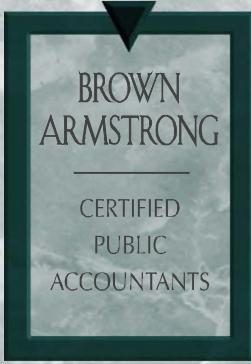


CITY OF MODESTO
TRANSPORTATION DEVELOPMENT ACT FUNDS
FINANCIAL STATEMENTS
FOR THE YEARS ENDED
JUNE 30, 2011 AND 2010

**CITY OF MODESTO
TRANSPORTATION DEVELOPMENT ACT FUNDS
FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010**

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BROWN ARMSTRONG

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Honorable Members of the City Council
City of Modesto, California

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), as of and for the year ended June 30, 2011, 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 the financial statements based on our audits.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards for financial audits contained in the *Government Audit 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.

As discussed in Note 1, the financial statements present only the Local Transportation Special Revenue Funds and the Bus Enterprise Fund of the City and are not intended to present fairly the financial position and results of operations of the City of Modesto, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Local Transportation Special Revenue Funds and the Bus Enterprise Fund of the City as of June 30, 2011, and the results of its operations and its cash flows, where applicable, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards* we have also issued a report dated December 28, 2011, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial report or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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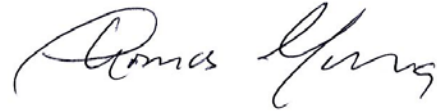
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REGISTERED with the Public Company Accounting Oversight Board and MEMBER of the American Institute of Certified Public Accountants

Management has omitted the management discussion and analysis (MD&A) 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 statement, 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.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

A handwritten signature in cursive script, appearing to read "Ronald Young".

Bakersfield, California
December 28, 2011

**CITY OF MODESTO
TRANSPORTATION DEVELOPMENT ACT FUNDS
LOCAL TRANSPORTATION SPECIAL REVENUE FUNDS
BALANCE SHEETS
JUNE 30, 2011
WITH COMPARATIVE AMOUNTS FOR JUNE 30, 2010**

	Non-Motorized	Streets and Roads	Totals	
			2011	2010
ASSETS				
Cash and cash equivalents	\$ 112,617	\$ 364,721	\$ 477,338	\$ 462,020
Loan receivable	-	-	-	-
Interest receivable	298	1,110	1,408	813
Due from other funds	-	-	-	-
Due from other governments	-	-	-	317,451
Total Assets	\$ 112,915	\$ 365,831	\$ 478,746	\$ 780,284
LIABILITIES				
Accounts payable	\$ -	\$ 3,791	\$ 3,791	\$ -
Deferred revenue	111,844	360,176	472,020	777,395
Total Liabilities	111,844	363,967	475,811	777,395
FUND BALANCES				
Restricted	1,071	1,864	2,935	2,889
Total Fund Balances	1,071	1,864	2,935	2,889
Total Liabilities and Fund Balances	\$ 112,915	\$ 365,831	\$ 478,746	\$ 780,284

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, 2011
WITH COMPARATIVE AMOUNTS FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

	Non-Motorized	Streets and Roads	Totals	
			2011	2010
REVENUES				
Intergovernmental	\$ -	\$ 305,375	\$ 305,375	\$ 52,552
Interest	846	4,279	5,125	1,897
Net increase (decrease) in fair value of investments	(134)	(610)	(744)	2,889
Total Revenues	712	309,044	309,756	57,338
EXPENDITURES				
Current:				
Indirect cost allocations	-	-	-	2,103
Capital outlay:				
Street rehabilitation	-	248,001	248,001	24,309
Total Expenditures	-	248,001	248,001	26,412
EXCESS OF REVENUES OVER EXPENDITURES	712	61,043	61,755	30,926
OTHER FINANCING SOURCES (USES)				
Transfers out to City	(666)	(61,043)	(61,709)	(28,037)
Total Other Financing Uses	(666)	(61,043)	(61,709)	(28,037)
NET CHANGE IN FUND BALANCES	46	-	46	2,889
Fund balances, beginning of year	1,025	1,864	2,889	-
Fund balances, end of year	\$ 1,071	\$ 1,864	\$ 2,935	\$ 2,889

See accompanying notes to financial statements.

