASH AND CASH EQUIVALENTS, JULY 1	765,299	689,777	(171,103)
CASH AND CASH EQUIVALENTS, JUNE 30	\$ 1,067,156	\$ 883,536	\$ 366,544
RECONCILIATION TO STATEMENT OF NET ASSETS:			
Cash and cash equivalents	\$ 1,067,156	\$ 883,536	\$ 366,544
Cash and cash equivalents with fiscal agent			
TOTAL CASH AND CASH EQUIVALENTS	\$ 1,067,156	\$ 883,536	\$ 366,544

<u>Airport</u>	<u>Bus</u>	<u>Golf</u>	<u>Community Center</u>	<u>Total</u>
\$ 759,909	\$ 2,963,721	\$ 2,279,820	\$ 1,051,761	\$ 14,635,268
101,874	(8,832,946)	(1,697,396)	(523,118)	(13,430,505)
(438,279)	(1,167,767)		(1,072,969)	(4,847,597)
(196,326)	(1,025,498)	(150,447)	(128,613)	(3,924,272)
<u>227,178</u>	<u>(8,062,490)</u>	<u>431,977</u>	<u>(672,939)</u>	<u>(7,543,196)</u>
50,351	6,543,564			6,593,915
207,749				207,749
	6,882	65,288	704,000	1,438,124
<u>(84)</u>	<u>(18,625)</u>			<u>(122,059)</u>
<u>258,016</u>	<u>6,531,821</u>	<u>65,288</u>	<u>704,000</u>	<u>8,117,729</u>
(1,230,223)	(478,796)	(6,691)	(72,103)	(1,904,104)
		(195,000)		(262,899)
		(310,238)		(323,310)
<u>974,935</u>	<u>478,796</u>			<u>1,550,637</u>
<u>(255,288)</u>		<u>(511,929)</u>	<u>(72,103)</u>	<u>(939,676)</u>
25,304	76,048	24,805	2,414	165,747
677	1,554	95	2	7,089
<u>25,981</u>	<u>77,602</u>	<u>24,900</u>	<u>2,416</u>	<u>172,836</u>
255,887	(1,453,067)	10,236	(38,626)	(192,307)
<u>1,134,628</u>	<u>3,299,281</u>	<u>855,872</u>	<u>478,384</u>	<u>7,052,138</u>
\$ <u><u>1,390,515</u></u>	\$ <u><u>1,846,214</u></u>	\$ <u><u>866,108</u></u>	\$ <u><u>439,758</u></u>	\$ <u><u>6,859,831</u></u>
\$ 1,390,515	\$ 1,846,214	\$ 253,324	\$ 439,758	\$ 6,247,047
		612,784		612,784
\$ <u><u>1,390,515</u></u>	\$ <u><u>1,846,214</u></u>	\$ <u><u>866,108</u></u>	\$ <u><u>439,758</u></u>	\$ <u><u>6,859,831</u></u>

(continued)

CITY OF MODESTO
COMBINING STATEMENT OF CASH FLOWS - NON MAJOR ENTERPRISE FUNDS (Continued)
Year ended June 30, 2006

	Parking	Storm Drain	Compost
RECONCILIATION OF OPERATING INCOME (LOSS)			
TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
Operating income (loss)	\$ (103,043)	\$ (612,106)	\$ 366,468
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	388,499	577,784	65,227
Rental income			
Taxes paid	(16,551)		
Change in assets and liabilities:			
(Increase) decrease in accounts receivable	104,534	259	(152,386)
(Increase) in utilities receivable		(9,538)	
Increase (decrease) in accounts payable and accrued expenses	13,452	31,813	(20,234)
Increase in accrued salaries and benefits	3,073	4,827	372
Increase in deferred revenues	(109,372)		
Total adjustments	383,635	605,145	(107,021)
Net cash provided (used) by operating activities	\$ 280,592	\$ (6,961)	\$ 259,447

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

Capital assets transferred from other funds	\$	664,962	\$ 84,540
Developer infrastructure contributions		370,166	

<u>Airport</u>	<u>Bus</u>	<u>Golf</u>	<u>Community Center</u>	<u>Total</u>
\$ <u>(748,765)</u>	\$ <u>(9,526,246)</u>	\$ <u>63,098</u>	\$ <u>(1,941,467)</u>	\$ <u>(12,502,061)</u>
411,413	1,125,709	311,818	775,967	3,656,417
164,130	316,245	54,670	501,118	1,036,163
(533)				(17,084)
4,464	1,854	(5,163)	7,558	(38,880)
				(9,538)
380,353	15,815	(21)	(18,193)	402,985
2,691	4,133		2,078	17,174
13,425		7,575		(88,372)
<u>975,943</u>	<u>1,463,756</u>	<u>368,879</u>	<u>1,268,528</u>	<u>4,958,865</u>
\$ <u>227,178</u>	\$ <u>(8,062,490)</u>	\$ <u>431,977</u>	\$ <u>(672,939)</u>	\$ <u>(7,543,196)</u>

\$ 749,502
370,166

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Internal Service Funds

Internal Service Funds are established to finance and account for services and commodities furnished by a designated agency of a governmental unit to other departments of the same governmental unit. Since the services and commodities are supplied exclusively to other departments of a governmental jurisdiction, they are distinguishable from those public services which are rendered to the public in general and which are accounted for in General, Special Revenue, or Enterprise Funds. Internal Service Funds include:

FLEET MANAGEMENT FUND – To provide the maintenance necessary for the City's equipment pool, which serves the needs of all City departments.

CENTRAL SERVICES FUND – To provide office supplies, various maintenance and construction materials, records storage, and mail services to all City departments.

INFORMATION AND TECHNOLOGY SERVICES FUND – To finance and account for the replacement, upgrade and maintenance of the City's network and technology infrastructure, and to develop and implement a coordinated City-wide information technology plan.

INSURANCE FUND – To finance and account for the City's insurance and risk management programs.

EMPLOYEE BENEFITS MANAGEMENT FUND – To account for all compensated absences and other employee benefits. Insurance benefits for current employees are accounted for in the Insurance Fund.

BUILDING SERVICES FUND – To account for the true cost of occupying and maintaining office space, to better reflect the value of that space, and to accumulate amounts for future building repair costs.

CITY OF MODESTO
COMBINING STATEMENT OF NET ASSETS - INTERNAL SERVICE FUNDS
June 30, 2006

	<u>Fleet Management</u>	<u>Central Services</u>	<u>Information & Technology Services</u>	<u>Insurance</u>
<u>ASSETS</u>				
Current assets:				
Cash and cash equivalents	\$ 12,073,921	\$ 275,339	\$ 2,217,145	\$ 16,514,047
Receivables:				
Accounts receivable	8,125			821,403
Interest	11,593	1,249	6,681	143,485
Inventories		516,919		
Due from governments	38,687			
Advances to other funds	1,903,476			
Total current assets	<u>14,035,802</u>	<u>793,507</u>	<u>2,223,826</u>	<u>17,478,935</u>
Noncurrent assets:				
Land and construction in progress	821,033			
Other capital assets, net of accumulated depreciation	<u>16,272,661</u>	<u>67,480</u>	<u>2,352,511</u>	<u>28,751</u>
Total assets	<u>31,129,496</u>	<u>860,987</u>	<u>4,576,337</u>	<u>17,507,686</u>
<u>LIABILITIES</u>				
Current liabilities:				
Accounts payable	129,980	184,928	66,155	355,307
Accrued salaries and benefits	21,540	4,188	32,222	6,965
Current portion - compensated absences				
Current portion - claims liability				5,156,560
Current portion - long-term debt	<u>26,587</u>			
Total current liabilities	<u>178,107</u>	<u>189,116</u>	<u>98,377</u>	<u>5,518,832</u>
Noncurrent liabilities:				
Compensated absences				
Claims liability				11,174,550
Long-term debt:				
Notes payable	<u>144,446</u>			
Total liabilities	<u>322,553</u>	<u>189,116</u>	<u>98,377</u>	<u>16,693,382</u>
<u>NET ASSETS</u>				
Invested in capital assets, net of related debt	16,922,661	67,480	2,352,511	28,751
Unrestricted	<u>13,884,282</u>	<u>604,391</u>	<u>2,125,449</u>	<u>785,553</u>
Total net assets	<u>\$ 30,806,943</u>	<u>\$ 671,871</u>	<u>\$ 4,477,960</u>	<u>\$ 814,304</u>

<u>Employee Benefits Management</u>	<u>Building Services</u>	<u>Total</u>
\$ 16,905,858	\$ 41,665	\$ 48,027,975
4,530		834,058
56,551		219,559
		516,919
		38,687
		<u>1,903,476</u>
<u>16,966,939</u>	<u>41,665</u>	<u>51,540,674</u>
		821,033
<u>5,405</u>	<u>191,083</u>	<u>18,917,891</u>
<u>16,972,344</u>	<u>232,748</u>	<u>71,279,598</u>
757,085	23,035	1,516,490
890	18,630	84,435
2,769,104		2,769,104
		5,156,560
		<u>26,587</u>
<u>3,527,079</u>	<u>41,665</u>	<u>9,553,176</u>
58,847,850		58,847,850
		11,174,550
		<u>144,446</u>
<u>62,374,929</u>	<u>41,665</u>	<u>79,720,022</u>
5,405	191,083	19,567,891
<u>(45,407,990)</u>		<u>(28,008,315)</u>
<u>\$ (45,402,585)</u>	<u>\$ 191,083</u>	<u>\$ (8,440,424)</u>

