

CITY OF MODESTO
TRANSPORTATION DEVELOPMENT ACT FUNDS
FINANCIAL STATEMENTS
FOR THE YEAR ENDED
JUNE 30, 2014

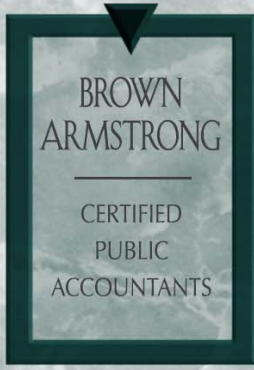
**CITY OF MODESTO
TRANSPORTATION DEVELOPMENT ACT FUNDS**

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2014

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BROWN ARMSTRONG

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Honorable Members of the City Council
City of Modesto, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Local Transportation Special Revenue Funds and the Bus Enterprise Fund (collectively known as the Transportation Development Act Funds) of the City of Modesto (the City), California, as of and for the year ended June 30, 2014, and the related notes, as listed in the table of contents. The prior year partial comparative data has been derived from the basic financial statements of the Transportation Development Act Funds for the year ended June 30, 2013, and in our report dated December 2, 2013.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Transportation Development Act Funds of the City as of June 30, 2014, and the respective changes in financial position, and cash flows thereof, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, during the year ended June 30, 2014, the Transportation Development Act Funds implemented Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which modified the current financial reporting of those elements. Our opinion is not modified with respect to the matter.

Other Matters

Required Supplementary Information

Management has omitted management's discussion and analysis (MD&A) and respective budgetary comparison schedules for the special revenue funds that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 24, 2014, on our consideration of the City's internal control over financial reporting as it relates to the Transportation Development Act Funds and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance as it relates to the Transportation Development Act Funds.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

A handwritten signature in blue ink that reads "Brown Armstrong Accountancy Corporation". The signature is written in a cursive style and is positioned below the printed name of the firm.

Bakersfield, California
November 24, 2014

**CITY OF MODESTO
TRANSPORTATION DEVELOPMENT ACT FUNDS
LOCAL TRANSPORTATION SPECIAL REVENUE FUNDS
BALANCE SHEETS
JUNE 30, 2014
WITH COMPARATIVE AMOUNTS FOR JUNE 30, 2013**

	Non-Motorized	Streets and Roads	Totals	
			2014	2013
ASSETS				
Cash and cash equivalents	\$ 571,037	\$ 847,038	\$ 1,418,075	\$ 1,130,178
Interest receivable	947	178	1,125	10,763
Due from other governments	150,499	2,045,722	2,196,221	364,068
Total Assets	\$ 722,483	\$ 2,892,938	\$ 3,615,421	\$ 1,505,009
LIABILITIES				
Accounts payable	\$ -	\$ 294	\$ 294	\$ -
Unearned revenue	720,708	2,788,514	3,509,222	1,503,689
Total Liabilities	720,708	2,788,808	3,509,516	1,503,689
FUND BALANCES				
Restricted	1,775	104,130	105,905	2,089
Unassigned	-	-	-	(769)
Total Fund Balances	1,775	104,130	105,905	1,320
Total Liabilities and Fund Balances	\$ 722,483	\$ 2,892,938	\$ 3,615,421	\$ 1,505,009

See accompanying notes to financial statements.

**CITY OF MODESTO
TRANSPORTATION DEVELOPMENT ACT FUNDS
LOCAL TRANSPORTATION SPECIAL REVENUE FUNDS
STATEMENTS OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2014
WITH COMPARATIVE AMOUNTS FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