**CITY OF MODESTO
TRANSPORTATION DEVELOPMENT ACT FUNDS
BUS ENTERPRISE FUND
STATEMENTS OF NET ASSETS
JUNE 30, 2011 AND 2010**

	2011	2010
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 6,618,021	\$ 6,206,866
Accounts receivable	9,804	8,951
Interest receivable	21,839	8,721
Due from other governments	2,823,152	1,977,491
Total Current Assets	9,472,816	8,202,029
Noncurrent assets:		
Capital assets:		
Land and construction in progress	7,735,559	4,753,933
Other capital assets, net of accumulated depreciation	13,858,336	16,342,396
Total Noncurrent Assets	21,593,895	21,096,329
Total Assets	31,066,711	29,298,358
LIABILITIES		
Current liabilities:		
Accounts payable	2,042,063	807,596
Accrued salaries and benefits	43,764	33,317
Unearned revenue - PTMISEA (Note 4)	1,143,479	1,097,085
Unearned revenue - CTSG (Note 5)	564,425	161,796
Unearned revenue - Capital Transit (Note 6)	2,906,680	2,885,264
Unearned revenue - LTF (Note 6)	-	175,373
Total Current Liabilities	6,700,411	5,160,431
NET ASSETS		
Invested in capital assets	21,593,895	21,096,329
Unrestricted	2,772,405	3,041,598
Total Net Assets	\$ 24,366,300	\$ 24,137,927

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 ASSETS
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010**

	<u>2011</u>	<u>2010</u>
OPERATING REVENUES		
Charges for services	\$ 2,608,140	\$ 2,512,269
Miscellaneous	198,984	170,677
	<u>2,807,124</u>	<u>2,682,946</u>
OPERATING EXPENSES		
Contractual services	9,614,708	9,237,304
Maintenance and supplies	2,038,182	2,001,978
Depreciation	1,367,440	1,841,405
Salaries and wages	964,606	936,846
Administrative services	715,910	653,126
Allocated indirect administrative costs	257,671	105,391
Employee benefits	465,402	442,111
Utilities	94,127	89,279
Insurance	147,536	51,023
Other	68,886	114,166
	<u>15,734,468</u>	<u>15,472,629</u>
Operating Loss	<u>(12,927,344)</u>	<u>(12,789,683)</u>
NONOPERATING REVENUES (EXPENSES)		
Federal Transit Administration Grants	-	90,287
City Local Transportation Fund Allocations	345,447	6,322,158
Other Intergovernmental Revenue	7,166,589	5,001,685
State Transit Assistance Fund Allocations	2,922,607	-
CMAQ Grant for Rideshare Program	44,129	42,926
Loss on disposition of capital assets	(131,152)	(161,557)
Interest income	60,764	31,128
Rental income	87,619	86,869
Net increase (decrease) in fair value of investments	(7,922)	31,056
	<u>10,488,081</u>	<u>11,444,552</u>
Loss Before Contributions and Transfers	(2,439,263)	(1,345,131)
Capital contributions:		
Federal Transit Administration Grant	3,244,490	1,594,255
Proposition 1B	695,347	1,271,169
Transfers in from City	1,500	204,341
Transfers out to City	(240,969)	(8,400)
	<u>1,261,105</u>	<u>1,716,234</u>
Change in Net Assets	1,261,105	1,716,234
Net assets, July 1, as previously reported	24,137,927	22,421,693
Prior period adjustment	<u>(1,032,732)</u>	<u>-</u>
Net assets, June 30	<u>\$ 24,366,300</u>	<u>\$ 24,137,927</u>

See accompanying notes to financial statements.