CITY OF MODESTO
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET ASSETS - INTERNAL SERVICE FUNDS
Year ended June 30, 2006

	<u>Fleet Management</u>	<u>Central Services</u>	<u>Information & Technology Services</u>	<u>Insurance</u>
OPERATING REVENUES:				
Charges for services	\$ 7,953,420	\$ 306,351	\$ 3,546,441	\$ 21,316,594
Sales		2,616,588		
Cost of sales		(2,604,232)		
Total operating revenues	<u>7,953,420</u>	<u>318,707</u>	<u>3,546,441</u>	<u>21,316,594</u>
OPERATING EXPENSES:				
Salaries and wages	1,083,045	200,178	1,437,826	355,025
Contractual services	430,497	70,071	250,566	51,811
Utilities	8,098	919	273,257	945
Maintenance and supplies	2,404,170	41,384	1,353,121	11,468
Insurance	52,881	3,516	12,864	10,976,444
Claims expense				7,458,436
Employee benefits	456,818	88,848	517,423	133,042
Administration services	73,752	6,565	551	1,283,028
Allocated indirect administrative costs	264,010			
Other	16,419	566	53,668	30,083
Depreciation	2,433,441	9,598	356,103	8,808
Total operating expenses	<u>7,223,131</u>	<u>421,645</u>	<u>4,255,379</u>	<u>20,309,090</u>
OPERATING INCOME (LOSS)	<u>730,289</u>	<u>(102,938)</u>	<u>(708,938)</u>	<u>1,007,504</u>
NONOPERATING REVENUES (EXPENSES)				
Loss on disposition of capital assets	(171,110)		(70,773)	
Interest income	152,100	8,546	39,171	348,395
Net increase (decrease) in fair value of investments		212	1,134	9,577
Interest expense	(11,083)		(458)	
Total nonoperating revenues (expenses)	<u>(30,093)</u>	<u>8,758</u>	<u>(30,926)</u>	<u>357,972</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	700,196	(94,180)	(739,864)	1,365,476
Capital contributions	304,210			
Transfers in	251,179		1,461,182	
Transfers out	(586,393)			
CHANGE IN NET ASSETS	669,192	(94,180)	721,318	1,365,476
NET ASSETS (DEFICITS), July 1	<u>30,137,751</u>	<u>766,051</u>	<u>3,756,642</u>	<u>(551,172)</u>
NET ASSETS (DEFICITS), June 30	<u>\$ 30,806,943</u>	<u>\$ 671,871</u>	<u>\$ 4,477,960</u>	<u>\$ 814,304</u>

<u>Employee Benefits Management</u>	<u>Building Services</u>	<u>Total</u>
\$ 38,633,482	\$ 2,223,303	\$ 73,979,591
		2,616,588
		(2,604,232)
<u>38,633,482</u>	<u>2,223,303</u>	<u>73,991,947</u>
46,890	949,062	4,072,026
51,950	158,546	1,013,441
	189,792	473,011
35,484	240,370	4,085,997
364	8,191	11,054,260
		7,458,436
36,157,104	398,086	37,751,321
46,668	81,801	1,492,365
		264,010
56,031	3,951	160,718
1,562	28,965	2,838,477
<u>36,396,053</u>	<u>2,058,764</u>	<u>70,664,062</u>
<u>2,237,429</u>	<u>164,539</u>	<u>3,327,885</u>
		(241,883)
354,923	(7,176)	895,959
9,604	(217)	20,310
		(11,541)
<u>364,527</u>	<u>(7,393)</u>	<u>662,845</u>
2,601,956	157,146	3,990,730
	14,424	318,634
		1,712,361
		(586,393)
<u>2,601,956</u>	<u>171,570</u>	<u>5,435,332</u>
<u>(48,004,541)</u>	<u>19,513</u>	<u>(13,875,756)</u>
<u>\$ (45,402,585)</u>	<u>\$ 191,083</u>	<u>\$ (8,440,424)</u>

CITY OF MODESTO
COMBINING STATEMENT OF CASH FLOWS - INTERNAL SERVICE FUNDS
Year ended June 30, 2006

	<u>Fleet Management</u>	<u>Central Services</u>	<u>Information & Technology Services</u>	<u>Insurance</u>
CASH FLOWS FROM OPERATING ACTIVITIES:				
Receipts from customers and users	\$ 153,585	\$ 34,642		\$ 836,081
Receipts from interfund services provided	7,753,023	284,065	\$ 3,546,441	19,955,559
Payments to suppliers	(2,691,075)	(68,231)	(1,903,045)	(10,999,355)
Payment of insurance claims				(5,089,127)
Payments to employees	(1,534,437)	(288,535)	(1,938,570)	(485,190)
Payments for interfund services used	<u>(515,269)</u>	<u>(70,596)</u>	<u>(57,323)</u>	<u>(1,329,363)</u>
Net cash provided (used) by operating activities	<u>3,165,827</u>	<u>(108,655)</u>	<u>(352,497)</u>	<u>2,888,605</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Transfers in	251,179		1,461,182	
Transfers out	(586,393)			
Repayment of advances to other funds	96,524			
Due to other funds				
Net cash provided (used) by noncapital financing activities	<u>(238,690)</u>		<u>1,461,182</u>	
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Acquisition and construction of capital assets	(3,341,583)	(24,413)	(898,022)	
Proceeds from sale of capital assets	101,024		13,877	
Principal repayments	(25,043)		(20,545)	
Interest paid	<u>(11,083)</u>		<u>(458)</u>	
Net cash used by capital and related financing activities	<u>(3,276,685)</u>	<u>(24,413)</u>	<u>(905,148)</u>	
CASH FLOWS FROM INVESTING ACTIVITIES:				
Interest received	152,100	8,281	38,074	335,828
Net increase in the fair value of investments		212	1,134	9,577
Net cash provided by investing activities	<u>152,100</u>	<u>8,493</u>	<u>39,208</u>	<u>345,405</u>
Net increase (decrease) in cash and cash equivalents	(197,448)	(124,575)	242,745	3,234,010
CASH AND CASH EQUIVALENTS, JULY 1	<u>12,271,369</u>	<u>399,914</u>	<u>1,974,400</u>	<u>13,280,037</u>
CASH AND CASH EQUIVALENTS, JUNE 30	<u>\$ 12,073,921</u>	<u>\$ 275,339</u>	<u>\$ 2,217,145</u>	<u>\$ 16,514,047</u>

<u>Employee Benefits Management</u>	<u>Building Services</u>	<u>Total</u>
\$ 13,803		\$ 1,038,111
38,615,149	\$ 2,223,303	72,377,540
35,116	(536,436)	(16,163,026)
(37,023,970)	(1,341,027)	(5,089,127)
<u>(51,852)</u>	<u>(176,076)</u>	<u>(42,611,729)</u>
<u>1,588,246</u>	<u>169,764</u>	<u>(2,200,479)</u>
		1,712,361
		(586,393)
		96,524
	<u>(125,000)</u>	<u>(125,000)</u>
	<u>(125,000)</u>	<u>1,097,492</u>
	(1)	(4,264,019)
		114,901
		(45,588)
		<u>(11,541)</u>
	<u>(1)</u>	<u>(4,206,247)</u>
347,299	(5,750)	875,832
<u>9,604</u>	<u>(217)</u>	<u>20,310</u>
<u>356,903</u>	<u>(5,967)</u>	<u>896,142</u>
1,945,149	38,796	5,138,677
<u>14,960,709</u>	<u>2,869</u>	<u>42,889,298</u>
\$ <u>16,905,858</u>	\$ <u>41,665</u>	\$ <u>48,027,975</u>

(continued)

CITY OF MODESTO
COMBINING STATEMENT OF CASH FLOWS - INTERNAL SERVICE FUNDS (Continued)
Year ended June 30, 2006

	<u>Fleet Management</u>	<u>Central Services</u>	<u>Information & Technology Services</u>	<u>Insurance</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:				
Operating income (loss)	\$ 730,289	\$ (102,938)	\$ (708,938)	\$ 1,007,504
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation	2,433,441	9,598	356,103	8,808
Change in assets and liabilities:				
(Increase) decrease in accounts receivable	(8,125)			(524,954)
(Increase) decrease in due from governments	(38,687)			
(Increase) in notes receivable				
Decrease in inventories		(141,400)		
Increase (decrease) in accounts payable and accrued expenses	43,483	125,594	(16,341)	25,061
Increase in accrued salaries and benefits payable	5,426	491	16,679	2,877
Increase in compensated absences				
Decrease in claims liability				2,369,309
Total adjustments	<u>2,435,538</u>	<u>(5,717)</u>	<u>356,441</u>	<u>1,881,101</u>
Net cash provided (used) by operating activities	<u>\$ 3,165,827</u>	<u>\$ (108,655)</u>	<u>\$ (352,497)</u>	<u>\$ 2,888,605</u>
 NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:				
Capital assets transferred in	\$ 304,210			

<u>Employee Benefits Management</u>	<u>Building Services</u>	<u>Total</u>
\$ <u>2,237,429</u>	\$ <u>164,539</u>	\$ <u>3,327,885</u>
1,562	28,965	2,838,477
(4,530)		(537,609)
3,096		(38,687)
	78	3,096
173,761	(29,939)	(141,322)
279	6,121	321,619
(823,351)		31,873
		(823,351)
<u>(649,183)</u>	<u>5,225</u>	<u>2,369,309</u>
\$ <u><u>1,588,246</u></u>	\$ <u><u>169,764</u></u>	\$ <u><u>4,023,405</u></u>
	\$ 14,424	\$ 318,634

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AGENCY FUNDS

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

Special Districts – To account for collection of special district assessments from property owners and forwarding these collections to trustees for payment to bondholders.

