

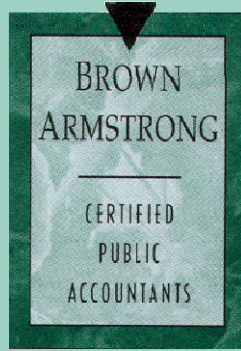
**CITY OF MODESTO**  
**TRANSPORTATION DEVELOPMENT ACT FUNDS**  
**FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED**  
**JUNE 30, 2010 AND 2009**

**CITY OF MODESTO  
TRANSPORTATION DEVELOPMENT ACT FUNDS  
FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009**

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## 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, 2010, 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.

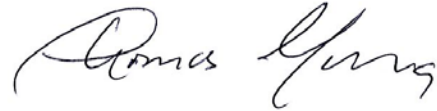
As discussed in Note 1, the financial statements present only the Local Transportation Special Revenue Funds and the Bus Enterprise Fund of the City and are not intended to present fairly the financial position and results of operations of the City of Modesto, in conformity with accounting principles 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, 2010, 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 November 30, 2010, 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.

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  
November 30, 2010

**CITY OF MODESTO  
TRANSPORTATION DEVELOPMENT ACT FUNDS  
LOCAL TRANSPORTATION SPECIAL REVENUE FUNDS  
BALANCE SHEETS  
JUNE 30, 2010  
WITH COMPARATIVE AMOUNTS FOR JUNE 30, 2009**

	Non-Motorized	Streets and Roads	Totals	
			2010	2009
<b>ASSETS</b>				
Cash and cash equivalents	\$ 103,850	\$ 358,170	\$ 462,020	\$ 308,811
Interest receivable	225	588	813	4,888
Due from other governments	8,794	308,657	317,451	198,795
<b>Total Assets</b>	<b>\$ 112,869</b>	<b>\$ 667,415</b>	<b>\$ 780,284</b>	<b>\$ 512,494</b>
<b>LIABILITIES</b>				
Deferred revenue	\$ 111,844	\$ 665,551	\$ 777,395	\$ 512,494
<b>Total Liabilities</b>	<b>111,844</b>	<b>665,551</b>	<b>777,395</b>	<b>512,494</b>
<b>FUND BALANCES</b>				
Undesignated	1,025	1,864	2,889	-
<b>Total Fund Balances</b>	<b>1,025</b>	<b>1,864</b>	<b>2,889</b>	<b>-</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 112,869</b>	<b>\$ 667,415</b>	<b>\$ 780,284</b>	<b>\$ 512,494</b>

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, 2010  
WITH COMPARATIVE AMOUNTS FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

	Non-Motorized	Streets and Roads	Totals	
			2010	2009
<b>REVENUES</b>				
Intergovernmental	\$ 29,157	\$ 23,395	\$ 52,552	\$ 2,453,341
Interest	983	914	1,897	78,308
Net increase in fair value of investments	1,025	1,864	2,889	12,158
<b>Total Revenues</b>	<b>31,165</b>	<b>26,173</b>	<b>57,338</b>	<b>2,543,807</b>
<b>EXPENDITURES</b>				
Current:				
Indirect cost allocations	2,103	-	2,103	-
Street rehabilitation	-	-	-	119,375
Capital outlay:				
Street rehabilitation	-	24,309	24,309	42,341
<b>Total Expenditures</b>	<b>2,103</b>	<b>24,309</b>	<b>26,412</b>	<b>161,716</b>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	<b>29,062</b>	<b>1,864</b>	<b>30,926</b>	<b>2,382,091</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers out to City	(28,037)	-	(28,037)	(2,382,091)
<b>Total Other Financing Uses</b>	<b>(28,037)</b>	<b>-</b>	<b>(28,037)</b>	<b>(2,382,091)</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>1,025</b>	<b>1,864</b>	<b>2,889</b>	<b>-</b>
Fund balances, beginning of year	-	-	-	-
Fund balances, end of year	\$ 1,025	\$ 1,864	\$ 2,889	\$ -

See accompanying notes to financial statements.