**CITY OF MODESTO
TRANSPORTATION DEVELOPMENT ACT FUNDS
BUS ENTERPRISE FUND
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010**

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers and users	\$ 1,947,492	\$ 6,545,256
Payments to suppliers	(10,728,972)	(11,566,280)
Payments to employees	(1,419,561)	(1,375,126)
Payments for interfund services used	(973,581)	(758,517)
	<u>(11,174,622)</u>	<u>(7,154,667)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Operating grants received	10,773,838	10,144,310
Transfers in from City	1,500	204,341
Transfers out to City	(240,969)	(8,400)
	<u>10,534,369</u>	<u>10,340,251</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(3,060,955)	(3,625,262)
Proceeds from the Sale of Property and Equipment	32,065	-
Proposition 1B funds	695,347	1,271,169
Capital contributions received	3,244,490	1,594,255
	<u>910,947</u>	<u>(759,838)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	60,764	31,128
Rental income received	87,619	86,869
Net increase in the fair value of investments	(7,922)	31,056
	<u>140,461</u>	<u>149,053</u>
Net increase (decrease) in cash and cash equivalents	411,155	2,574,799
Cash and cash equivalents at beginning of period	<u>6,206,866</u>	<u>3,632,067</u>
Cash and cash equivalents at end of period	<u>\$ 6,618,021</u>	<u>\$ 6,206,866</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:		
Operating loss	\$ (12,927,344)	\$ (12,789,683)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation	1,367,440	1,841,405
Changes in assets and liabilities:		
Accounts receivable	(859,632)	3,862,310
Accounts payable	1,234,467	(64,868)
Accrued salaries and benefits	10,447	(3,831)
	<u>\$ (11,174,622)</u>	<u>\$ (7,154,667)</u>

See accompanying notes to financial statements.

**CITY OF MODESTO
TRANSPORTATION DEVELOPMENT ACT FUNDS
NOTES TO FINANCIAL STATEMENTS**

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. 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 City 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 accrual accounting. Intergovernmental and interest are considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period.

The Bus Enterprise Fund is reported using the economic resources measurement focus and accrual basis 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.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in 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 enterprise funds, subject to the same limitation. The City has elected not to follow subsequent private-sector guidance.

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 is 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

TDA funds' cash and investments are held in the City's investment pool as described in the City's Comprehensive Annual Financial Report. The funds' cash and investments are reported as cash and cash equivalents on the balance sheet and statement of net assets because the funds can spend cash at any time without prior notice or penalty. The 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 is 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.
- **Committed** - Amounts constrained to specific purposes by the TDA itself, using the TDA's highest level of decision-making TDA (City Council). To be reported as committed, amounts cannot be used for any other purpose unless the TDA takes 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 *intends* to use for a specific purpose. Intent can be expressed by the TDA at either the highest level of decision making or by an official or body to which the TDA delegates the TDA. This is also the classification for residual funds in the TDA's special revenue fund.
- **Unassigned** - The residual classification for the TDA's General Fund that includes amounts not contained in the other classifications. In other funds, the unassigned classification is used only if expenditures incurred for specific purposes exceed the amounts restricted, committed, or assigned to those purposes.

The TDA establishes and modifies or rescinds fund balance commitments by passage of an ordinance or policy. This is typically done through adoption and 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 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's policy to use restricted resources first, followed by the unrestricted, committed, assigned and unassigned resources as they are needed.

H. Net Assets

Net assets is the excess of all the TDA's assets over all its liabilities, regardless of fund. Net Assets are divided into three captions. These captions apply only to Net Assets as determined at the government-wide level, and are described below:

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

Restricted describes the portion of Net Assets 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 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 Assets which is not restricted as to use.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. New Accounting Pronouncements

For the fiscal year ended June 30, 2011, the TDA implemented the following Government Accounting Standards Board standards:

GASB Statement No. 54 - *Fund Balance Reporting and Governmental Fund Type Definitions*. The requirements of this statement are effective for financial statement periods beginning after June 15, 2010. The objective of GASB Statement No. 54 is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied, and it clarifies the existing governmental fund type definitions. It establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. These classifications are described in the Fund Balance section of this footnote. It also provides guidance for classifying stabilization amounts on the face of the balance sheet and requires disclosure of certain information about stabilization arrangements in the notes to the financial statements. The definitions of the General Funds, special revenue fund type, capital projects fund type, debt service fund type, and permanent fund type are also clarified by the provisions in this statement.