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

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

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

CITY OF MODESTO
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES AGENCY FUNDS
Year ended June 30, 2006

	Balance June 30, 2005	Additions	Deletions	Balance June 30, 2006
<hr/> <u>Special Districts</u> <hr/>				
<u>ASSETS</u>				
Cash and cash equivalents	\$ 120,416	\$ 1,357,817	\$ 227,811	\$ 1,250,422
Cash and cash equivalents with fiscal agent	118,313	5,614,107	1,219,530	4,512,890
	<u>\$ 238,729</u>	<u>\$ 6,971,924</u>	<u>\$ 1,447,341</u>	<u>\$ 5,763,312</u>
 <u>LIABILITIES</u>				
Due to special district bondholders	\$ 238,729	\$ 6,971,924	\$ 1,447,341	\$ 5,763,312
 <hr/> <u>Tuolumne River Regional Park</u> <hr/>				
<u>ASSETS</u>				
Cash and cash equivalents	\$ 315,698	\$ 444,203	\$ 725,975	\$ 33,926
 <u>LIABILITIES</u>				
Deposits held as agent for others	\$ 315,698	\$ 444,203	\$ 725,975	\$ 33,926
 <hr/> <u>City/County Joint Powers Financing Authority</u> <hr/>				
<u>ASSETS</u>				
Cash and cash equivalents	\$ 113,595	\$ 1,409,491	\$ 1,428,366	\$ 94,720
 <u>LIABILITIES</u>				
Deposits held as agent for others	\$ 113,595	\$ 1,409,491	\$ 1,428,366	\$ 94,720
 <hr/> <u>Stanislaus Drug Enforcement Agency</u> <hr/>				
<u>ASSETS</u>				
Cash and cash equivalents	\$ 0	\$ 3,084,151	\$ 1,916,516	\$ 1,167,635
 <u>LIABILITIES</u>				
Deposits held as agent for others	\$ 0	\$ 3,084,151	\$ 1,916,516	\$ 1,167,635
 <hr/> <u>Totals - All Agency Funds</u> <hr/>				
<u>ASSETS</u>				
Cash and cash equivalents	\$ 549,709	\$ 6,295,662	\$ 4,298,668	\$ 2,546,703
Cash and cash equivalents with fiscal agent	118,313	5,614,107	1,219,530	4,512,890
	<u>\$ 668,022</u>	<u>\$ 11,909,769</u>	<u>\$ 5,518,198</u>	<u>\$ 7,059,593</u>
 <u>LIABILITIES</u>				
Due to special district bondholders	\$ 238,729	\$ 6,971,924	\$ 1,447,341	\$ 5,763,312
Deposits held as agent for others	429,293	4,937,845	4,070,857	1,296,281
	<u>\$ 668,022</u>	<u>\$ 11,909,769</u>	<u>\$ 5,518,198</u>	<u>\$ 7,059,593</u>

STATISTICAL SECTION

Statistical Section

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

Financial Trends

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

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

Revenue Capacity

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

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

Debt Capacity

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

1. Ratio of Outstanding Debt by Type
2. Computation of Direct and Overlapping Debt
3. Computation of Legal Bonded Debt Margin
4. Bonded Debt Pledged Revenue Coverage, Wastewater Revenue Bonds
5. Continuing Disclosure Requirements:
 - a. Wastewater Revenue Bonds
 - b. Modesto Public Financing Authority Lease Revenue Bonds, Series 1997
 - c. Water Utility System Refunding Revenue Certificates of Participation, and Modesto Irrigation District Financing Authority Domestic Water Project Refunding Revenue Bonds

Demographic and Economic Information

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

1. Demographic and Economic Statistics
2. Principal Employers

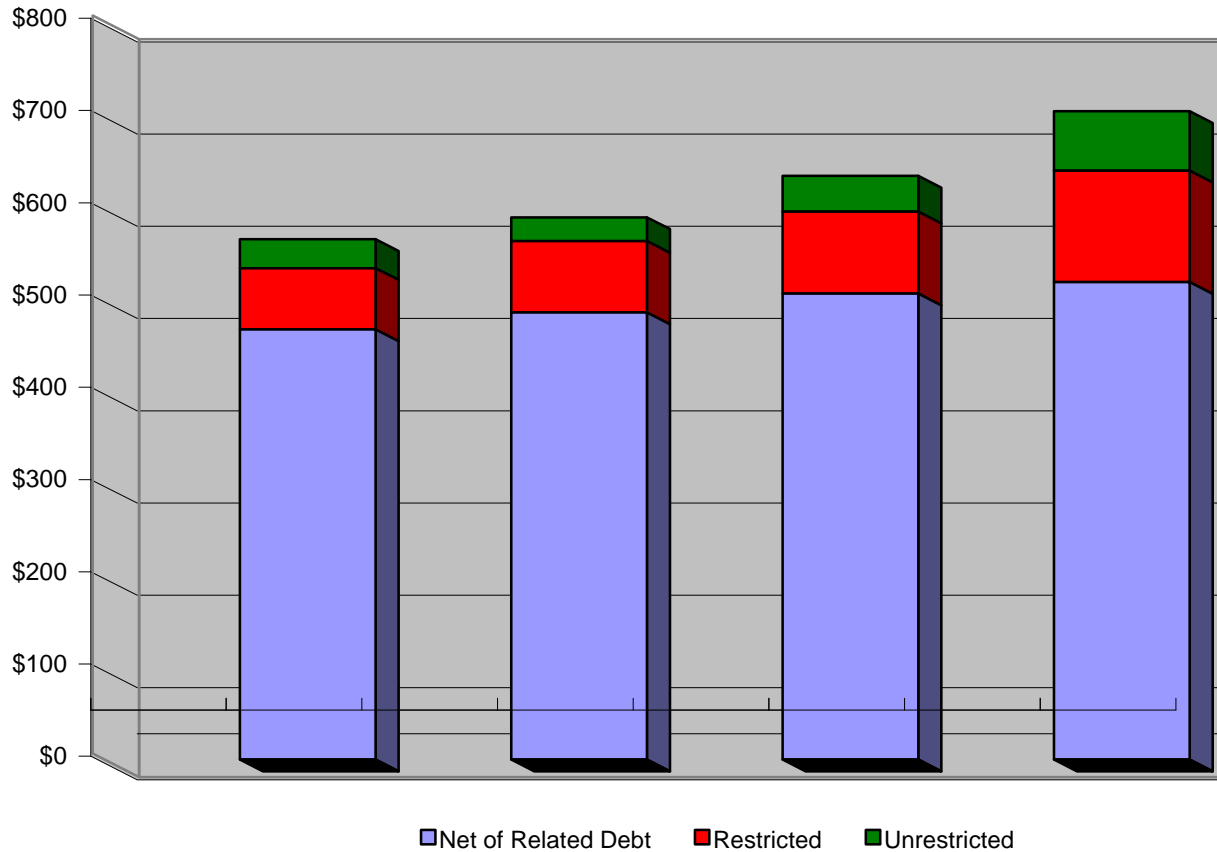
Operating Information

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

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

Sources: Unless otherwise noted, the information in these schedules is derived from the Comprehensive Annual Financial Reports for the relevant year. The City implemented GASB Statement No. 34 in 2002; however, for schedules presenting entity-wide information, the City has elected to include information beginning in fiscal year 2003.

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



	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Governmental activities				
Invested in capital assets, net of related debt	\$259,156,770	\$275,171,096	\$288,391,776	\$296,401,824
Restricted	65,766,576	76,577,126	88,725,341	120,937,678
Unrestricted	2,530,581	(11,382,001)	(6,715,483)	(2,303,306)
Total governmental activities net assets	<u>\$327,453,927</u>	<u>\$340,366,221</u>	<u>\$370,401,634</u>	<u>\$415,036,196</u>
Business-type activities				
Invested in capital assets, net of related debt	\$206,792,699	\$209,230,461	\$216,558,150	\$220,881,691
Restricted	756,245	763,190		
Unrestricted	28,786,201	37,266,369	45,548,813	66,550,276
Total business-type activities net assets	<u>\$236,335,145</u>	<u>\$247,260,020</u>	<u>\$262,106,963</u>	<u>\$287,431,967</u>
Primary government				
Invested in capital assets, net of related debt	\$465,949,469	\$484,401,557	\$504,949,926	\$517,283,515
Restricted	66,522,821	77,340,316	88,725,341	120,937,678
Unrestricted	31,316,782	25,884,368	38,833,330	64,246,970
Total primary government net assets	<u>\$563,789,072</u>	<u>\$587,626,241</u>	<u>\$632,508,597</u>	<u>\$702,468,163</u>