**CITY OF MODESTO  
TRANSPORTATION DEVELOPMENT ACT FUNDS  
BUS ENTERPRISE FUND  
STATEMENTS OF NET ASSETS  
JUNE 30, 2010 AND 2009**

	2010	2009
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 6,206,866	\$ 3,632,067
Accounts receivable	8,951	66,747
Interest receivable	8,721	14,621
Due from other governments	1,977,491	5,776,105
Total Current Assets	8,202,029	9,489,540
Noncurrent assets:		
Capital assets:		
Land and construction in progress	4,753,933	5,483,456
Other capital assets, net of accumulated depreciation	16,342,396	13,990,573
Total Noncurrent Assets	21,096,329	19,474,029
Total Assets	29,298,358	28,963,569
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	807,596	856,727
Accrued salaries and benefits	33,317	29,486
Due to other governments	-	23,399
Unearned revenue - PTMISEA (Note 5)	1,097,085	1,523,613
Unearned revenue - CTSG (Note 6)	161,796	359,011
Unearned revenue - Capital Transit (Note 7)	2,885,264	2,844,848
Unearned revenue - LTF (Note 7)	175,373	904,792
Total Current Liabilities	5,160,431	6,541,876
<b>NET ASSETS</b>		
Invested in capital assets	21,096,329	19,474,029
Unrestricted	3,041,598	2,947,664
Total Net Assets	\$ 24,137,927	\$ 22,421,693

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, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
<b>OPERATING REVENUES</b>		
Charges for services	\$ 2,512,269	\$ 2,799,327
Miscellaneous	170,677	144,781
	<u>2,682,946</u>	<u>2,944,108</u>
<b>OPERATING EXPENSES</b>		
Contractual services	9,237,304	9,285,564
Maintenance and supplies	2,001,978	1,855,583
Depreciation	1,841,405	1,771,675
Salaries and wages	936,846	1,099,176
Administrative services	653,126	625,337
Allocated indirect administrative costs	105,391	53,477
Employee benefits	442,111	406,183
Utilities	89,279	88,584
Insurance	51,023	30,599
Other	114,166	85,391
	<u>15,472,629</u>	<u>15,301,569</u>
Operating Loss	<u>(12,789,683)</u>	<u>(12,357,461)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Federal Transit Administration Grants	90,287	2,792,713
City Local Transportation Fund Allocations	6,322,158	6,597,851
Other Intergovernmental Revenue	5,001,685	-
State Transit Assistance Fund Allocations	-	1,127,400
CMAQ Grant for Rideshare Program	42,926	62,200
Loss on disposition of capital assets	(161,557)	(44,446)
Interest income	31,128	14,339
Rental income	86,869	112,519
Net increase in fair value of investments	31,056	36,366
	<u>11,444,552</u>	<u>10,698,942</u>
Loss Before Contributions and Transfers	(1,345,131)	(1,658,519)
Capital contributions:		
Federal Transit Administration Grant	1,594,255	702,751
Proposition 1B	1,271,169	277,270
Transfers in from City	204,341	21,530
Transfers out to City	(8,400)	(9,100)
	<u>1,716,234</u>	<u>(666,068)</u>
Change in Net Assets	1,716,234	(666,068)
Net assets, July 1, as previously reported	22,421,693	23,111,118
Prior period adjustment	-	(23,357)
	<u>22,421,693</u>	<u>22,887,761</u>
Net assets, June 30	<u>\$ 24,137,927</u>	<u>\$ 22,421,693</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, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers and users	\$ 6,545,256	\$ 2,887,397
Payments to suppliers	(11,566,280)	(10,780,519)
Payments to employees	(1,375,126)	(1,500,370)
Payments for interfund services used	(758,517)	(1,261,254)
	<u>(7,154,667)</u>	<u>(10,654,746)</u>
Net Cash Used by Operating Activities		
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Operating grants received	10,144,310	8,568,123
Transfers in from City	204,341	21,530
Transfers out to City	(8,400)	(9,100)
	<u>10,340,251</u>	<u>8,580,553</u>
Net Cash Provided by Noncapital Financing Activities		
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisition and construction of capital assets	(3,625,262)	(1,054,017)
Proposition 1B funds	1,271,169	277,270
Capital contributions received	1,594,255	97,839
	<u>(759,838)</u>	<u>(678,908)</u>
Net Cash Used by Capital and Related Financing Activities		
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest received	31,128	26,542
Rental income received	86,869	112,519
Net increase in the fair value of investments	31,056	36,366
	<u>149,053</u>	<u>175,427</u>
Net Cash Provided by Investing Activities		
Net increase (decrease) in cash and cash equivalents	2,574,799	(2,577,674)
Cash and cash equivalents at beginning of period	<u>3,632,067</u>	<u>6,209,741</u>
Cash and cash equivalents at end of period	<u>\$ 6,206,866</u>	<u>\$ 3,632,067</u>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:</b>		
Operating loss	\$ (12,789,683)	\$ (12,357,461)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation	1,841,405	1,771,675
Changes in assets and liabilities:		
Accounts receivable	3,862,310	(56,714)
Accounts payable	(64,868)	(17,238)
Accrued salaries and benefits	(3,831)	4,992
	<u>(7,154,667)</u>	<u>(10,654,746)</u>
Net cash used by operating activities		