	Non-Motorized	Streets and Roads	Totals	
			2014	2013
REVENUES				
Intergovernmental	\$ 16,738	\$ 188,194	\$ 204,932	\$ 2,495,601
Interest	7,703	(848)	6,855	23,168
Net decrease in fair value of investments	(3,463)	(651)	(4,114)	(13,584)
Total Revenues	<u>20,978</u>	<u>186,695</u>	<u>207,673</u>	<u>2,505,185</u>
EXPENDITURES				
Current:				
Administrative services	15,721	46,081	61,802	98,473
Capital outlay:				
Street rehabilitation	<u>2,713</u>	<u>47,387</u>	<u>50,100</u>	<u>99,893</u>
Total Expenditures	<u>18,434</u>	<u>93,468</u>	<u>111,902</u>	<u>198,366</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>2,544</u>	<u>93,227</u>	<u>95,771</u>	<u>2,306,819</u>
OTHER FINANCING USES				
Transfers in to City	-	8,814	8,814	-
Transfers out to City	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,300,947)</u>
Total Other Financing Uses	<u>-</u>	<u>8,814</u>	<u>8,814</u>	<u>(2,300,947)</u>
NET CHANGE IN FUND BALANCES	2,544	102,041	104,585	5,872
Fund balance (deficit), July	<u>(769)</u>	<u>2,089</u>	<u>1,320</u>	<u>(4,552)</u>
Fund balance (deficit), June 30	<u>\$ 1,775</u>	<u>\$ 104,130</u>	<u>\$ 105,905</u>	<u>\$ 1,320</u>

See accompanying notes to financial statements.

**CITY OF MODESTO
TRANSPORTATION DEVELOPMENT ACT FUNDS
BUS ENTERPRISE FUND
STATEMENTS OF NET POSITION
JUNE 30, 2014
WITH COMPARATIVE AMOUNTS FOR JUNE 30, 2013**

	2014	2013
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 10,415,592	\$ 11,341,136
Accounts receivable	46,152	43,026
Interest receivable	17,616	23,255
Due from other governments	2,588,445	2,394,226
Prepaid expenses	-	4,572
Total Current Assets	13,067,805	13,806,215
Noncurrent assets:		
Capital assets (Note 2):		
Land and construction in progress	4,080,111	4,080,111
Other capital assets, net of accumulated depreciation	27,161,785	28,063,447
Total Noncurrent Assets	31,241,896	32,143,558
Total Assets	44,309,701	45,949,773
LIABILITIES		
Current liabilities:		
Accounts payable	2,036,418	974,255
Accrued salaries and benefits	34,939	48,502
Unearned revenue - PTMISEA (Note 4)	6,674,786	6,962,182
Unearned revenue - CTSG (Note 5)	562,818	560,935
Unearned revenue - Capital Transit (Note 6)	102,076	1,912,338
Unearned revenue - LTF (Note 6)	918,961	561,719
Total Current Liabilities	10,329,998	11,019,931
NET POSITION		
Net investment in capital assets	31,241,896	32,143,558
Unrestricted	2,737,807	2,786,284
Total Net Position	\$ 33,979,703	\$ 34,929,842

See accompanying notes to financial statements.

**CITY OF MODESTO
TRANSPORTATION DEVELOPMENT ACT FUNDS
BUS ENTERPRISE FUND
STATEMENTS OF REVENUES, EXPENSES,
AND CHANGES IN FUND NET POSITION
FOR THE YEAR ENDED JUNE 30, 2014
WITH COMPARATIVE AMOUNTS FOR THE YEAR ENDED JUNE 30, 2013**