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

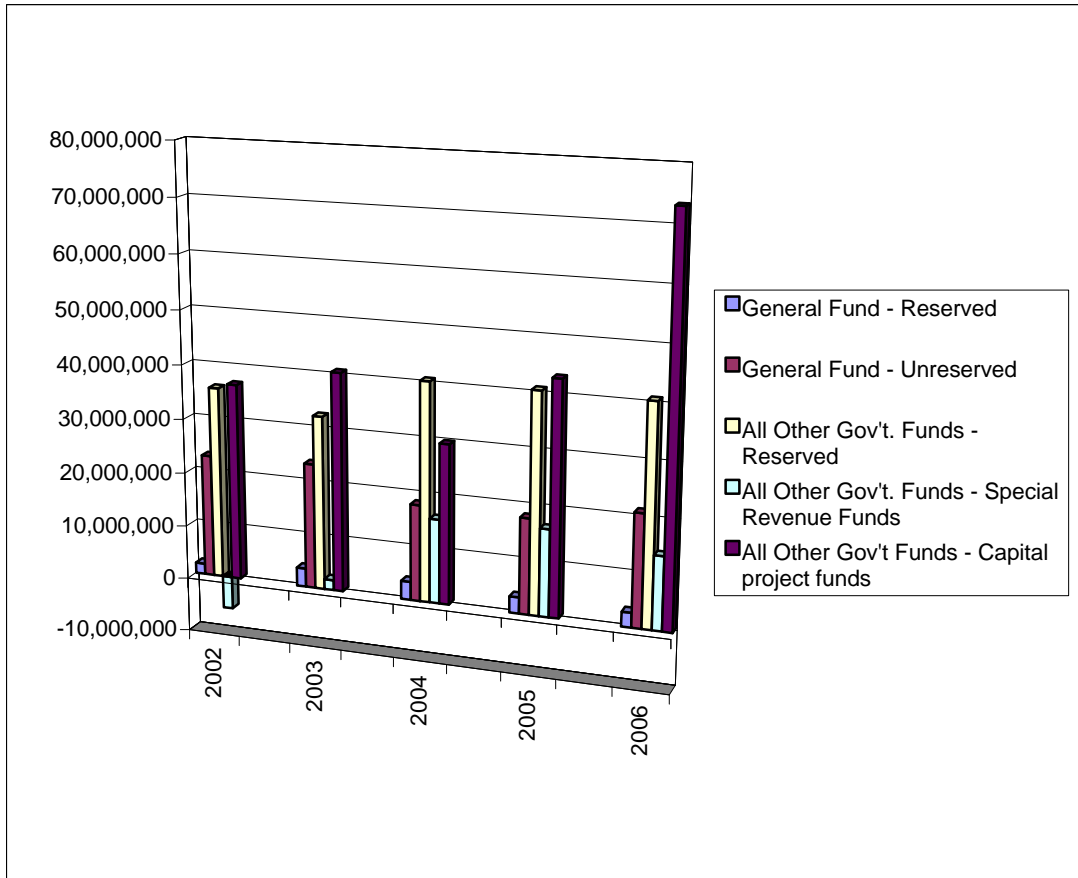
	2003	2004	2005	2006
Expenses				
Governmental Activities:				
General Government	\$12,557,259	\$13,954,909	\$15,273,174	\$15,529,735
Community Development	13,823,955	\$10,517,243	\$14,105,411	\$12,241,213
Highways and streets	19,656,219	23,136,950	23,721,458	26,025,311
Public works	6,843,742	6,458,522	5,263,984	6,491,062
Parks and Recreation	16,723,475	12,682,746	13,334,330	11,733,698
Public safety	64,410,214	68,258,235	71,239,341	74,500,043
Interest on Long Term Debt	4,612,885	4,515,439	4,987,911	5,178,130
Total Governmental Activities Expenses	138,627,749	139,524,044	147,925,609	151,699,192
Business-Type Activities:				
Parking	1,153,145	651,330	1,162,479	1,287,450
Water	30,874,820	27,051,982	30,691,348	29,989,775
Sewer	23,266,170	21,386,084	22,422,268	22,716,100
Storm Drain	5,940,261	5,327,334	6,111,317	5,795,746
Compost				941,919
Airport	971,865	1,120,922	1,131,889	1,342,645
Bus	9,745,477	10,122,176	11,074,907	12,119,311
Golf	2,475,913	2,432,202	2,354,759	2,461,470
Community Center	2,390,517	2,078,752	2,323,169	2,465,644
Total Business-Type Activities Expenses	76,818,168	70,170,782	77,272,136	79,120,060
Total Primary Government Expenses	\$215,445,917	\$209,694,826	\$225,197,745	\$230,819,252
Program Revenues				
Governmental Activities:				
Charges for Services:				
General Government	\$3,453,403	\$3,321,760	\$3,252,732	\$4,179,505
Community Development	11,566,306	9,592,055	11,294,130	9,466,082
Highway and streets	1,303,305	2,005,336	14,081,840	12,104,089
Public Safety	9,173,932	9,267,650	2,024,509	1,986,957
Parks and Recreation	3,835,652	3,992,598	4,821,884	4,928,366
Public Safety	5,925,096	6,794,911	8,011,509	7,124,387
Operating Grants and Contributions	9,413,521	15,975,814	13,736,453	11,892,511
Capital Grants and Contributions	23,297,198	18,368,908	22,799,320	38,484,548
Total Government Activities Program Revenues	67,968,413	69,319,032	80,022,377	90,166,445
Business-Type Activities:				
Charges for Services:				
Parking	824,917	890,263	908,920	1,176,061
Water	28,200,885	31,353,046	31,315,920	42,639,348
Sewer	23,556,044	25,292,995	24,419,607	23,083,280
Storm Drain	5,169,831	5,227,844	5,162,217	5,277,304
Compost				1,317,105
Airport	590,960	559,479	559,215	577,688
Bus	2,137,065	2,077,503	2,264,506	2,645,622
Golf	2,120,689	2,160,223	2,115,712	2,222,738
Community Center	467,229	496,680	504,338	543,085
Operating Grants and Contributions	5,119,474	6,217,613	7,525,367	8,317,889
Capital Grants and Contributions	13,603,460	10,145,892	8,498,408	10,467,873
Total Business-Type Activities Program Revenue	81,790,554	84,421,538	83,274,210	98,267,993
Total Primary Government Program Revenues	\$149,758,967	\$153,740,570	\$163,296,587	\$188,434,438
Net (Expense)/Revenue				
Governmental Activities	(\$70,659,336)	(\$70,205,012)	(\$67,903,232)	(\$61,532,747)
Business-Type Activities	4,972,386	14,250,756	6,002,074	19,147,933
Total Primary Government Net Expense	(\$65,686,950)	(\$55,954,256)	(\$61,901,158)	(\$42,384,814)

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

	2003	2004	2005	2006
General Revenues and Other Changes in Net Assets				
Governmental Activities:				
Taxes:				
Utility Users Tax	\$13,732,571	\$14,659,986	\$15,621,566	\$17,583,690
Property taxes, levied for general purposes	10,169,004	11,294,599	11,316,694	14,318,747
Tax increments for redevelopment agency	2,631,695	3,183,871	3,909,452	4,450,836
Transient occupancy tax	2,097,901	2,110,909	2,098,303	2,181,467
Franchise tax	3,360,976	3,455,535	3,420,453	3,693,307
Business license tax, levied for general purposes	9,238,797	9,231,136	9,726,816	10,374,157
Business license tax, levied for downtown improvement district	172,847	190,644	201,308	214,022
Grants and contributions not restricted to specific programs:				
Sales tax	25,887,064	27,151,779	26,589,449	29,627,835
Motor vehicle license fee	11,746,283	9,052,449	16,403,864	14,986,883
Other	922,237	1,204,485	1,702,234	4,070,593
Unrestricted investment earnings	3,645,205	1,004,974	4,463,080	3,255,401
Miscellaneous	2,220,976	2,479,871	3,792,340	2,827,161
Transfers	(1,824,890)	(1,902,932)	(1,306,914)	(1,416,790)
Total Government Activities	<u>84,000,666</u>	<u>83,117,306</u>	<u>97,938,645</u>	<u>106,167,309</u>
Business-Type Activities:				
Taxes:				
Property taxes, generated by and allocated to the airport	166,043	204,091	239,518	166,641
Business license tax, generated by and allocated to the airport	21,816	7,870	20,546	41,108
Unrestricted investment earnings	2,003,214	857,751	1,819,870	2,504,291
Miscellaneous			1,306,914	
Transfers	1,824,890	1,902,932	7,396,627	1,416,790
Settlements and Recoveries				3,784,295
Special item	(4,753,884)	(6,298,525)	(1,938,606)	(1,736,054)
Total Business-Type Activities	<u>(737,921)</u>	<u>(3,325,881)</u>	<u>8,844,869</u>	<u>6,177,071</u>
Total Primary Government	<u>\$83,262,745</u>	<u>\$79,791,425</u>	<u>\$106,783,514</u>	<u>\$112,344,380</u>
Change in Net Assets				
Governmental Activities	\$13,341,330	\$12,912,294	\$30,035,413	\$44,634,562
Business-Type Activities	4,234,465	10,924,875	14,846,943	25,325,004
Total Primary Government	<u>\$17,575,795</u>	<u>\$23,837,169</u>	<u>\$44,882,356</u>	<u>\$69,959,566</u>

Note: *the City has elected to show only four years of data for this schedule.

