

**CITY OF MODESTO
TRANSPORTATION DEVELOPMENT ACT
FUNDS**

INDEPENDENT AUDITOR'S REPORTS,
FINANCIAL
STATEMENTS, REQUIRED
SUPPLEMENTARY INFORMATION,
AND INDEPENDENT ACCOUNTANT'S
REPORT

FOR THE YEAR ENDED JUNE 30, 2015



Certified
Public
Accountants

**CITY OF MODESTO
TRANSPORTATION DEVELOPMENT ACT FUNDS
FOR THE YEAR ENDED JUNE 30, 2015**

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor’s Report.....	1
Financial Statements:	
Balance Sheet – Local Transportation Special Revenue Funds	4
Statement of Revenues, Expenditures, and Changes in Fund Balances – Local Transportation Special Revenue Funds.....	5
Statements of Net Position – Bus Enterprise Fund.....	6
Statements of Revenues, Expenses, and Changes in Fund Net Position – Bus Enterprise Fund	7
Statements of Cash Flows – Bus Enterprise Fund.....	8
Notes to the Financial Statements	10
Required Supplementary Information:	
Schedule of the Bus Fund’s Proportionate Share of the Net Pension Liability	25
Schedule of the Bus Fund’s Contributions.....	26
Other Reports:	
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 <i>Government Auditing Standards</i> and the Transportation Development Act	27
Schedule of Findings and Recommendations.....	29
Independent Accountant’s Report on Compliance with the Public Transportation Modernization, Improvement, and Service Enhancement Account (PTMISEA)	31



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, 2015, and the related notes, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Local Transportation Special Revenue Funds and the Bus Enterprise Fund of the City as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

Basis of Presentation

As discussed in Note 1, the financial statements of the Transportation Development Act Funds of the City are intended to present the financial position, the changes in financial position, and, where applicable, cash flows of only that portion of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City that is attributable to the transactions of the Transportation Development Act Funds. They do not purport to, and do not present fairly the financial position of the City as of June 30, 2015, the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Change in Accounting Principles

As discussed in Note 1.I, for the year ended June 30, 2015, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. Our opinion is not modified with respect to this matter.

Other Matters

Prior-Year Comparative Information

The financial statements of the Local Transportation Special Revenue Funds include summarized prior-year comparative information. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the City's financial statements of the Local Transportation Special Revenue Funds as of and for the year ended June 30, 2014, from which such summarized information was derived. The financial statements of the Local Transportation Special Revenue Funds as of and for the year ended June 30, 2014, were audited by other auditors whose opinion dated November 24, 2014, on those statements was unmodified.

Adjustments to Prior Period Financial Statements

The financial statements of the Bus Enterprise Fund as of and for the year ended June 30, 2014, were audited by other auditors whose opinion dated November 24, 2014, on those statements was unmodified. As discussed in Note 1.J, the City has restated its 2014 Bus Enterprise Fund financial statements during the current year to accrue additional intergovernmental revenue, to capitalize expenses, and to reduce depreciation expense, in accordance with accounting principles generally accepted in the United States of America. The other auditors reported on the 2014 Bus Enterprise Fund financial statements before the restatement.

As part of our audit of the 2015 Bus Enterprise Fund financial statements, we also audited adjustments described in Note 1.J that were applied to restate the 2014 Bus Enterprise Fund financial statements. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the 2014 Bus Enterprise Fund financial statements of the City other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2014 Bus Enterprise Fund financial statements as a whole.

Required Supplementary Information

Management has omitted management’s discussion and analysis (MD&A) and the 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 financial statements. Such missing information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. Our opinion on the financial statements is not affected by this missing information.

Accounting principles generally accepted in the United States of America require that the schedule of the Bus Fund’s proportionate share of the net pension liability and schedule of the Bus Fund’s contributions be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards* and the Transportation Development Act

In accordance with *Government Auditing Standards*, we have also issued our report dated December 3, 2015, 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 as it relates to the Transportation Development Act Funds. 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 as it relates to the Transportation Development Act Funds. 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.



Sacramento, California
December 3, 2015

CITY OF MODESTO
TRANSPORTATION DEVELOPMENT ACT FUNDS
BALANCE SHEET - LOCAL TRANSPORTATION SPECIAL REVENUE FUNDS
JUNE 30, 2015
(with comparative totals for June 30, 2014)

	Non-	Streets	Totals	
	Motorized	and Roads	2015	2014
ASSETS				
Cash and cash equivalents	\$ 861,931	\$ 897,212	\$ 1,759,143	\$ 1,418,075
Interest receivable	1,699	4,174	5,873	1,125
Due from other governments	-	312,826	312,826	2,196,221
Total Assets	\$ 863,630	\$ 1,214,212	\$ 2,077,842	\$ 3,615,421
LIABILITIES				
Accounts payable	\$ 6,745	\$ -	\$ 6,745	\$ 294
Unearned revenue	855,110	797,255	1,652,365	3,509,222
Total Liabilities	861,855	797,255	1,659,110	3,509,516
FUND BALANCES				
Restricted	1,775	416,957	418,732	105,905
Total Liabilities and Fund Balances	\$ 863,630	\$ 1,214,212	\$ 2,077,842	\$ 3,615,421

See accompanying notes to the financial statements.