	2014	2013
OPERATING REVENUES		
Charges for services	\$ 2,768,588	\$ 2,790,093
Miscellaneous	220,916	156,844
	2,989,504	2,946,937
Total Operating Revenues		
OPERATING EXPENSES		
Contractual services	10,921,054	10,573,168
Maintenance and supplies	2,487,700	2,378,175
Depreciation	2,331,402	1,973,341
Salaries and wages	1,118,722	1,107,733
Administrative services	925,253	1,367,733
Allocated indirect administrative costs	275,706	131,566
Employee benefits	384,860	436,376
Utilities	156,029	160,147
Insurance	20,972	55,248
Other	612,256	150,504
	19,233,954	18,333,991
Total Operating Expenses		
Operating Loss	(16,244,450)	(15,387,054)
Nonoperating Revenues (Expenses)		
City Local Transportation Fund allocations	2,163,242	177,802
Other intergovernmental revenue	6,890,179	8,502,093
CMAQ grant for Rideshare Program	33,650	44,198
Loss on disposition of capital assets	(1,994)	(1,879)
Interest income	62,800	55,140
Rental income	62,181	117,325
Net decrease in fair value of investments	(4,626)	(45,276)
	9,205,432	8,849,403
Total Nonoperating Revenues (Expenses)		
Loss Before Contributions and Transfers	(7,039,018)	(6,537,651)
Capital contributions:		
Federal Transit Administration Grant	5,793,475	5,283,630
Proposition 1B	310,724	40,347
Transfers in from City	43,925	1,500
Transfers out to City	(59,245)	(9,170)
	5,793,475	5,283,630
Change in Net Position	(950,139)	(1,221,344)
Net Position, July 1, as Previously Reported	34,929,842	33,593,113
Prior Period Adjustment	-	2,558,073
	34,929,842	33,593,113
Net Position, June 30	\$ 33,979,703	\$ 34,929,842

See accompanying notes to financial statements.

**CITY OF MODESTO
TRANSPORTATION DEVELOPMENT ACT FUNDS
BUS ENTERPRISE FUND
STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2014
WITH COMPARATIVE AMOUNTS FOR THE YEAR ENDED JUNE 30, 2013**

	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers and users	\$ 2,802,370	\$ 4,024,320
Payments to suppliers	(16,075,340)	(9,085,480)
Payments to employees	(1,517,145)	(1,550,803)
Net Cash Used by Operating Activities	<u>(14,790,115)</u>	<u>(6,611,963)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Operating grants received	9,087,071	8,724,093
Transfers in from City	43,925	1,500
Transfers out to City	(59,245)	(9,170)
Net Cash Provided by Noncapital Financing Activities	<u>9,071,751</u>	<u>8,716,423</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(1,431,734)	(744,622)
Proceeds from the sale of property and equipment	-	(1,879)
Proposition 1B funds	310,724	40,347
Capital contributions received	5,793,475	5,283,630
Net Cash Provided by Capital and Related Financing Activities	<u>4,672,465</u>	<u>4,577,476</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received (paid)	62,800	55,140
Rental income received	62,181	117,325
Net decrease in the fair value of investments	(4,626)	(45,276)
Net Cash Provided by Investing Activities	<u>120,355</u>	<u>127,189</u>
Net increase (decrease) in cash and cash equivalents	(925,544)	6,809,125
Cash and cash equivalents at beginning of period	<u>11,341,136</u>	<u>4,532,011</u>
Cash and cash equivalents at end of period	<u>\$ 10,415,592</u>	<u>\$ 11,341,136</u>

See accompanying notes to financial statements.

CITY OF MODESTO
TRANSPORTATION DEVELOPMENT ACT FUNDS
BUS ENTERPRISE FUND
STATEMENTS OF CASH FLOWS (Continued)
FOR THE YEAR ENDED JUNE 30, 2014
WITH COMPARATIVE AMOUNTS FOR THE YEAR ENDED JUNE 30, 2013

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:		
Operating loss	\$ (16,244,450)	\$ (15,387,054)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation	2,331,402	1,973,341
Rental income		
Changes in assets and liabilities:		
Accounts receivable	(191,706)	1,081,955
Prepaid expenses	4,572	(4,572)
Accounts payable	1,062,163	(438,115)
Accrued salaries and benefits	<u>(1,752,096)</u>	<u>6,162,482</u>
Net cash used by operating activities	<u>\$ (14,790,115)</u>	<u>\$ (6,611,963)</u>

See accompanying notes to financial statements.