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



	2002	2003	2004	2005	2006
General Fund					
Reserved	\$1,961,061	\$3,393,560	\$3,327,569	\$2,955,054	\$2,702,381
Unreserved	22,512,913	23,008,629	17,651,800	17,460,005	20,607,134
Total General Fund	<u>\$24,473,974</u>	<u>\$26,402,189</u>	<u>\$20,979,369</u>	<u>\$20,415,059</u>	<u>\$23,309,515</u> (a)
All Other Governmental Funds					
Reserved	\$35,241,185	\$31,889,387	\$40,013,124	\$40,160,539	\$40,168,886
Unreserved, reported in:					
Special revenue funds	(6,013,102)	1,844,576	15,398,402	15,931,290	13,431,304
Capital project funds	36,152,800	40,102,394	29,172,787	42,534,688	72,752,412
Total all other governmental funds	<u>\$65,380,883</u>	<u>\$73,836,357</u>	<u>\$84,584,313</u>	<u>\$98,626,517</u>	<u>\$126,352,602</u>

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

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

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

	Fiscal Year Ended June 30,				
	2002	2003	2004	2005	2006
Revenues					
Taxes	\$37,855,427	\$41,405,014	\$44,185,552	\$46,295,678	\$52,816,596
Licenses, permits and fees	173,348	169,108	250,129	128,754	146,854
Intergovernmental	62,726,570	66,228,880	70,583,373	73,889,063	64,759,658
Charges for services	33,633,119	31,789,634	33,203,507	41,660,016	37,802,149
Special assessments levied	823,091	2,015,090	386,368	107,696	65,909
Interest and rent	3,418,440	3,712,219	2,911,392	3,146,452	3,755,169
Net increase in fair value of investments	647,793	(339,331)	(1,458,065)	186,515	103,036
Fines and forfeits	1,055,966	1,030,389	1,294,193	1,646,472	1,675,926
Contribution from property owners					30,473,773
Miscellaneous	1,111,982	2,220,976	2,479,871	2,991,745	2,821,161
Total Revenues	141,445,736	148,231,979	153,836,320	170,052,391	194,420,231
Expenditures					
Current:					
General government	10,168,110	11,352,860	11,878,443	11,819,603	14,111,535
Community development	7,950,839	13,123,011	10,113,628	12,832,640	12,296,072
Highways and streets	7,994,279	8,559,729	11,568,810	12,152,087	14,357,041
Public works	4,622,232	5,420,867	4,876,115	5,053,030	5,647,023
Parks and recreation	13,969,712	14,848,478	11,374,052	12,021,937	11,662,263
Public safety	52,812,553	56,576,055	62,747,623	70,882,176	74,527,875
Capital outlay	23,082,610	19,031,609	33,092,718	24,412,735	21,563,774
Debt service:					
Principal retirement	1,422,501	3,111,203	1,563,472	1,666,764	1,901,827
Interest	4,621,270	4,580,409	4,502,666	4,425,980	4,576,780
Other	29,611	57,038	18,355	553,645	618,742
Total Expenditures	126,673,717	136,661,259	151,735,882	155,820,597	161,262,932
Excess of revenues over (under) expenditures	14,772,019	11,570,720	2,100,438	14,231,794	33,157,299
Other Financing Sources (Uses)					
Transfers in	18,838,748	14,601,556	19,332,436	17,962,442	17,724,718
Transfers out	(21,098,333)	(15,441,935)	(20,819,979)	(19,644,937)	(20,267,476)
Proceeds of capital lease	2,020,418				
Proceeds of loan payable	191,835	192,759	212,241		
Proceeds of notes payable			4,500,000		
Sale of Assets				928,595	6,000
Total other financing sources (uses)	(47,332)	(647,620)	3,224,698	(753,900)	(2,536,758)
Net Change in fund balances	14,724,687	10,923,100	5,325,136	13,477,894	30,620,541
FUND BALANCES, July 1	75,130,170	89,315,446	100,238,546	105,563,682	119,041,576
FUND BALANCES, June 30	\$89,854,857	\$100,238,546	\$105,563,682	\$119,041,576	\$149,662,117
Debt service as a percentage of noncapital expenditures	0.06198	0.07000	0.05389	0.04884	0.04886

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

CITY OF MODESTO
REVENUE CAPACITY - MOST SIGNIFICANT LOCAL REVENUE SOURCE
WATER UTILITY CHARGES
(Fiscal Year ended June 30, 2006)

Ten Largest Customers of Water Utility System, Year Ended 6/30/06

<u>Customer</u>	<u>Business Type</u>	<u>Usage (ccf) (1)</u>	<u>% of Total Usage</u>	<u>Water Sales Revenue (\$)</u>	<u>% of Total Water Sales Revenue</u>
1) Signature Foods	Cannery	503,795	1.45%	\$522,634	1.27%
2) Modesto City Schools	Education	413,695	1.19	504,923	1.23
3) Stanislaus Foods	Cannery	416,744	1.20	441,305	1.07
4) Foster Farms	Dairy Processor	320,805	0.82	328,345	0.80
5) Modesto Irrigation District	Power Company	196,337	0.56	219,219	0.53
6) Stanislaus County	Government	158,775	0.46	208,767	0.51
7) E&J Gallo Winery	Winery	147,772	0.43	169,434	0.41
8) Sylvan Union School District	Education	141,167	0.41	163,366	0.40
9) Yosemite Community College	Community College	129,288	0.37	158,762	0.39
10) Del Monte Foods	Cannery	109,911	0.32	117,906	0.29
Total Top Ten		2,538,289	7.30%	\$2,834,661	6.90%

Total Flat/Metered Revenues (Water Sales)

\$41,107,414

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

Water Sales Revenue, Year Ended 6/30/06

Residential - flat rates

\$26,590,878

Commercial, industrial and municipal - metered rates

14,516,536

Total Water Sales

\$41,107,414

Current Water Rates and Charges as of 6/30/06

The average monthly flat rate service charge for residential customers is: \$33.37

Commercial Accounts:

Meter Size

3/4"	\$10.82
1"	15.34
1 1/2"	26.55
2"	40.06
3"	76.12
4"	116.63
6"	229.14
8"	364.19
10"	521.80
12"	971.95

In addition to these minimum charges, commercial accounts are charged \$1.01 per 100 cubic feet of water used.

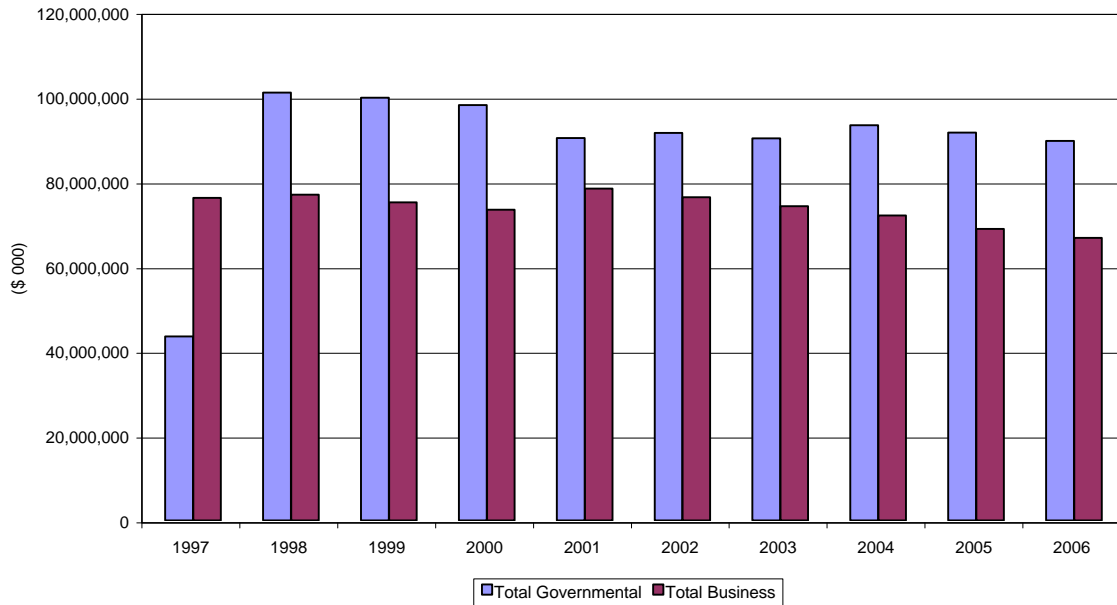
Water rates for both metered and flat rate services were increased on July 1, 2005.