CITY OF MODESTO
TRANSPORTATION DEVELOPMENT ACT FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES - LOCAL TRANSPORTATION SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2015
(with comparative totals for the year ended June 30, 2014)

	Non- Motorized	Streets and Roads	Totals	
			2015	2014
REVENUES				
Intergovernmental:				
Local Transportation Funds	\$ 19,394	\$ 2,520,389	\$ 2,539,783	\$ 16,738
Other	-	1,383,848	1,383,848	188,194
Interest	5,891	16,008	21,899	6,855
Change in fair value of investments	(2,556)	(6,236)	(8,792)	(4,114)
Total Revenues	22,729	3,914,009	3,936,738	207,673
EXPENDITURES				
Current:				
Administrative services	15,307	44,869	60,176	61,802
Capital outlay:				
Street rehabilitation	2,655	1,533,220	1,535,875	50,100
Total Expenditures	17,962	1,578,089	1,596,051	111,902
Excess of Revenues Over Expenditures	4,767	2,335,920	2,340,687	95,771
OTHER FINANCING SOURCES				
Transfers:				
In from other funds of the City	-	207,337	207,337	8,814
Out to other funds of the City	(4,767)	(2,230,430)	(2,235,197)	-
Total Other Financing Sources	(4,767)	(2,023,093)	(2,027,860)	8,814
Changes in fund balances	-	312,827	312,827	104,585
Fund balances, beginning of year	1,775	104,130	105,905	1,320
Fund balances, end of year	\$ 1,775	\$ 416,957	\$ 418,732	\$ 105,905

See accompanying notes to the financial statements.

CITY OF MODESTO
TRANSPORTATION DEVELOPMENT ACT FUNDS
STATEMENTS OF NET POSITION - BUS ENTERPRISE FUND
JUNE 30, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 8,665,578	\$ 10,415,592
Accounts receivable	9,834	46,152
Interest receivable	22,900	17,616
Due from other governments	<u>9,016,320</u>	<u>2,614,482</u>
Total Current Assets	<u>17,714,632</u>	<u>13,093,842</u>
Noncurrent assets:		
Capital assets:		
Land and construction in progress	7,734,731	4,080,877
Other capital assets, net of accumulated depreciation	<u>33,562,637</u>	<u>27,847,530</u>
Total Noncurrent Assets	<u>41,297,368</u>	<u>31,928,407</u>
Total Assets	<u>59,012,000</u>	<u>45,022,249</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows of resources related to pensions	<u>143,374</u>	<u>-</u>
LIABILITIES		
Current liabilities:		
Accounts payable	8,389,038	2,036,418
Accrued salaries and benefits	49,371	34,939
Unearned revenue PTMISEA	4,424,121	6,674,786
Unearned revenue CTSG	9,871	562,818
Unearned revenue Capital Transit	432,076	102,076
Unearned revenue LTF	<u>1,630,003</u>	<u>918,961</u>
Total Current Liabilities	14,934,480	10,329,998
Noncurrent liabilities:		
Net pension liability	<u>1,899,090</u>	<u>-</u>
Total liabilities	<u>16,833,570</u>	<u>10,329,998</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows of resources related to pensions	<u>570,009</u>	<u>-</u>
NET POSITION		
Investment in capital assets	41,297,368	31,928,407
Unrestricted	<u>454,427</u>	<u>2,763,844</u>
Total Net Position	<u><u>\$ 41,751,795</u></u>	<u><u>\$ 34,692,251</u></u>

See accompanying notes to the financial statements.