**CITY OF MODESTO
TRANSPORTATION DEVELOPMENT ACT FUNDS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of Reporting Entity

The City of Modesto (City) accounts for California Transportation Development Act (TDA) monies in the Local Transportation Special Revenue Funds and the Bus Enterprise Fund (TDA Funds). These funds are a part of the City and not a separate legal entity. As such, these financial statements only present the fund financial statements and no government-wide information or financial statements. The Local Transportation Special Revenue Funds are combined and presented as one fund in the City's Comprehensive Annual Financial Report (CAFR) along with the Bus Enterprise Fund. These financial statements are intended to reflect the financial position, changes in financial position, and cash flows, where applicable, of the TDA Funds in accordance with accounting principles generally accepted in the United States of America.

B. Basis of Presentation, Basis of Accounting, and Measurement Focus

The Local Transportation Special Revenue Funds 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 with 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 the accrual basis of accounting. Intergovernmental and interest revenues are considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Under Governmental Accounting Standards Board (GASB) Statement No. 34, budgetary comparison information is required to be presented for each major special revenue fund with a legally adopted budget. The TDA funds are not legally required to adopt a budget for the special revenue governmental funds. Therefore, budget comparison information is not included in the TDA Funds' financial statements.

The Bus Enterprise Fund is reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The City reports the following Local Transportation Special Revenue (governmental) Funds:

The **Non-Motorized Fund** accounts for monies received and spent under Article 3, Section 99234 of the TDA.

The **Streets and Roads Fund** accounts for monies received and spent under Article 8, Section 99400(a) of the TDA.

The City reports the following Enterprise (proprietary) Fund:

The **Bus Enterprise Fund** accounts for monies received and spent under Article 4, Section 99250 (public transit) of the TDA. The Bus Enterprise Fund also receives federal funds through the Federal Transit Administration, and other state and local grants, in addition to operating revenues.

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 fund are charges to customers for payroll related expenses, sales, and services. Operating expenses for the enterprise fund includes 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Management's Use of Estimates

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 these estimates.

D. Cash and Cash Equivalents

The TDA Funds' cash and investments are held in the City's investment pool as described in the City's CAFR. The TDA Funds' cash and investments are reported as cash and cash equivalents on the balance sheet and statement of net position because the TDA Funds can spend cash at any time without prior notice or penalty. The TDA Funds' investments in the pool are stated at fair value. The City has oversight responsibility of the City's investment pool.

E. Due from Other Governments/Deferred Revenue

Grants, entitlements, or shared revenues are recorded as receivables and revenues in the special revenue funds when they are received or susceptible to accrual. Grants awarded for enterprise funds are recorded as receivables and nonoperating revenues when they are earned.

Deferred revenue consists of grant funds received in excess of qualified expenditures. Grant revenue is recognized in the period of qualified expenditure/expenses.

F. Capital Assets

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

Capital projects funded by the Local Transportation Special Revenue Funds, including infrastructure (roads, curbs, gutters, streets, bridges, sidewalks, drainage systems, lighting systems, right-of-ways, and land related to such assets), are recorded as transfers out to the City and capital outlay expenditures of the Local Transportation Special Revenue Funds. These expenditures are capitalized in the City's government-wide financial statements as the related capital assets become the property of the City and are maintained by the City.

In the Bus Enterprise Fund, buildings and equipment are depreciated using the straight-line method over the estimated useful lives of the assets, which are 30 years for buildings, 20 years for improvements, 12 years for buses, 10 years for furnishings and equipment, and 2 to 10 years for vehicles. Depreciation is included in operating expenses.

G. Fund Equity

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

- **Nonspendable** - Amounts that are not in spendable form (such as inventory) or are required, either legally or contractually, to be maintained intact.
- **Restricted** - Amounts with constraints placed on their use that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitutional or enabling legislation.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Fund Equity (Continued)

- **Committed** - Amounts constrained to specific purposes by the TDA Funds themselves, using the TDA Funds' highest level of decision-making authority (City Council). To be reported as committed, amounts cannot be used for any other purpose unless the TDA Funds take the same highest level action to remove or change the constraint. The underlying action that imposed the limitation needs to occur no later than the close of the reporting period.
- **Assigned** - Amounts the TDA Funds *intend* to use for a specific purpose. Intent can be expressed by the TDA Funds at either the highest level of decision-making authority or by an official or body to which the TDA Funds delegate the authority. This is also the classification for residual funds in the TDA Funds' special revenue funds.
- **Unassigned** - For the TDA Special Revenue Funds, the unassigned classification is used only if expenditures incurred for specific purposes exceed the amounts restricted, committed, or assigned to those purposes.