Source:

City of Modesto-Customer Services

Note: Information about Water Utility Customers was not available for the year ended June 30, 1997

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



Governmental Activities						
Fiscal Year	Loans Payable	Certificates of Participation	Lease Revenue Bonds	Notes Payable	Obligations Under Capital Leases	
					Capital Leases	Total
1997	\$664,187	\$37,970,000	\$3,600,000		\$1,204,153	\$43,438,340
1998	639,725	34,100,000	64,935,000		1,264,963	100,939,688
1999		33,490,000	64,835,000		1,462,933	99,787,933
2000		32,800,000	64,730,000		514,333	98,044,333
2001		25,280,000	64,615,000		329,594	90,224,594
2002	191,835	24,625,000	64,250,000	\$262,807	2,153,350	91,482,992
2003	348,273	23,935,000	63,865,000	241,880	1,753,685	90,143,838
2004	523,363	23,215,000	63,455,000	4,719,663	1,335,182	93,248,208
2005	485,077	22,455,000	63,000,000	4,696,076	896,833	91,532,986
2006	446,634	21,655,000	62,505,000	4,535,034	444,904	89,588,578

Business-Type Activities								
Fiscal Year	Loans Payable	Certificates of Participation	Revenue Bonds	Capital Leases	Total	Total Primary Government	Percentage of Personal Income (a)	Per Capita (a)
1998	3,532,306	25,585,000	47,740,000	4,201	76,857,306	177,796,994	4.48%	973.38
1999	3,378,635	24,900,000	46,780,000		75,058,635	174,846,568	4.26%	947.16
2000	3,220,042	24,355,000	45,780,000		73,355,042	171,399,375	3.87%	910.31
2001	3,056,210	30,525,000	44,735,000		78,316,210	168,540,804	3.82%	895.13
2002	2,887,342	29,765,000	43,640,000		76,292,342	167,775,334	3.55%	844.79
2003	2,713,066	28,965,000	42,490,000		74,168,066	164,311,904	3.33%	808.22
2004	2,533,380	28,125,000	41,285,000		71,943,380	165,191,588	3.09%	801.12
2005	2,347,602	27,240,000	39,235,000	290,487	68,822,602	160,355,588	2.87%	772.30
2006	2,156,040	26,305,000	38,245,000	222,588	66,706,040	156,294,618	N/A	751.03

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

Sources: City of Modesto
 State of California, Department of Finance (population)
 U.S. Department of commerce, Bureau of the Census (income)
 (a) See Demographic Statistics for personal income and population data.

CITY OF MODESTO
COMPUTATION OF DIRECT AND OVERLAPPING DEBT
June 30, 2006

<u>Jurisdiction</u>	<u>Net Debt Outstanding (1)</u>	<u>Percentage Applicable to City of Modesto (2)</u>	<u>Amount Applicable to City of Modesto</u>
Direct debt:			
City of Modesto	\$ <u>0</u>	100%	\$ <u>0</u>
Overlapping General Obligation debt - school districts:			
Ceres Unified District	24,379,806	10.0	2,437,981
Modesto Elementary School District	24,328,337	72.5	17,638,044
Modesto High School District	75,789,875	68.5	51,916,064
Sylvan School District	9,110,000	85.0	7,743,500
Salida Union Elementary District	1,650,000	27.0	445,500
Stanislaus Union School District	3,725,000	33.0	1,229,250
Yosemite Community College District	94,445,000	28.2	26,633,490
Total overlapping debt	<u>233,428,018</u>		<u>108,043,829</u>
Total direct and overlapping debt	\$ <u><u>233,428,018</u></u>		\$ <u><u>108,043,829</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.

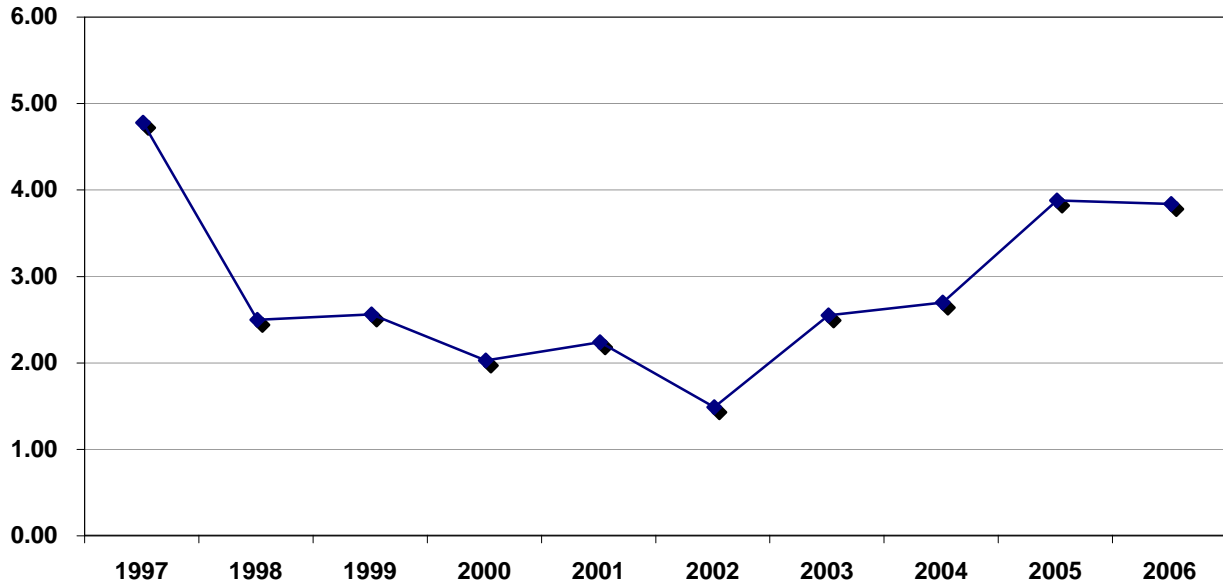
CITY OF MODESTO
COMPUTATION OF LEGAL DEBT MARGIN
June 30, 2006

Net assessed value (1)		\$ 12,501,638,097
Plus homeowners' exemption (1)		<u>241,045,263</u>
Gross assessed value (1)		\$ 12,742,683,360
Debt limit - 15% of gross assessed value (2)		\$ 1,911,402,504
Amount of debt applicable to debt limit:		
Total general bonded debt, including special assessment debt	\$	<u>0</u>
Less: Assets in debt service funds available for payment of principal	\$	<u>0</u>
Other deductions: Special assessment debt		<u>0</u>
Total deductions		<u>0</u>
Total amount of debt applicable to debt limit		<u>0</u>
Legal debt margin		<u><u>\$ 1,911,402,504</u></u>

Notes: (1) Source of Data: Stanislaus County Auditor; Last Equalized Roll (AC2703, including aircraft)
(2) Section 43605 California Government Code.

Note: The City has elected to show only one year of data for this schedule

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



<u>Fiscal Year</u>	<u>Gross Revenue (1)</u>	<u>Operating Expenses (2)</u>	<u>Net Revenue Available for Debt Service</u>	<u>Debt Service Requirements(3)</u>	<u>Coverage</u>
1997	\$19,239,545	\$11,068,264	\$8,171,281	\$1,721,999	4.75
1998	20,191,250	11,192,431	8,998,819	3,637,239	2.47
1999	20,192,478	11,204,247	8,988,231	3,551,320	2.53
2000	19,490,824	12,380,840	7,109,984	3,549,445	2.00
2001	21,102,892	13,244,750	7,858,142	3,549,180	2.21
2002	22,288,061	17,117,917	5,170,144	3,550,017	1.46
2003	24,623,786	15,664,660	8,959,126	3,551,958	2.52
2004	26,123,771	16,687,958	9,435,813	3,550,120	2.67
2005	25,701,300	16,476,917	9,224,383	3,549,633	2.60
2006	24,695,878	16,044,781	8,651,097	2,916,462	2.97

Notes: (1) Consists of all receipts of the Sewer fund, including charges for services, interest and rental income, connection fees, not dedicated to capital spending purposes.

(2) Total Sewer Fund operating expenses exclusive of depreciation. Beginning with 2005, the portion of transfers out to other funds, if any, that would have otherwise been an operating expense of the the Sewer Fund have been included.

(3) Includes total principal and interest of Wastewater Treatment Facility Revenue Bonds, Series 1993 and 1997, and Refunding Revenue Bonds, Series 1987 and 1996, through 2005. During the 2005 fiscal year, these issues were refunded by Wastewater Refunding Revenue Bonds, Series 2005 A and 2005 B. The first debt service payment on the refunding bonds was November 1, 2005.

CITY OF MODESTO
CONTINUING DISCLOSURE REQUIREMENTS INFORMATION
Year Ended June 30, 2006

Wastewater Revenue Refunding Bonds, Series 2005 A and B

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

Connection charge: \$500 per Equivalent Dwelling Unit for residential units and \$2,000 per acre for commercial and industrial property
 Sub-trunk sewer charge: \$645 per acre
 Connection (lateral) charge: \$33 per linear foot of lot frontage adjacent to the sewer line.

<u>Customer Base by Type of Account</u>			
<u>Category</u>	<u>Number of Accounts</u>	<u>% of Total Accounts</u>	<u>% of Customer Revenues</u>
Residential	57,301	95.27%	52.6%
Commercial	2,796	4.65%	15.8%
Industrial	51	0.08%	31.6%
Total	60,148	100.00%	100.00%

Ten Largest Users of Sewer Facilities, Year Ended 6/30/06

<u>User</u>	<u>Sewer Fee Revenue</u>	<u>% of Customer Revenues</u>
1) Stanislaus Foods	\$ 1,516,289	6.84%
2) Signature Fruit	1,339,435	6.04%
3) Del Monte Foods	1,242,836	5.60%
4) E & J Gallo Winery	666,441	3.01%
5) Frito-Lay, Inc.	492,188	2.22%
6) City of Ceres	436,985	1.97%
7) Foster Farms	414,412	1.87%
8) Modesto Tallow	396,231	1.79%
9) Nestle Food Company	161,893	0.73%
10) Conagra Foods	114,730	0.52%
Total (Top Ten Customers)	\$ 6,781,440	30.58%
Total (All Customers)	\$ 22,176,107	

The average single-family residence monthly sewer charge is \$14.26.