CITY OF MODESTO
TRANSPORTATION DEVELOPMENT ACT FUNDS
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET POSITION - BUS ENTERPRISE FUND
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
OPERATING REVENUES		
Charges for services	\$ 3,093,783	\$ 2,768,588
Miscellaneous	330,879	220,916
Total Operating Revenues	<u>3,424,662</u>	<u>2,989,504</u>
OPERATING EXPENSES		
Contractual services	11,436,759	10,921,054
Depreciation	2,260,367	1,645,657
Maintenance and supplies	2,229,174	2,486,934
Salaries and wages	1,124,173	1,118,722
Administrative services	949,105	925,253
Employee benefits	418,885	384,860
Allocated indirect administrative costs	244,305	275,706
Utilities	144,123	156,029
Insurance	21,864	20,972
Other	180,321	612,256
Total Operating Expenses	<u>19,009,076</u>	<u>18,547,443</u>
Operating Loss	<u>(15,584,414)</u>	<u>(15,557,939)</u>
NONOPERATING REVENUES (EXPENSES)		
Intergovernmental:		
Local Transportation Funds	6,066,318	5,802,058
State Transit Assistance	2,730,887	2,879,266
Federal Transit Administration	4,429,289	4,677,965
Proposition 1B	16,296	39,460
CMAQ grant for Rideshare Program	32,204	33,650
Other	-	353,174
Loss on disposition of capital assets	-	(1,994)
Interest income	9,758	62,800
Rental income	91,217	62,181
Change in fair value of investments	(25,021)	(4,626)
Total Nonoperating Revenues (Expenses)	<u>13,350,948</u>	<u>13,903,934</u>
Loss Before Capital Contributions and Transfers	(2,233,466)	(1,654,005)
Capital contributions:		
Local Transportation Funds	10,563	18,923
Federal Transit Administration	6,483,261	1,141,547
Proposition 1B	5,134,068	271,264
Transfers in from other funds of the City	1,500	43,925
Transfers out to other funds of the City	-	(59,245)
Change in Net Position	<u>9,395,926</u>	<u>(237,591)</u>
Net Position, beginning of year, as reported	34,692,251	34,929,842
Change in accounting principle	<u>(2,336,382)</u>	<u>-</u>
Net Position, beginning of year, as restated	<u>32,355,869</u>	<u>34,929,842</u>
Net Position, end of year	<u>\$ 41,751,795</u>	<u>\$ 34,692,251</u>

See accompanying notes to the financial statements.

CITY OF MODESTO
TRANSPORTATION DEVELOPMENT ACT FUNDS
STATEMENTS OF CASH FLOWS - BUS ENTERPRISE FUND
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers and users	\$ 3,460,980	\$ 2,802,370
Payments to suppliers	(8,853,031)	(16,074,574)
Payments to employees	<u>(1,539,283)</u>	<u>(1,517,145)</u>
Net Cash Used by Operating Activities	<u>(6,931,334)</u>	<u>(14,789,349)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Local Transportation Funds	6,828,000	5,802,058
State Transit Assistance	2,730,887	2,879,266
Federal Transit Administration	1,453,760	4,651,928
Proposition 1B	-	39,460
CMAQ grant for Rideshare Program	2,140	33,650
Other	396,697	353,174
Transfers in from other funds of the City	1,500	43,925
Transfers out to other funds of the City	<u>-</u>	<u>(59,245)</u>
Net Cash Provided by Noncapital Financing Activities	<u>11,412,984</u>	<u>13,744,216</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(11,629,328)	(1,432,500)
Capital contributions:		
Local Transportation Funds	340,563	18,923
Federal Transit Administration	2,639,679	1,141,547
Proposition 1B	<u>2,308,078</u>	<u>271,264</u>
Net Cash Used by Capital and Related Financing Activities	<u>(6,341,008)</u>	<u>(766)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	18,127	58,174
Rental income received	<u>91,217</u>	<u>62,181</u>
Net Cash Provided by Investing Activities	<u>109,344</u>	<u>120,355</u>
Change in cash and cash equivalents	(1,750,014)	(925,544)
Cash and cash equivalents, beginning of year	<u>10,415,592</u>	<u>11,341,136</u>
Cash and cash equivalents, end of year	<u><u>\$ 8,665,578</u></u>	<u><u>\$ 10,415,592</u></u>

See accompanying notes to the financial statements.

CITY OF MODESTO
TRANSPORTATION DEVELOPMENT ACT FUNDS
STATEMENT OF CASH FLOWS - BUS ENTERPRISE FUND (Continued)
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

	2015	2014
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:		
Operating loss	\$(15,584,414)	\$(15,557,939)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation	2,260,367	1,645,657
Changes in assets and liabilities:		
Accounts receivable	36,318	(191,706)
Prepaid expenses	-	4,572
Accounts payable	6,352,620	1,062,163
Accrued salaries and benefits	14,432	(1,752,096)
Net pension liability and related deferred outflows/inflows	(10,657)	-
Net cash used by operating activities	\$ (6,931,334)	\$(14,789,349)

See accompanying notes to the financial statements.

CITY OF MODESTO
TRANSPORTATION DEVELOPMENT ACT FUNDS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015

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 City is not legally required to adopt a budget for the TDA Funds. Therefore, budget comparison information is not included in these 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 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 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation, Basis of Accounting, and Measurement Focus (Continued)

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 bus fares, 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.

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. Due from Other Governments/Unearned 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.

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

E. 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 other City funds 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)

F. Fund Equity

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

- **Nonspendable** - 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 City, using the highest level of decision-making authority (City Council). To be reported as committed, amounts cannot be used for any other purpose unless the City 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 City *intends* to use for a specific purpose. Intent can be expressed by the City at either the highest level of decision-making authority or by an official or body to which the City delegates the authority. This is also the classification for residual funds in the 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 City establishes and modifies or rescinds 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 City through adoption or amendment of the budget or future year budget plan as intended for a specific purpose.