Additional standards were released by GASB during the fiscal year.

GASB Statement No. 60 - *Accounting and Financial Reporting for Service Concession Arrangements* addresses accounting and financial reporting issues related to public-private and public-public partnerships. The statement is effective for periods beginning after December 15, 2011. The TDA has not fully judged the effect of the implementation of GASB Statement No. 60 as of the date of the basic financial statements.

GASB Statement No. 61 - *The Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14 and No. 34* modifies a number of provisions with regard to reporting of component units within a financial reporting entity. The statement is effective for periods beginning after June 15, 2012. As of the date of the basic financial statements, the TDA has not made an assessment of any changes that will occur upon this statement's implementation.

GASB Statement No. 62 - *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements - Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure. The statement is effective for periods beginning after December 15, 2011. However, as the statement codifies what is in current practice, there is no net effect on the TDA's accounting or financial reporting upon the statement's implementation.

GASB Statement No. 63 - *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position* modifies current financial reporting of those elements. The largest change will be the replacement of the current Statement of Net Assets with a Statement of Net Position and a Statement of Changes in Net Position instead of the current Statement of Changes in Net Assets upon implementation for periods beginning after December 15, 2011. The TDA will implement this change for the fiscal year ended June 30, 2012.

GASB Statement No. 64 - *Derivative Instruments: Application of Hedge Accounting Termination Provisions* - amends current accounting and financial reporting related to terminations of swap agreements due to default or other termination events. In certain instances where swap counterparties or credit support providers are replaced, hedge accounting may continue, rather than cease. The provisions of GASB Statement No. 64 are effective for financial statements beginning after June 15, 2011. As of the date of the basic financial statements, the TDA has not made an assessment of any changes that will occur upon this statement's implementation.

NOTE 2 – CAPITAL ASSETS

Capital asset activity for the Bus Enterprise Fund for the year ended June 30, 2011, was as follows:

	Beginning Balance	Additions	Deletions/ Transfers	Adjustments	Ending Balance
Capital assets, not being depreciated:					
Land	\$ 4,735,511	\$ -	\$ (656,635)	\$ (18,422)	\$ 4,060,454
Construction in progress	18,422	3,000,048	656,635	-	3,675,105
Total capital assets, not being depreciated	4,753,933	3,000,048	-	(18,422)	7,735,559
Capital assets, being depreciated:					
Buildings	7,022,043	-	-	-	7,022,043
Improvements	4,487,207	-	(164,906)	-	4,322,301
Furnishings and equipment	382,364	157,000	(12,376)	-	526,988
Vehicles	3,023,773	27,243	(2,828,732)	-	222,284
Buses and fareboxes	15,334,510	-	2,828,732	-	18,163,242
Total capital assets, being depreciated	30,249,897	184,243	(177,282)	-	30,256,858
Less accumulated depreciation for:					
Buildings	(2,861,290)	(219,544)	-	-	(3,080,834)
Improvements	(965,376)	(146,372)	11,717	-	(1,100,031)
Furnishings and equipment	(202,996)	(37,589)	10,647	-	(229,938)
Vehicles	(65,035)	(20,711)	3,150	-	(82,596)
Buses and fareboxes	(9,812,804)	(943,224)	(11,449)	(1,137,646)	(11,905,123)
Total accumulated depreciation	(13,907,501)	(1,367,440)	14,065	(1,137,646)	(16,398,522)
Total capital assets, being depreciated, net	16,342,396	(1,183,197)	(163,217)	(1,137,646)	13,858,336
Total capital assets, net	\$ 21,096,329	\$ 1,816,851	\$ (163,217)	\$ (1,156,068)	\$ 21,593,895

Depreciation expense was \$1,367,440 and \$1,841,405 for the years ended June 30, 2011 and 2010, respectively.