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.

G. Fund Equity

The Local Transportation Special Revenue Funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

## NOTE 2 – CAPITAL ASSETS

Capital asset activity for the Bus Enterprise Fund for the year ended June 30, 2010, was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 4,060,454	\$ 675,057	\$ -	\$ 4,735,511
Construction in progress	1,423,002	18,422	(1,423,002)	18,422
Total capital assets, not being depreciated	5,483,456	693,479	(1,423,002)	4,753,933
Capital assets, being depreciated:				
Buildings	7,022,043	-	-	7,022,043
Improvements	3,064,204	1,423,003	-	4,487,207
Furnishings and equipment	255,529	126,835	-	382,364
Vehicles	195,041	5,990,642	(3,161,910)	3,023,773
Buses and fareboxes	18,496,420	-	(3,161,910)	15,334,510
Total capital assets, being depreciated	29,033,237	7,540,480	(6,323,820)	30,249,897
Less accumulated depreciation for:				
Buildings	(2,641,447)	(219,843)	-	(2,861,290)
Improvements	(768,795)	(196,581)	-	(965,376)
Furnishings and equipment	(190,028)	(12,968)	-	(202,996)
Vehicles	(44,448)	(91,096)	70,509	(65,035)
Buses and fareboxes	(11,397,946)	(1,320,917)	2,906,059	(9,812,804)
Total accumulated depreciation	(15,042,664)	(1,841,405)	2,976,568	(13,907,501)
Total capital assets, being depreciated, net	13,990,573	5,699,075	(3,347,252)	16,342,396
Total capital assets, net	\$ 19,474,029	\$ 6,392,554	\$ (4,770,254)	\$ 21,096,329

Depreciation expense was \$1,841,405 and \$1,771,675 for the years ended June 30, 2010 and 2009, 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. Accordingly, the City's Bus Enterprise Fund must 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 Transit Services	
	2010	2009
Charges for services	\$ 2,188,263	\$ 2,541,832
Operating expenses	12,387,063	12,307,450
Less:		
Depreciation	(1,610,402)	(1,771,675)
Grant and rent-funded activities	(585,542)	(685,743)
Applicable operating expenses	\$ 10,191,119	\$ 9,850,032
Fare ratio	21.47%	25.81%

**NOTE 3 – COMPLIANCE REQUIREMENTS OF LOCAL TRANSPORTATION FUNDS** (Continued)

	Demand Response Transit Services	
	2010	2009
Charges for services	\$ 255,825	\$ 257,495
Operating expenses	3,111,978	2,994,119
Less:		
Depreciation	(231,003)	(229,544)
Grant and rent-funded activities	(440,196)	(440,196)
Applicable operating expenses	\$ 2,440,779	\$ 2,324,379
Fare ratio	10.48%	11.08%

**NOTE 4 – LOAN RECEIVABLE**

On September 7, 2004, the City loaned \$400,000 to assist Stanislaus Council of Governments (StanCOG) for the State Route 132 widening project. This loan does not bear interest through July 1, 2007. Beginning July 1, 2007, the loan bears compound interest at the rate of 4% until the loan is repaid in full. The entire loan balance of \$400,000 was repaid in fiscal year 2009.