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

G. Net Position

Net position is the excess of all the assets over all the 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:

Investment in Capital Assets describes the portion of net position which is represented by the current net book value of the 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 City 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Miscellaneous Plan (Plan) and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the CalPERS Financial Office. For this purpose, benefit payments (including refunds of employee contributions) are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value.

GASB Statement No. 68 requires that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

Valuation Date:	June 30, 2013
Measurement Date:	June 30, 2014
Measurement Period:	July 1, 2013 to June 30, 2014

I. New Accounting Pronouncements

During the year ended June 30, 2015, the City implemented the following GASB standards:

GASB Statement No. 68 (GASB 68) – *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*. **GASB Statement No. 71** (GASB 71) – *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68* (collectively, the Statements). The provisions of the Statements are effective for financial statements beginning after June 15, 2014. The primary objective of the Statements is to improve accounting and financial reporting by state and local governments for pensions by establishing standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses. It requires employers to report a net pension liability for the difference between the present value of projected pension benefits for past service and restricted resources held in trust for the payment of benefits. The Statements identify the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

The net pension liability offset by the related deferred outflows of resources as of June 30, 2014 reduces the beginning net position of the Bus Enterprise Fund for the year ended June 30, 2015. As a result, for the year ended June 30, 2015, the beginning net position decreased by \$2,336,382 as the cumulative effect of the change in accounting principles.

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, however there was no effect on the accounting and financial reporting as a result of implementing this standard.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Restatements

The City restated its 2014 Bus Fund financial statements increasing ‘due from other governments’ and ‘intergovernmental – Federal Transit Administration’ by \$26,037. This restatement was due to additional expenses posting after the year-end revenue accruals were posted and not factored into the calculation for recognizing revenue for the year.

In addition, the City also restated its 2014 Bus Fund financial statements increasing ‘capital assets – construction in progress’ and decreasing ‘maintenance and supplies expenses’ by \$766 and decreasing ‘buses and fareboxes accumulated depreciation’ and ‘depreciation expenses’ by \$685,745. This restatement was due to an error related to an increase in value to an existing asset record for improvements made to several buses. When the adjustment was made, it calculated depreciation expense based on the original acquisition date and not the date the improvement was made. This generated an overstatement in depreciation expense in 2014.

K. Reclassifications

The City reclassified its 2014 Bus Fund financial statements decreasing ‘capital contributions’ and increasing ‘intergovernmental revenues’ by \$4,672,465 to be consistent with its 2015 presentation.

NOTE 2 – INVESTMENT IN CITY OF MODESTO POOL

The cash and investments of the TDA Funds are held in the City’s investment pool. The cash and investments of the TDA Funds are reported as cash and cash equivalents on the balance sheet and statement of net position because the City can spend cash of the TDA Funds at any time without prior notice or penalty. At June 30, 2015, the City’s investment pool is unrated and the weighted average maturity is 464 days. Interest earned on pool cash and investments is credited to each participant in the pool based on each participant’s average monthly cash balance. The Modesto City Council has oversight responsibility of the City investment pool. Detailed information concerning the City’s pooled cash and investments, including information regarding the fair value of investments, may be found in the City’s Comprehensive Annual Financial Report. The TDA Funds’ investments in the pool are stated at fair value. As of June 30, 2015, the fair value of the TDA Funds’ position in the pool is the same as the value of its pool shares.

NOTE 3 – CAPITAL ASSETS

Capital asset activity for the Bus Enterprise Fund for the year ended June 30, 2015, was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 4,060,454	\$ -	\$ -	\$ 4,060,454
Construction in progress	20,423	3,653,854	-	3,674,277
Total capital assets, not being depreciated	4,080,877	3,653,854	-	7,734,731
Capital assets, begin depreciated:				
Buildings	23,206,647	34,199	-	23,240,846
Improvements	4,336,165	-	-	4,336,165
Furnishings and equipment	1,371,361	76,930	-	1,448,291
Vehicles	222,284	-	-	222,284
Buses and fareboxes	20,132,760	7,864,345	-	27,997,105
Total capital assets, being depreciated	49,269,217	7,975,474	-	57,244,691
Less accumulated depreciation for:				
Buildings	(4,707,616)	(759,551)	-	(5,467,167)
Improvements	(1,722,790)	(206,871)	-	(1,929,661)
Furnishings and equipment	(455,076)	(122,691)	-	(577,767)
Vehicles	(147,171)	(16,428)	-	(163,599)
Buses and fareboxes	(14,389,034)	(1,154,826)	-	(15,543,860)
Total accumulated depreciation	(21,421,687)	(2,260,367)	-	(23,682,054)
Total capital assets, being depreciated, net	27,847,530	5,715,107	-	33,562,637
Total capital assets, net	\$ 31,928,407	\$ 9,368,961	\$ -	\$ 41,297,368

Depreciation expense ended June 30, 2015 was \$2,260,367.