<u>Commercial Group</u>	<u>Minimum Charge First 1,680 Cubic Feet</u>	<u>Charge Per 1,000 Gallons Additional</u>
Group 1	\$21.95	\$1.73
Group 2	\$25.29	\$2.04
Group 3	\$31.00	\$2.47
Group 4	\$37.19	\$2.98

Industrial users pay a minimum charge of \$10.00, with additional charges of: \$892.23 per million gallons of flow, \$105.52 per 1,000 pounds of excess biochemical oxygen demand (BOD), and \$97.14 per 1,000 pounds of excess suspended solids (SS).

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

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

Statement of Revenues, Expenses and Changes in Fund Net Assets	Page 25	
Principal Amount of Bonds and Other Parity Debt	Page 41	(Note III-C)
Historical Debt Service Coverage	Page 111	

(continued)

CITY OF MODESTO
CONTINUING DISCLOSURE REQUIREMENTS INFORMATION (continued)
Year Ended June 30, 2006

Modesto Public Financing Authority Lease Revenue Bonds, Series 1997
John Thurman Field Renovation Project

Update of Stadium and Insurance Information

In 1997, the City of Modesto renovated and improved the John Thurman Field stadium in order to fulfill its agreement obligations with the Modesto A's minor league professional baseball team and for the A's to continue playing baseball in Modesto. This Project was partially funded by the Series 1997 Lease Revenue Bonds. The improvements met or exceeded the requirements of the Professional Baseball Agreement between Major League Baseball and the National Association of Professional Baseball Leagues, which governs minor league baseball. Stadium improvements included expansion of seating from 2,500 to 4,000; expanded parking capacity, with improved lighting and security; renovation to the club house for both the Modesto Nuts (replaced the Modesto A's) and visiting teams; expansion of outfield dimensions; and addition of a state-of-the-art public address and speaker system. The Modesto A's played their home games in the renovated stadium from opening day, May 7, 1997, through the 2004 season.

In September, 2004, the Colorado Rockies signed a two-year player development contract with Modesto's minor league franchise. This contract assured that the City of Modesto would have minor league baseball at John Thurman Field through the 2006 season. In October 2006, the City of Modesto entered into a ten-year license agreement and a field maintenance agreement with the Modesto Nuts Baseball Club. In order to secure a ten-year commitment from the franchise owners, the City of Modesto agreed to stadium improvements that include a new scoreboard, a banquet/entertainment building, new grounds-crew area, improved picnic area, fieldwork and lighting renovation. Funding for these improvements will come from the Parks Capital Projects Fund and the refinancing of the existing John Thurman Field bonds. The refinancing will allow the city to lower the interest rate on the existing debt and will provide an additional \$2.4 million in new bond proceeds to finance these capital projects.

All insurance required by the Lease Revenue Bond legal documents is currently in full effect. Coverage includes public liability, property damage, fire and extended coverage, and rental interruption insurance.

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

(continued)

CITY OF MODESTO
CONTINUING DISCLOSURE REQUIREMENTS INFORMATION (continued)
Year Ended June 30, 2006

1997 Water Utility System Refinancing Project, Refunding Revenue Certificates of Participation, and
Modesto Irrigation District Financing Authority Domestic Water Project Refunding Revenue Bonds, Series 1998D

Reserve Account Requirement as of 6/30/06	\$0 (covered by surety bond, issued by Federal Guaranty Insurance Company)
Balance in Parity Reserve Account as of 6/30/06	\$0
Balance in Rate Stabilization Account as of 6/30/06	\$2,846,800

Ten Largest Customers of Water Utility System, Year Ended 6/30/06

Customer	Business Type	Usage (ccf) (1)	% of Total Usage	Water Sales Revenue (\$)	% of Total Water Sales Revenue
1) Signature Foods	Cannery	503,795	1.45%	\$522,634	1.27%
2) Modesto City Schools	Education	413,695	1.19	504,923	1.23
3) Stanislaus Foods	Cannery	416,744	1.20	441,305	1.07
4) Foster Farms	Dairy Processor	320,805	0.82	328,345	0.80
5) Modesto Irrigation District	Power Company	196,337	0.56	219,219	0.53
6) Stanislaus County	Government	158,775	0.46	208,767	0.51
7) E&J Gallo Winery	Winery	147,772	0.43	169,434	0.41
8) Sylvan Union School District	Education	141,167	0.41	163,366	0.40
9) Yosemite Community College	Community College	129,288	0.37	158,762	0.39
10) Del Monte Foods	Cannery	109,911	0.32	117,906	0.29
Total Top Ten		2,538,289	7.30%	\$2,834,661	6.90%

Total Flat/Metered Revenues (Water Sales) \$41,107,414
(1) "ccf" means "hundred cubic feet"

Water Sales Revenue, Year Ended 6/30/06

Residential - flat rates	\$26,590,878
Commercial, industrial and municipal - metered rates	<u>14,516,536</u>
Total Water Sales	<u>\$41,107,414</u>

The average monthly flat rate service charge for residential customers is \$33.37.

Current Water Rates and Charges as of 6/30/06- Commercial Accounts

<u>Meter Size</u>	
3/4"	\$10.82
1"	15.34
1 1/2"	26.55
2"	40.06
3"	76.12
4"	116.63
6"	229.14
8"	364.19
10"	521.80
12"	971.95

In addition to these minimum charges, commercial accounts are charge \$1.01 per 100 cubic feet of water used.

Water rates for both metered and flat rate services were increased on July 1, 2005.

(1) Water Fund parity debt obligation, 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. Balance of these bonds as of 6/30/06 is \$76,170,000.

(continued)

CITY OF MODESTO
CONTINUING DISCLOSURE REQUIREMENTS INFORMATION

1997 Water Utility System Refinancing Project, Refunding Revenue Certificates of Participation, and
Modesto Irrigation District Financing Authority Domestic Water Project Refunding Revenue Bonds, Series 1998D

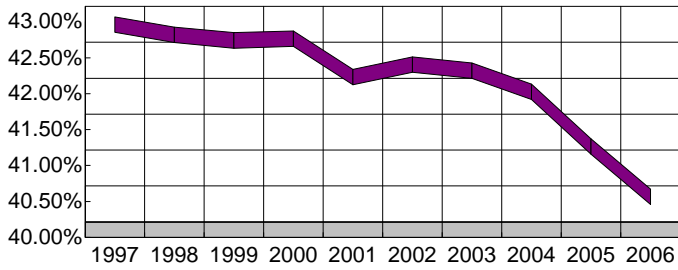
Water Utility System - Debt Service Coverage
Fiscal Year 2006

Gross Operating Revenues:	
Charges for services	\$42,639,348
Connection charges	1,728,873
Settlements and recoveries	1,334,259
Interest and rental income	534,234
Deposit to rate stabilization fund	<u>(153,200)</u>
Total Gross Operating Revenues	<u>46,083,514</u>
Operating Expenses:	
Total operating expenses	28,672,955
Less: Depreciation	(2,383,566)
T&DA debt service component paid to MID	(6,690,994)
Plus: Property taxes	84,556
Operating transfers	<u>95,385</u>
Total Operating Expenses	<u>19,778,336</u>
Net Operating Revenues	<u>\$26,305,178</u>
Total Debt Service:	
1997 Refunding Certificates of Participation	1,790,658
Treatment & Delivery Agreement	6,690,994
CDWR Loan	<u>264,654</u>
Total Debt Service	<u>\$8,746,306</u>
Debt Service Coverage (Net Operating Revenues/Total Debt Service)	3.01

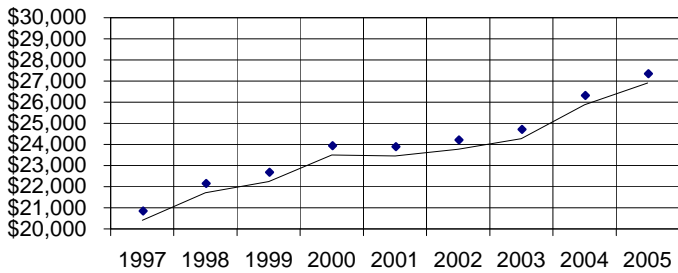
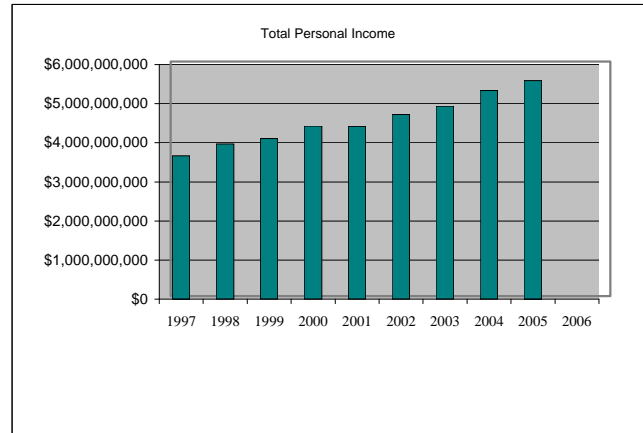
Updates of other required disclosures may be found elsewhere in this report, as follows:

Water Utility System Statement of Net Assets	Page 24	
Water Utility System Revenues and Expenses	Page 25	
Principal Amount of Certificates Outstanding	Page 40	(Note III-C)

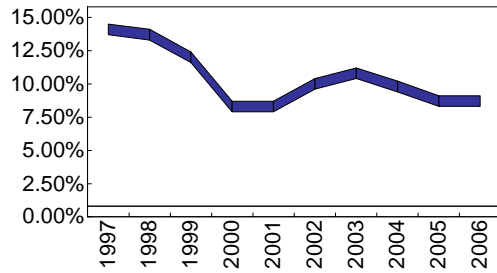
**CITY OF MODESTO
DEMOGRAPHIC AND ECONOMIC STATISTICS
Last ten fiscal years**