**NOTE 5 – 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.

Project Name	2008-09 Unearned Revenue	Interest Earned in 2009-10	New Revenue in 2009-10	Expended in Fiscal Year 2009-10	Unearned Revenue
Purchase and install bus washer	\$ 252,444	\$ 2,646	\$ -	\$ -	\$ 255,090
Purchase and Install AVL in fixed route buses	7,836	44	-	7,880	-
Purchase 11 buses to replace 1983 and 1990 buses	1,263,333	7,035	-	1,270,368	-
Construction of new maintenance facility	-	-	602,205	-	602,205
Rehabilitation of existing buses	-	-	239,790	-	239,790
Total	\$ 1,523,613	\$ 9,725	\$ 841,995	\$ 1,278,248	\$ 1,097,085

**NOTE 6 – 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 2010, the City spent \$200,868 on purchasing security cameras, and as of June 30, 2010, \$148,164 remained as deferred revenue, along with the addition of \$13,632 of interest earned on the funds received, for a total CTSG deferred revenue of \$161,796 as of June 30, 2010.

**NOTE 7 – DEFERRED REVENUE**

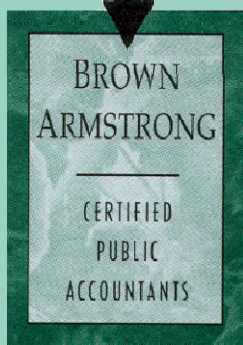
Deferred Revenue for the Transportation Development Act Funds and State Transit Act Funds for the year ended June 30, 2010, was as follows:

	<u>2010</u>
Non-Motorized Fund:	
Deferred revenue, beginning of year	\$ 132,206
TDA funds allocated	9,777
TDA funds earned	<u>(30,139)</u>
Deferred revenue, end of year	<u>\$ 111,844</u>

	<u>2010</u>
Street and Roads Fund:	
Deferred revenue, beginning of year	\$ 380,288
TDA funds allocated	309,571
TDA funds earned	<u>(24,308)</u>
Deferred revenue, end of year	<u>\$ 665,551</u>

	<u>LTF 2010</u>	<u>Capital Transit 2010</u>	<u>STA 2010</u>	<u>Total</u>
Bus Enterprise Fund:				
Deferred revenue, beginning of year	\$ 904,792	\$ 2,844,848	\$ -	\$ 3,749,640
TDA funds allocated	-	40,416	-	40,416
TDA funds earned	<u>(729,419)</u>	<u>-</u>	<u>-</u>	<u>(729,419)</u>
Deferred revenue, end of year	<u>\$ 175,373</u>	<u>\$ 2,885,264</u>	<u>\$ -</u>	<u>\$ 3,060,637</u>

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**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 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, 2010, and have issued our report thereon dated November 30, 2010. 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.

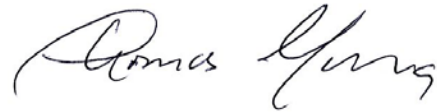
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material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

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.

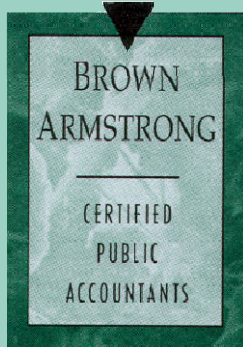
BROWN ARMSTRONG  
ACCOUNTANCY CORPORATION

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

Bakersfield, California  
November 30, 2010



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**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)**

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, 2010, and have issued our report thereon dated, November 30, 2010. 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.

### 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. As of June 30, 2010, PTMISEA funds earned and expended were verified in the course of our audit as follows:

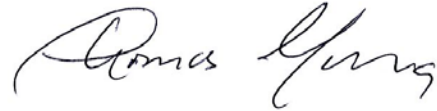
<b>Schedule of PTMISEA Bond 1B Funds For the Year Ended June 30, 2010</b>	
<b>Description</b>	<b>Amount</b>
Proceeds earned:	
PTMISEA (interest)	\$9,725
2010 grant funding	841,995
Expenditures incurred:	
Purchase and install AVL in Fixed Route Buses	7,880
Purchase of new buses and installation	1,270,368
Increase (decrease) in PTMISEA Funds during the year ended June 30, 2010	(426,528)
Unexpended proceeds at June 30, 2009	\$1,523,613
Unexpended proceeds at June 30, 2010	\$1,097,085

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  
November 30, 2010