NOTE 3 – CAPITAL ASSETS (Continued)

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

	Beginning Balance	Additions	Deletions	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 4,060,454	\$ -	\$ -	\$ 4,060,454
Construction in progress	19,657	766	-	20,423
Total capital assets, not being depreciated	4,080,111	766	-	4,080,877
Capital assets, begin 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	47,857,432	1,431,734	(19,949)	49,269,217
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)	(119,184)	17,955	(455,076)
Vehicles	(127,054)	(20,117)	-	(147,171)
Buses and fareboxes	(13,849,207)	(539,827)	-	(14,389,034)
Total accumulated depreciation	(19,793,985)	(1,645,657)	17,955	(21,421,687)
Total capital assets, being depreciated, net	28,063,447	(213,923)	(1,994)	27,847,530
Total capital assets, net	\$ 32,143,558	\$ (213,157)	\$ (1,994)	\$ 31,928,407

Depreciation expense ended June 30, 2014 was \$1,645,657.

NOTE 4 – 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, the Stanislaus Council of Governments (StanCOG), the Transportation Planning Agency 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 Bus Enterprise 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:

	<u>2015</u>	<u>2014</u>
Charges for services	\$ 3,093,783	\$ 2,768,588
Less:		
Non-fare charges	<u>(14,136)</u>	<u>-</u>
Fare revenues	<u>3,079,647</u>	<u>2,768,588</u>
Operating expenses	19,009,076	18,547,443
Less:		
Depreciation	(2,260,367)	(1,645,657)
Transfers in from other City funds	(1,500)	-
Capital activities	(534,334)	-
Grant and rent-funded activities	(44,815)	(696,060)
Adjustments	<u>(1,057,540)</u>	<u>(1,144,913)</u>
Applicable operating expenses	<u>\$ 15,110,520</u>	<u>\$ 15,060,813</u>
Fare ratio	<u>20.38%</u>	<u>18.38%</u>

NOTE 5 – PROPOSITION 1B: 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.

NOTE 5 – PROPOSITION 1B: PUBLIC TRANSPORTATION MODERNIZATION, IMPROVEMENT, AND SERVICE ENHANCEMENT ACCOUNT (PTMISEA) (Continued)

In fiscal year 2015, the City received \$2,308,078 from State of California Department of Transportation passed through StanCOG. The City spent \$4,594,769 in various projects during the year and earned an additional \$36,026 in interest, leaving \$4,424,121 of unspent PTMISEA funds as of June 30, 2015.

<u>Project Name</u>	<u>Beginning Unearned Revenue</u>	<u>Interest Earned</u>	<u>New Receipts</u>	<u>Expended</u>	<u>Ending Unearned Revenue</u>
Rehabilitation of existing buses	\$ 24,481	\$ 117	\$ -	\$ -	\$ 24,598
New and refurbish buses	4,829,342	27,019	2,066,078	(4,189,702)	2,732,737
Bus stops	116,922	454	-	(22,320)	95,056
Depository	198,918	1,247	242,000	-	442,165
Security	1,505,123	7,189	-	(382,747)	1,129,565
Total	\$ 6,674,786	\$ 36,026	\$ 2,308,078	\$ (4,594,769)	\$ 4,424,121

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.

<u>Project Name</u>	<u>Beginning Unearned Revenue</u>	<u>Corrective Action Plan</u>	<u>Interest Earned</u>	<u>New Receipts</u>	<u>Expended</u>	<u>Ending Unearned Revenue</u>
Rehabilitation of existing buses	\$ 231,808	\$ 75,000	\$ 642	\$ -	\$ (282,969)	\$ 24,481
New and refurbish 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 6 – PROPOSITION 1B: CALIFORNIA TRANSIT SECURITY GRANT (CTSG)

In fiscal year 2015, the City received no additional funding but received \$2,648 in interest on the unspent funds, and expended \$555,595 of CTSG funds, leaving \$9,871 of unspent CTSG funds as of June 30, 2015.

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

NOTE 7 – UNEARNED REVENUE

Unearned revenue for the TDA Funds for the year ended June 30, 2015, was as follows:

	Local Transportation Special Revenue Funds		
	Non-Motorized	Streets and Roads	Total
Unearned revenue, beginning of year	\$ 720,708	\$ 2,788,514	\$ 3,509,222
TDA funds allocated	153,796	529,130	682,926
TDA funds earned	(19,394)	(2,520,389)	(2,539,783)
Unearned revenue, end of year	<u>\$ 855,110</u>	<u>\$ 797,255</u>	<u>\$ 1,652,365</u>
	Bus Enterprise Fund		
	LTF/STA	Capital Transit	Total
Unearned revenue, beginning of year	\$ 918,961	\$ 102,076	\$ 1,021,037
TDA funds allocated	9,508,247	340,563	9,848,810
TDA funds earned	(8,797,205)	(10,563)	(8,807,768)
Unearned revenue, end of year	<u>\$ 1,630,003</u>	<u>\$ 432,076</u>	<u>\$ 2,062,079</u>