NOTE 3 – COMPLIANCE REQUIREMENTS OF LOCAL TRANSPORTATION FUNDS

The Bus Enterprise Fund is subject to State Transportation Development Act provisions requiring the calculation and adherence of fare and local support ratios for TDA transit funding. Effective November 17, 2010, 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. In the prior year, the City's Bus Enterprise Fund had to maintain a minimum fare ratio of 20 percent for fixed route and 10 percent for demand response. 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 & Demand Response Transit Services	
	2011	2010
Charges for services	\$ 2,553,015	\$ 2,444,088
Operating expenses	\$ 15,707,225	\$ 15,499,041
Less:		
Depreciation	(1,367,440)	(1,841,405)
Capital cost of contracting		
Grant and rent-funded activities	(635,121)	(1,025,738)
Applicable operating expenses	\$ 13,704,664	\$ 12,631,898
Fare ratio	18.63%	19.35%

NOTE 4 – PUBLIC TRANSPORTATION MODERNIZATION, IMPROVEMENT, AND SERVICE ENHANCEMENT ACT (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 2008, the City received \$2,588,589 from the State of California Department of Transportation passed through Stanislaus Council of Government (StanCOG) for three projects that were related to Public Transportation Modernization, Improvement, and Service Enhancement Account (PTMISEA) funds. Projects include the purchase and installation of a bus washer, purchase and installation of AVL technology in Fixed Route Buses, and the purchase of eleven new buses. In fiscal year 2010, the City received \$841,995 from the State of California Department of Transportation passed through StanCOG for two projects that include the construction of a maintenance facility and rehabilitations on existing buses. In fiscal year 2010, the City spent \$1,278,248 on installing AVL in fixed route buses and the purchase of 11 new buses. The remaining amount of \$1,097,085 was not spent in fiscal year 2010. In fiscal year 2011, the City received \$608,000 from the State of California Department of Transportation passed through StanCOG for four new projects that include the purchase of a truck, busses, and improvements to bus stops. In fiscal year 2011, the City spent \$571,816 on the construction of a new maintenance facility and improvements to bus stops, and earned an additional \$10,210 in interest on unspent proceeds. As of June 30, 2011, the City had \$1,143,479 remaining of unspent PTMISEA funds.

Project Name	2009-10 Unearned Revenue	Interest Earned in 2010-11	New Revenue in 2010-11	Expended in Fiscal Year 2010-11	Unearned Revenue
Purchase and install bus washer	\$ 255,090	\$ 2,129	\$ -	\$ -	\$ 257,219
Construction of new maintenance facility	602,205	5,028	-	538,348	68,885
Rehabilitation of existing buses	239,790	2,002	-	-	241,792
Truck	-	35	20,000	-	20,035
Buses	-	705	408,000	-	408,705
Bus Stops	-	276	160,000	33,468	126,808
Depository	-	35	20,000	-	20,035
Total	<u>\$ 1,097,085</u>	<u>\$ 10,210</u>	<u>\$ 608,000</u>	<u>\$ 571,816</u>	<u>\$ 1,143,479</u>

NOTE 5 – CALIFORNIA TRANSIT SECURITY GRANT (CTSG)

On August 1, 2008, the City received \$349,032 from the Governor's Office of Homeland Security (OHS) for three projects related to the California Transit Security Grant Program (CTSG). Projects include the purchase and installation of video cameras for the Bus Yard and Cash Fare Collection Facilities and in the Downtown Transportation Center. In fiscal year 2011, the City spent \$157,000 on purchasing security cameras and received an additional \$558,032 of funding, along with the addition of \$1,597 of interest earned on the funds received, for a total CTSG deferred revenue of \$564,425 as of June 30, 2011.