■ City Population as a % of County Population



◆ Per Capita Personal Income



■ Unemployment Rate (%)

Fiscal Year	City Population	Total Personal Income	Per Capita Personal Income	Unemployment Rate (%)	Stanislaus County Population	City Population % of County
1997	179,770	\$3,668,027,080	\$20,404	13.7%	419,480	42.86%
1998	182,660	\$3,966,644,560	21,716	13.3%	427,642	42.71%
1999	184,600	\$4,106,242,400	22,244	11.6%	432,990	42.63%
2000	188,286	\$4,425,097,572	23,502	7.9%	441,364	42.66%
2001	188,286	\$4,417,566,132	23,462	7.9%	446,997	42.12%
2002	198,600	\$4,722,310,800	23,778	9.6%	469,512	42.30%
2003	203,300	\$4,935,310,800	24,276	10.4%	481,604	42.21%
2004	206,200	\$5,337,487,000	25,885	9.4%	491,900	41.92%
2005	207,634	\$5,588,469,110	26,915	8.3%	504,482	41.16%
2006	208,107	N/A	N/A	8.3%	514,370	40.46%

Source: California State Department of Finance
N/A denotes information is not available

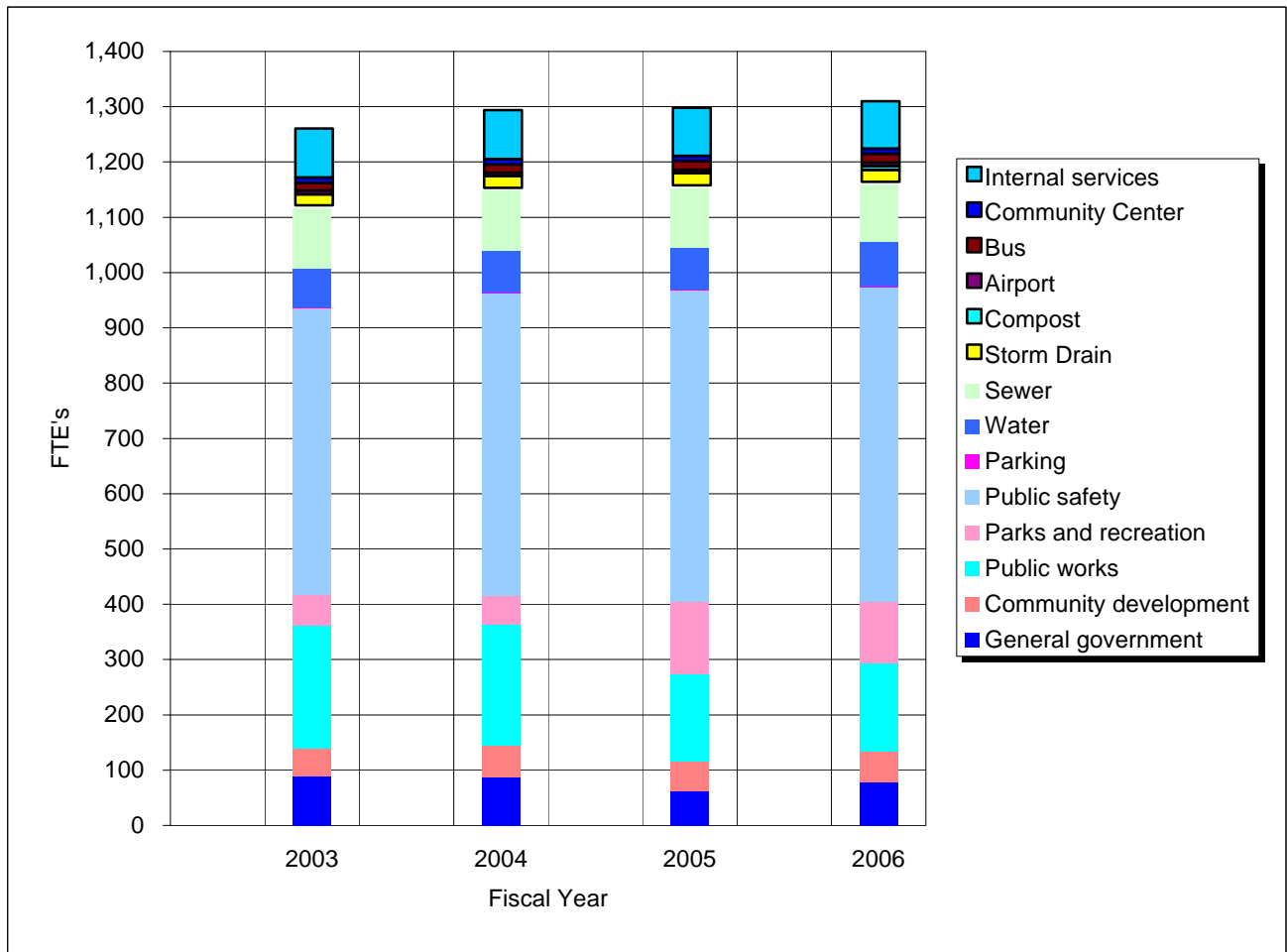
**CITY OF MODESTO
Principal Employers**

Employer	2005-06		
	Number of Employees	Rank	Percentage of Total City Employment
Signature Foods	4,100	1	4.1%
Modesto City Schools	4,000	2	4.0%
E & J Gallo Winery	3,425	3	3.5%
Del Monte Foods	2,600	4	2.6%
Memorial Medical Center	2,600	5	2.6%
Doctors Medical Center	2,300	6	2.3%
Stanislaus Food Products	2,000	7	2.0%
Modesto Junior College	1,866	8	1.9%
City of Modesto	1,691	9	1.7%
ConAgra	1,400	10	1.4%
Subtotal	<u>25,982</u>		26.2%
Total City Employment	99,100		
Total City Population	208,107		

Source: Stanislaus Economic Development & Workforce Alliance

Note: Information about Principal Employers was not available for the fiscal year 1996-97.

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



	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Function				
General government	88.25	88.25	62.25	79.00
Community development	51.00	56.00	53.00	54.00
Public works	221.80	219.00	159.00	159.50
Parks and recreation	56.25	52.50	130.50	112.50
Public safety	519.00	546.00	563.00	567.75
Parking	2.00	2.00	2.00	2.00
Water	70.00	76.00	76.00	81.00
Sewer	108.00	108.00	107.00	103.00
Storm Drain	20.00	22.00	22.00	22.00
Compost				7.00
Airport	7.00	6.00	6.00	6.00
Bus	14.00	15.00	16.00	16.00
Community Center	9.75	9.25	9.50	9.50
Internal services	88.75	89.00	87.00	86.00
Total	<u>1,255.80</u>	<u>1,289.00</u>	<u>1,206.25</u>	<u>1,305.25</u>

Source: City of Modesto

CITY OF MODESTO
OPERATING INDICATOR BY FUNCTION

	2006
Function/Program	
Public safety:	
Fire:	
Fire calls for service	20,200
Primary fire inspections conducted	1,006
Police:	
Police calls for Service	129,225
Law violations:	
Part I and Part II crimes	63,954
Physical arrests (adult and juvenile)	13,054
Traffic violations	23,104
Parking violations	16,874
Public works	
Street resurfacing (miles)	9.98
Potholes repaired (square miles)	30,252
Airport:	
Number of passengers enplaned	23,969
Number of tenant aircraft	201
Number of hangers	109
Number of runways	2
Annual fuel consumption in gallons	998,978
Bus Service:	
Number of buses	43
Number of routes	19
Total route miles	305
Average weekday number of passengers	11,206
Total number of passengers carried	3,629,191
Community Development	
Permits issued in 2005-2006	5,968
Estimated cost of construction	\$298,025,900
Building Inspections made	49,852
Culture and recreation:	
Community Services:	
Recreation class participants	5,291
Solid Waste:	
Recyclables Processed (tons per year)	582

Source: City of Modesto - Various Departments

Note: The City has elected to show only one year of data for this schedule

CITY OF MODESTO
CAPITAL ASSET STATISTICS BY FUNCTION/PROGRAM

Function/Program	2006
Public safety:	
Fire stations	11
Police stations	1
Police patrol units	98
Public works	
Traffic & Streets	
Miles of streets (1)	672
Street lights	13,358
Traffic Signals	140
Water:	
Miles of water mains	N/A
Fire hydrants	7,060
Storage capacity (thousands of gallons)	N/A
Wastewater:	
Miles of sanitary sewers	480.8
Miles of storm sewers	130.2
Number of treatment plants (2)	2
Treatment capacity (millions of gallons)	70
Community services:	
City parks	75
City parks acreage	1,088
Playgrounds	55
City trails	4
City trails miles	11
Regional park acreage	324
Regional park facilities:	
Golf courses (18 holes)	2
Golf courses (9 holes)	1
Clubhouse and banquet facility	8
Historic house	4
Community gardens	2
Community centers	6
Senior centers	1
Sports centers	1
Performing arts centers	1 (Under construction)
Swimming pools	16
Tennis courts	37
Baseball/softball diamonds	24
Soccer/football fields	22

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

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

Source: City of Modesto - Various Departments

Note: N/A denotes information is not available.

Note: The City has elected to show only one year of data for this schedule