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

	Local Transportation Special Revenue Funds		
	Non-Motorized	Streets and Roads	Total
Unearned revenue, beginning of year	\$ 588,721	\$ 914,968	\$ 1,503,689
TDA funds allocated	148,725	1,873,546	2,022,271
TDA funds earned	(16,738)	-	(16,738)
Unearned revenue, end of year	<u>\$ 720,708</u>	<u>\$ 2,788,514</u>	<u>\$ 3,509,222</u>
	Bus Enterprise Fund		
	LTF/STA	Capital Transit	Total
Unearned revenue, beginning of year	\$ 561,719	\$ 1,912,338	\$ 2,474,057
TDA funds re-allocated	1,810,262	(1,810,262)	-
TDA funds allocated	7,228,304	18,923	7,247,227
TDA funds earned	(8,681,324)	(18,923)	(8,700,247)
Unearned revenue, end of year	<u>\$ 918,961</u>	<u>\$ 102,076</u>	<u>\$ 1,021,037</u>

NOTE 8 – PENSION PLAN

General Information about the Pension Plan

Plan Description – All of the Bus Fund qualified employees are eligible to participate in the City’s Miscellaneous Pension Plan (Plan), an agent multi-employer defined benefit pension plan administered by the California Public Employees’ Retirement System (CalPERS). Departments and funds of the City, including the Bus Fund, are in a cost-sharing arrangement in which all risks and costs are shared proportionately. A full description of the Plan regarding number of employees covered, benefit provisions, assumptions (for funding, but not accounting purposes), and membership information are listed in the June 30, 2013 Annual Actuarial Valuation Report. Details of the benefits provided can be obtained in Appendix B of the actuarial valuation report. This report and CalPERS’ audited financial statements are publicly available reports that can be obtained at CalPERS’ website at www.calpers.ca.gov under Forms and Publications.

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

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

The Plan’s provisions and benefits in effect at June 30, 2015 are summarized as follows:

Hire date	<u>Prior to January 17, 2012</u>	<u>January 17, 2012 to December 31, 2012</u>	<u>On or After January 1, 2013</u>
Benefit formula	2% @ 55	2% @ 60	2% @ 62
Benefit vesting schedule	5 years of service	5 years of service	5 years of service
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	50 to 67	50 to 67	52 to 67
Monthly benefits, as a % of eligible compensation	1.426 to 2.418%	1.092 to 2.418%	1.000 to 2.500%

Contributions – Section 20814(c) of the California Public Employees Retirement Law (PERL) requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through the CalPERS’ annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The City is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. For the measurement period ended June 30, 2014 (the measurement date) for the Plan, the average active employee contribution rate was 6.971% of annual pay and the employer’s contribution rate was 11.984% of annual payroll. Employer contribution rates may change if plan contracts are amended. It is the responsibility of the City to make necessary accounting adjustments to reflect the impact due to any employer-paid member contributions or situations where members are paying a portion of the employer contribution.

For the year ended June 30, 2015, the contributions recognized as part of pension expense was \$118,895.

NOTE 8 – PENSION PLAN (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

As of June 30, 2015, the Bus Fund reported a liability of \$1,899,090 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, using an annual actuarial valuation as of June 30, 2013 rolled forward to June 30, 2014 using standard update procedures. The Bus Fund’s proportion of the net pension liability was based on its 2014-15 total contributions to the Plan relative to all 2014-15 contributions to the Plan. At June 30, 2014, the Bus Fund’s proportion was 2.55465%.

For the year ended June 30, 2015, the Bus Fund recognized pension expense of \$132,717. At June 30, 2015, the Bus Fund reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Bus Fund contributions subsequent to the measurement date	\$ 143,374	\$ -
Net difference between projected and actual earnings on pension plan investments	-	<u>570,009</u>
Totals	<u>\$ 143,374</u>	<u>\$ 570,009</u>

The \$143,374 reported as deferred outflows of resources related to pensions resulting from the Bus Fund contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2016. The \$570,009 reported as deferred inflows of resources related to pensions resulting from the net difference between projected and actual earnings on pension plan investments will be recognized as pension expense as follows:

<u>Year Ending June 30</u>	
2016	\$ 142,502
2017	142,502
2018	142,502
2019	<u>142,503</u>
Total	<u>\$ 570,009</u>

NOTE 8 – PENSION PLAN (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

Actuarial Assumptions – For the measurement period ended June 30, 2014 (measurement date), the total pension liability was determined by rolling forward the June 30, 2013 total pension liability. The June 30, 2013 and the June 30, 2014 total pension liability was based on the following actuarial method and assumptions:

Actuarial Cost Method	Entry-Age Normal
Actuarial Assumptions:	
Discount Rate	7.50%
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Investment Rate of Return	7.50% Net of Pension Plan Investment and Administrative Expenses, includes Inflation
Mortality Rate Table ⁽¹⁾	Derived using CalPERS' Membership Data for all Funds
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

⁽¹⁾ The mortality table used was developed based on CalPERS' specific data. The table includes 20 year of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 2014 experience study report.