The TDA Funds establish and modify or rescind fund balance commitments by passage of an ordinance or policy. This is typically done through adoption or amendment of the budget. A fund balance commitment is further indicated in the budget as a designation or commitment of the fund, such as approved construction contracts. Assigned fund balance is established by the TDA Funds through adoption or amendment of the budget or future year budget plan as intended for a specific purpose.

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

H. Net Position

Net position is the excess of all the TDA Funds' assets over all their liabilities, regardless of fund. Net position is divided into three captions. These captions apply only to net position of the Bus Enterprise Fund, and are described below:

Net Investment in Capital Assets describes the portion of net position which is represented by the current net book value of the TDA Funds' capital assets, less the outstanding balance of any debt issued to finance these assets.

Restricted describes the portion of net position which is restricted as to use by the terms and conditions of agreements with outside parties, governmental regulations, laws, or other restrictions which the TDA Funds cannot unilaterally alter. These principally include debt service requirements and redevelopment funds restricted to low- and moderate-income purposes.

Unrestricted describes the portion of net position which is not restricted as to use.

I. New Accounting Pronouncements

During the fiscal year ending June 30, 2014, the TDA Funds implemented the following GASB standards:

GASB Statement No. 65 – *Items Previously Reported as Assets and Liabilities*. The provisions of GASB Statement No. 65 are effective for financial statements beginning after December 15, 2012. The TDA Funds will implement this statement for the fiscal year ending June 30, 2014.

GASB Statement No. 66 – *Technical Corrections - 2012 - an amendment of GASB Statements No. 10 and No. 62*. The provisions of GASB Statement No. 66 are effective for financial statements beginning after December 15, 2012. As of the date of the basic financial statements, the TDA Funds have not made an assessment of any changes that will occur upon this statement's implementation.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)I. **New Accounting Pronouncements** (Continued)

GASB Statement No. 67 – *Financial Reporting for Pension Plans - an amendment of GASB Statement No. 25*. The provisions of GASB Statement No. 67 are effective for financial statements beginning after June 15, 2013. The TDA Funds have not fully judged the effect of the implementation of GASB Statement No. 67 as of the date of the basic financial statements.

Recently released standards by GASB affecting future fiscal years are as follows:

GASB Statement No. 68 – *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*. The provisions of GASB Statement No. 68 are effective for financial statements beginning after June 15, 2014. The TDA Funds have not fully judged the effect of the implementation of GASB Statement No. 68 as of the date of the basic financial statements.

GASB Statement No. 69 – *Government Combinations and Disposals of Government Operations*. The provisions of GASB Statement No. 69 are effective for financial statements beginning after December 15, 2013. The TDA Funds have not fully judged the effect of the implementation of GASB Statement No. 69 as of the date of the basic financial statements.

GASB Statement No. 70 – *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. The provisions of GASB Statement No. 70 are effective for financial statements beginning after June 15, 2013. The TDA Funds have not fully judged the effect of the implementation of GASB Statement No. 70 as of the date of the basic financial statements.

NOTE 2 – CAPITAL ASSETS

Capital asset activity for the Bus Enterprise Fund for the year ended June 30, 2014, was as follows:

	Beginning Balance	Additions	Deletions/ Adjustments	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 4,060,454	\$ -	\$ -	\$ 4,060,454
Construction in progress	19,657	-	-	19,657
Total capital assets, not being depreciated	<u>4,080,111</u>	<u>-</u>	<u>-</u>	<u>4,080,111</u>
Capital assets, being depreciated:				
Buildings	23,181,226	25,421	-	23,206,647
Improvements	4,336,165	-	-	4,336,165
Furnishings and equipment	1,372,387	18,923	(19,949)	1,371,361
Vehicles	222,284	-	-	222,284
Buses and fareboxes	18,745,370	1,387,390	-	20,132,760
Total capital assets, being depreciated	<u>47,857,432</u>	<u>1,431,734</u>	<u>(19,949)</u>	<u>49,269,217</u>
Less accumulated depreciation for:				
Buildings	(3,948,939)	(758,677)	-	(4,707,616)
Improvements	(1,514,938)	(207,852)	-	(1,722,790)
Furnishings and equipment	(353,847)	(119,027)	17,955	(454,919)
Vehicles	(127,054)	(20,117)	-	(147,171)
Buses and fareboxes	(13,849,207)	(1,225,729)	-	(15,074,936)
Total accumulated depreciation	<u>(19,793,985)</u>	<u>(2,331,402)</u>	<u>17,955</u>	<u>(22,107,432)</u>
Total capital assets, being depreciated, net	<u>28,063,447</u>	<u>(899,668)</u>	<u>(1,994)</u>	<u>27,161,785</u>
Total capital assets, net	<u>\$ 32,143,558</u>	<u>\$ (899,668)</u>	<u>\$ (1,994)</u>	<u>\$ 31,241,896</u>

Depreciation expense ending June 30, 2014 was \$2,331,402. In the current year, an asset was transferred which had been fully depreciated in the amount of \$19,949, and depreciation for June 30, 2014, was \$17,955.

NOTE 3 – COMPLIANCE REQUIREMENTS OF LOCAL TRANSPORTATION FUNDS

The Bus Enterprise Fund is subject to TDA provisions requiring the calculation and adherence of fare and local support ratios for TDA transit funding. Effective November 17, 2010, Stanislaus Council of Governments (StanCOG), TPA for Stanislaus County, approved a permanent combined system farebox recovery ratio of 15%. The City’s Bus Enterprise Fund is now required to combine the fixed route and demand response into one calculation. The fund’s fare ratio of operating revenues to operating expenses, as calculated below, indicates the City is in conformance with the provisions of the TDA:

	Fixed Route and Demand Response Transit Services	
	2014	2013
Charges for services	\$ 2,768,588	\$ 2,758,989
Operating expenses	\$ 19,233,954	\$ 18,333,991
Less:		
Depreciation	(2,331,402)	(1,973,341)
Capital cost of contracting		
Grant and rent-funded activities	(696,060)	(690,572)
Adjustments	(1,144,913)	(1,293,537)
Applicable operating expenses	\$ 15,061,579	\$ 14,376,541
Fare ratio	18.38%	19.19%

NOTE 4 – PUBLIC TRANSPORTATION MODERNIZATION, IMPROVEMENT, AND SERVICE ENHANCEMENT ACCOUNT (PTMISEA)

In November 2006, California voters passed a bond measure enacting the Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006. Of the \$19.925 billion of State general obligation bonds authorized, \$4 billion was set aside by the State as instructed by the statute as the Public Transportation Modernization, Improvement, and Service Enhancement Account (PTMISEA). These funds are available to the California Department of Transportation for intercity rail projects and to transit operators in California for rehabilitation, safety, or modernization improvements; capital service enhancements or expansions; new capital projects; bus rapid transit improvements; or for rolling stock procurement, rehabilitation, or replacement.

In fiscal year 2014, the City did not receive any additional funds from State of California Department of Transportation passed through StanCog. The City spent \$310,724 in various projects during the year and earned an additional \$23,328 in interest, leaving \$6,674,786 of unspent PTMISEA funds as of June 30, 2014.