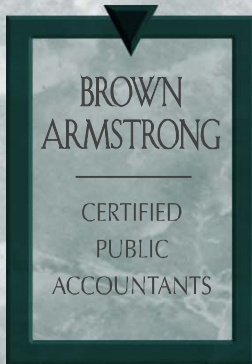
NOTE 6 – DEFERRED REVENUE

Deferred Revenue for the Transportation Development Act Funds and State Transit Act Funds for the year ended June 30, 2011, was as follows:

	<u>2011</u>		
Non-Motorized Fund:			
Deferred revenue, beginning of year	\$ 111,844		
TDA funds allocated		846	
TDA funds earned		<u>(846)</u>	
Deferred revenue, end of year	<u>\$ 111,844</u>		
	<u>2011</u>		
Street and Roads Fund:			
Deferred revenue, beginning of year	\$ 665,551		
TDA funds allocated		4,279	
TDA funds earned		<u>(309,654)</u>	
Deferred revenue, end of year	<u>\$ 360,176</u>		
	<u>LTF</u>	<u>Capital Transit</u>	<u>Total</u>
	2011	2011	
Bus Enterprise Fund:			
Deferred revenue, beginning of year	\$ 175,373	\$ 2,885,264	\$ 3,060,637
TDA funds allocated	-	21,416	21,416
TDA funds earned	<u>(175,373)</u>	<u>-</u>	<u>(175,373)</u>
Deferred revenue, end of year	<u>\$ -</u>	<u>\$ 2,906,680</u>	<u>\$ 2,906,680</u>

NOTE 7 – PRIOR PERIOD ADJUSTMENT

During the fiscal year ended June 30, 2011, a prior period adjustment of (\$1,032,732) was made to the beginning balance of the Bus Enterprise Fund's Net Assets. The prior period adjustment was to correct prior depreciation improperly not recorded and to bring the current net book value to the correct figure per the straight-line method of depreciation.



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

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We have audited 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 (the City), as of and for the year ended June 30, 2011, and have issued our report thereon dated December 28, 2011. 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. 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, we considered the Transportation Development Act Funds’ internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Transportation Development Act Funds’ internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Transportation Development Act Funds’ internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.



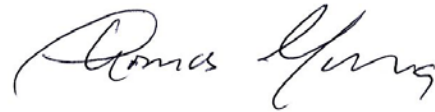
REGISTERED with the Public Company Accounting Oversight Board and MEMBER of the American Institute of Certified Public Accountants

Compliance and Other Matters

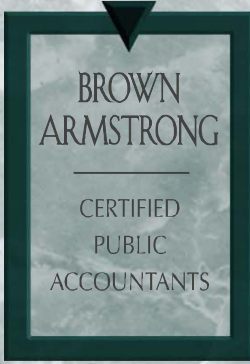
As part of obtaining reasonable assurance about whether the Transportation Development Act Funds' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have 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*.

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

A handwritten signature in cursive script, appearing to read "Ronald Young".

Bakersfield, California
December 28, 2011



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 the financial statements of the Proposition 1B funds of the City of Modesto (the City), as of and for the year ended June 30, 2011, and have issued our report thereon dated, December 28, 2011. 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. 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 Public Transportation Modernization, Improvement, and Service Enhancement Account Guideline.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City’s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Transportation Development Act Funds’ internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.



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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of 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 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.

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 in 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 bust stops. As of June 30, 2011, PTMISEA funds earned and expended were verified in the course of our audit as follows:

Schedule of PTMISEA Bond 1B Funds For the Year Ended June 30, 2011	
Description	Amount
Proceeds earned:	
PTMISEA (interest)	\$10,210
2011 grant funding	608,000
Expenditures incurred:	
Construction of new maintenance facility	538,348
Improvement of bus stops	33,468
Increase (decrease) in PTMISEA Funds during the year ended June 30, 2011	46,394
Unexpended proceeds at June 30, 2010	\$1,097,085
Unexpended proceeds at June 30, 2011	\$1,143,479

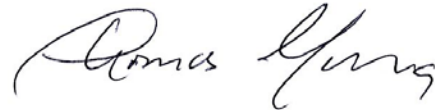
We conducted our audit on compliance in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan 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 TDA funds. 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.

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

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

A handwritten signature in cursive script, appearing to read "Ronald Young".

Bakersfield, California
December 28, 2011