All other actuarial assumptions used in the June 30, 2013 valuation were based on the results of actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study report can be obtained at CalPERS website under Forms and Publications.

Discount Rate – The discount rate used to measure the total pension liability was 7.50 percent. To determine whether the municipal bond rate should be used in the calculation of a discount rate for the Plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.50 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long-term expected discount rate of 7.50 percent is applied to all plans in the Public Employees Retirement Fund. The stress test results are presented in a detailed report called “GASB Crossover Testing Report” that can be obtained at CalPERS’ website under the GASB 68 section.

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50 percent investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65 percent. Using this lower discount rate has resulted in a slightly higher total pension liability and net pension liability. This difference was not material to the financial statements of the Bus Fund.

NOTE 8 – PENSION PLAN (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require CalPERS Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as it has changed its methodology.

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

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

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

<u>Asset Class</u>	<u>New Strategic Allocation</u>	<u>Real Return Years 1 - 10 ⁽¹⁾</u>	<u>Real Return Years 11+ ⁽²⁾</u>
Global Equity	47.0%	5.25%	5.71%
Global Fixed Income	19.0	0.99	2.43
Inflation Sensitive	6.0	0.45	3.36
Private Equity	12.0	6.83	6.95
Real Estate	11.0	4.50	5.13
Infrastructure and Forestland	3.0	4.50	5.09
Liquidity	2.0	(0.55)	(1.05)

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

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

NOTE 8 – PENSION PLAN (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

Sensitivity of the Bus Fund's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the net pension liability of the Plan as of the measurement date, calculated using the discount rate of 7.50 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.50 percent) or 1 percentage-point higher (8.50 percent) than the current rate:

	<u>Discount Rate</u> <u>- 1% (6.50%)</u>	<u>Current Discount</u> <u>Rate (7.50%)</u>	<u>Discount Rate</u> <u>+ 1% (8.50%)</u>
Bus Fund's Proportionate Share of Plan's Net Pension Liability	\$ 3,139,956	\$ 1,899,090	\$ 862,117

Pension Plan Fiduciary Net Position – Detailed information about the pension plan's fiduciary net position is available in the separately issued CalPERS financial report.

**CITY OF MODESTO
TRANSPORTATION DEVELOPMENT ACT FUNDS
SCHEDULE OF THE BUS FUND'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
LAST 10 YEARS***

	2015
Miscellaneous Plan:	
Bus Fund's proportion of the net pension liability	2.55465%
Bus Fund's proportionate share of the net pension liability	\$ 1,899,090
Bus Fund's covered-employee payroll	\$ 1,127,265
Bus Fund's proportionate share of the net pension liability as a percentage of their covered-employee payroll	168.47%
Plan fiduciary net position as a percentage of the total pension liability	81.18%

Notes to Schedule:

Changes of benefit terms:

In 2015, there were no changes to the benefit terms.

Changes in assumptions:

In 2015, there were no changes in assumptions.

* - GASB 68 was implemented in 2015.

**CITY OF MODESTO
TRANSPORTATION DEVELOPMENT ACT FUNDS
SCHEDULE OF THE BUS FUND'S CONTRIBUTIONS
LAST 10 YEARS***

	2015
Miscellaneous Plan:	
Contractually required contribution	\$ 143,374
Contributions in relation to the contractually required contribution	143,374
Contribution deficiency (excess)	\$ -
Bus Fund's covered-employee payroll	\$ 1,075,274
Contributions as a percentage of covered-employee payroll	13.33%

Notes to Schedule:

The actuarial methods and assumptions used to determine contribution rates for the year ended June 30, 2015 were from the actuarial valuations for the year ended June 30, 2013.

Actuarial cost method	Entry-Age Normal
Actuarial assumptions:	
Inflation	2.75%
Salary increase	Varies ⁽¹⁾
Payroll growth	3.00% ⁽²⁾
Investment rate of return	7.50%
Retirement age	2010 Experience Study ⁽³⁾
Mortality	2010 Experience Study ⁽⁴⁾

⁽¹⁾ Depending on age, service, and type of employment.

⁽²⁾ Net of pension plan investment and administrative expenses, including inflation.

⁽³⁾ The probabilities of retirement are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007.

⁽⁴⁾ The probabilities of mortality are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007. Pre-retirement and post-retirement mortality rates include 5 years of projected mortality improvement using Scale AA published by the Society of Actuaries.

* - GASB 68 was implemented in 2015.



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, 2015, and the related notes to the financial statements, and have issued our report thereon dated December 3, 2015.

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 as it relates to the Transportation Development Act Funds (internal control) 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. Accordingly, we do not express an opinion on the effectiveness of City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and recommendations, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies described in the accompanying schedule of findings and recommendations as items 2015-001 and 2015-002 to be material weaknesses.