Project Name	2012-13 Unearned Revenue	2013-14 Corrective Action Plan	Interest Earned in 2013-14	New Revenue in 2013-14	Expended in Fiscal Year 2013-14	Unearned Revenue
Rehabilitation of existing buses	\$ 231,808	\$ 75,000	\$ 642	\$ -	\$ 282,969	\$ 24,481
Buses	4,812,901	-	16,441	-	-	4,829,342
Bus stops	219,232	(75,000)	445	-	27,755	116,922
Depository	198,241	-	677	-	-	198,918
Security	1,500,000	-	5,123	-	-	1,505,123
Total	\$ 6,962,182	\$ -	\$ 23,328	\$ -	\$ 310,724	\$ 6,674,786

NOTE 5 – CALIFORNIA TRANSIT SECURITY GRANT (CTSG)

In fiscal year 2014, the City received no additional funding but received \$1,883 in interest accrual on unspent funds, and had no disbursements of CTSG funds, leaving \$562,818 of unspent CTSG funds as of June 30, 2014.

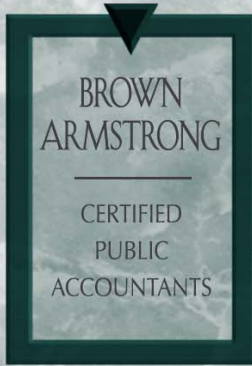
NOTE 6 – UNEARNED REVENUE

Unearned revenue for the TDA Funds and State Transit Act Funds for the year ended June 30, 2014, was as follows:

	<u>2014</u>		
Non-Motorized Fund:			
Unearned revenue, beginning of year	\$ 588,721		
TDA funds allocated	115,249		
TDA funds earned	<u>16,738</u>		
Unearned revenue, end of year	<u><u>\$ 720,708</u></u>		
	<u>2014</u>		
Streets and Roads Fund:			
Unearned revenue, beginning of year	\$ 914,968		
TDA funds allocated	1,685,352		
TDA funds earned	<u>188,194</u>		
Unearned revenue, end of year	<u><u>\$ 2,788,514</u></u>		
	<u>LTF</u>	<u>Capital Transit</u>	<u>Total</u>
	<u>2014</u>	<u>2014</u>	
Bus Enterprise Fund:			
Unearned revenue, beginning of year	\$ 561,719	\$ 1,912,338	\$ 2,474,057
TDA funds allocated	(1,806,000)	(1,810,262)	(3,616,262)
TDA funds earned	<u>2,163,242</u>	<u>-</u>	<u>2,163,242</u>
Unearned revenue, end of year	<u><u>\$ 918,961</u></u>	<u><u>\$ 102,076</u></u>	<u><u>\$ 1,021,037</u></u>

NOTE 7 – SUBSEQUENT EVENTS

In compliance with accounting standards generally accepted in the United States of America, management has evaluated events that have occurred after year-end to determine if these events are required to be disclosed in the basic financial statements. Management has determined that no events require disclosure in accordance with accounting standards generally accepted in the United States of America. These subsequent events have been evaluated through November 24, 2014, which is the date the basic financial statements were issued.



BROWN ARMSTRONG

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS AND THE TRANSPORTATION DEVELOPMENT ACT

Honorable Members of the City Council
City of Modesto, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Local Transportation Special Revenue Funds and the Bus Enterprise Fund (collectively known as the Transportation Development Act Funds) of the City of Modesto, California (the City), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's Transportation Development Act Funds' basic financial statements, and have issued our report thereon dated November 24, 2014. Our audit was further made to determine that Transportation Development Act funds allocated to and received by the City were expended in conformance with the applicable statutes, rules, and regulations of the Transportation Development Act, including Sections 6666 and 6667 of Title 21, Chapter 3, of the California Code of Regulations, and the allocation instructions and resolutions of the Stanislaus Council of Governments.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) as it relates to the Transportation Development Act Funds to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City's internal control as it relates to the Transportation Development Act Funds. Accordingly, we do not express an opinion on the effectiveness of City's internal control as it relates to the Transportation Development Act Funds.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

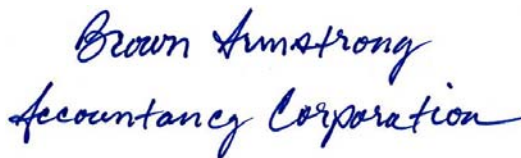
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Transportation Development Act Funds of the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

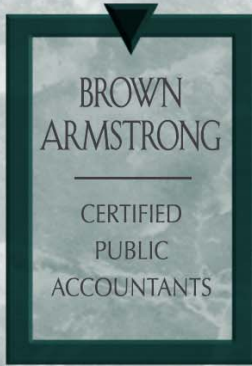
Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over the Transportation Development Act Funds or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over the Transportation Development Act Funds and compliance. Accordingly, this report is not suitable for any other purpose.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

A handwritten signature in blue ink that reads "Brown Armstrong Accountancy Corporation". The signature is written in a cursive, flowing style.