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. We consider the deficiency described in the accompanying schedule of findings and recommendations as item 2015-003 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's Transportation Development Act Funds financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, including the applicable statutes, rules and regulations of the Transportation Development Act and the allocation instructions and resolutions of the Stanislaus Council of Governments as required by Sections 6666 and 6667 of Title 21, Division 3, Chapter 2, Article 5.5 of the California Code of Regulations, 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* or the Transportation Development Act.

District's Response to Findings

The City's response to the findings identified in our audit is described in the accompanying schedule of findings and recommendations. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and the Transportation Development Act in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Sacramento, California
December 3, 2015

**CITY OF MODESTO
TRANSPORTATION DEVELOPMENT ACT FUNDS
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2015**

Reference Number: 2015-001

Material Weakness – Restatements of Prior Year Financial Statements

Condition

The City did not accrue revenue in its Bus Fund correctly at June 30, 2014. In addition, the City did not correctly record capital assets in its Bus Fund at June 30, 2014.

Effect

This condition resulted in the City restating its 2014 Bus Fund financial statements increasing ‘due from other governments’ and ‘intergovernmental – Federal Transit Administration’ by \$26,037. In addition, the City also restated its 2014 Bus Fund financial statements increasing ‘capital assets – construction in progress’ and decreasing ‘maintenance and supplies expenses’ by \$766 and decreasing ‘buses and fareboxes accumulated depreciation’ and ‘depreciation expenses’ by \$685,745.

Recommendation

The City should record transactions in its Bus Fund accurately enough not to require restatement in the following year.

Management Response

The City will complete a final review of the various revenue sources to ensure no transactions are posted after all year-end revenues accruals are posted before the City approves the Bus financial statements. The restatement of capital assets was mainly due to how City staff entered an increase in value to an existing asset record due to improvements made to several buses. When the adjustment was made, it calculated depreciation expense based on the original acquisition date and not the date the improvement was made. This generated an overstatement in depreciation expense in 2014. City staff has implemented procedures to ensure this type of situation does not occur in the future.

Reference Number: 2015-002

Material Weakness – Intergovernmental – Nonoperating Revenues and Capital Contributions

Condition

The City did not correctly present intergovernmental and capital contributions in its Bus Fund for the year ended June 30, 2014, nor were such initial amounts correct for the year ended June 30, 2015.

Effect

This condition resulted in the City reclassifying its 2014 Bus Fund financial statements decreasing ‘capital contributions’ and increasing ‘intergovernmental revenues’ by \$4,672,465. Also, additional analysis was necessary for the City’s 2015 Bus Fund financial statements to be presented correctly.

Recommendation

The City should analyze its intergovernmental revenue sufficiently enough to determine which is for reimbursement of operating expenses and which is for reimbursement of capital outlays.

Management Response

The City reports capital outlay differently than how capital outlay is defined by TDA. In prior audits, intergovernmental and capital contributions were reported based on the TDA capital outlay definition. The City will implement the changes recommended by the auditors to ensure the classification reported agrees to the City’s capital outlay definitions.

Reference Number: 2015-003

Significant Deficiency – Compilation of Financial Statements

Condition

The City did not compile the financial information in a manner necessary to prepare its Bus Fund financial statements.

Effect

This condition resulted in the auditor spending a significant amount of time initially compiling the financial information from the trail balance of the City’s Bus Fund and then working with the City to adjust the initial financial statement compilation to meet the City’s approval.

Recommendation

The City should compile the trial balance of its Bus Fund as to enable the auditor to prepare its Bus Fund financial statements that meet the City’s approval.

Management Response

Part of compiling the financial statements for the Bus Fund requires a full understanding of how the City reports the various transaction activities. Other than the two findings referenced under 2015-001 and 2015-002, all other financial information provided by the City was easily accessible to the auditors and provided enough sufficient information to compile the Bus financial statements. If additional financial information was needed, the City staff gathered the financial data in a timely manner with sufficient support. City staff will continue to work with the auditors in determining what additional financial information is needed to assist the auditors in preparing the Bus Fund financial statements.



**Independent Accountant’s Report on Compliance with the Public
Transportation Modernization, Improvement, and Service
Enhancement Account (PTMISEA)**

Honorable Members of the City Council
City of Modesto, California

We have examined the City of Modesto’s (the City) compliance with the verification of receipt and appropriate expenditure of bond funds audit requirements per the Public Transportation Modernization, Improvement and Service Enhancement Account (PTMISEA) Guidelines, dated July 2013, during the year ended June 30, 2015. Management is responsible for the City’s compliance with those requirements. Our responsibility is to express an opinion on the City’s compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included 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 examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the City’s compliance with specified requirements.

In our opinion, the City complied, in all material respects, with the aforementioned requirements for the year ended June 30, 2015.

This report is intended solely for the information and use of the Stanislaus Council of Governments, management, the State of California Department of Transportation, and State Controller’s Office and is not intended to be and should not be used by anyone other than these specified parties.

Macias Gini & O’Connell LLP

Sacramento, California
December 3, 2015