Bakersfield, California
November 24, 2014



BROWN ARMSTRONG

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS AND PUBLIC TRANSPORTATION MODERNIZATION, IMPROVEMENT, AND SERVICE ENHANCEMENT ACCOUNT (PTMISEA)

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Honorable Members of the City Council
City of Modesto, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Local Transportation Special Revenue Funds and the Bus Enterprise Fund (collectively known as the Transportation Development Act Funds) of the City of Modesto, California (the City), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City Transportation Development Act Funds' basic financial statements, and have issued our report thereon dated November 24, 2014. Our audit was further made to determine that Public Transportation Modernization, Improvement, and Service Enhancement Account (PTMISEA) funds allocated to and received by the City were expended in conformance with the applicable statutes, rules, and regulations of the PTMISEA Guideline.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) as it relates to the Transportation Development Act Funds to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City's internal control as it relates to the Transportation Development Act Funds. Accordingly, we do not express an opinion on the effectiveness of City's internal control as it relates to the Transportation Development Act Funds.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Transportation Development Act Funds of the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

As part of the audit, we performed the testing of the following program:

Public Transportation Modernization, Improvement, and Service Enhancement Account (PTMISEA)

In November 2006, California voters passed a bond measure enacting the Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006. Of the \$19.925 billion of State general obligation bonds authorized, \$4 billion was set aside by the State as instructed by the statute as the PTMISEA. These funds are available to the California Department of Transportation for intercity rail projects and to transit operators in California for rehabilitation, safety, or modernization improvements; capital service enhancements or expansions; new capital projects; bus rapid transit improvements; or for rolling stock procurement, rehabilitation, or replacement.

During the fiscal year ended June 30, 2008, the City applied for and received \$2,588,589 from the State's PTMISEA account for (1) the purchase and installation of a bus washer, (2) the purchase and installation of AVL technology in Fixed Route Buses, and (3) the purchase of eleven new buses. During the fiscal year ended June 30, 2010, the City applied for and received \$841,995 for (1) the construction of a new maintenance facility and (2) the rehabilitation of existing buses. During the fiscal year ended June 30, 2011, the City applied for and received \$608,000 for (1) the purchase of a truck and buses and 2) the improvement of existing bus stops. During the fiscal year ended June 30, 2012, the City applied for and received \$1,208,315, of which \$10,136 was interest on prior year unexpended proceeds. As of June 30, 2014, PTMISEA funds earned and expended were verified in the course of our audit as follows:

Schedule of PTMISEA Proposition 1B Funds For the Year Ended June 30, 2014	
Description	Amount
Proceeds earned:	
PTMISEA (interest)	\$23,328
2014 grant funding	0
Expenditures incurred:	
Expended in fiscal year 2013/14	\$310,724
Decrease in PTMISEA funds during the year ended June 30, 2014	\$287,396
Unexpended proceeds at June 30, 2013	\$6,962,182
Unexpended proceeds at June 30, 2014	\$6,674,786

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the Transportation Development Act Funds occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City's compliance with those requirements.

Opinion

In our opinion, the Transportation Development Act Funds allocated to and received by the City pursuant to the PTMISEA Act were expended in conformance with the applicable statutes, rules, and regulations of the PTMISEA Act and the allocation instructions and resolutions of the Stanislaus Council of Governments (StanCOG).

Purpose

This report is intended solely for the information and use of management, the City Council, others within the City, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
November 24, 2014