

**CITY OF MODESTO**  
**TRANSPORTATION DEVELOPMENT ACT FUNDS**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED**  
**JUNE 30, 2012**

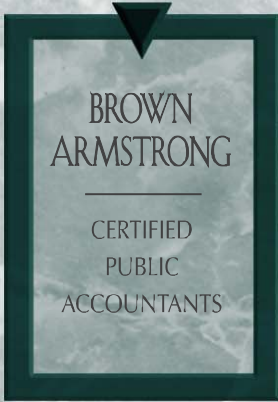
**CITY OF MODESTO  
TRANSPORTATION DEVELOPMENT ACT FUNDS**

**FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2012**

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BROWN ARMSTRONG
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Honorable Members of the City Council
City of Modesto, California

We have audited the accompanying financial statements of the Local Transportation Special Revenue Funds and the Bus Enterprise Fund (collectively known as the Transportation Development Act Funds) of the City of Modesto (the City), as of and for the year ended June 30, 2012, 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 audit. The prior year partial comparative data has been derived from the basic financial statements of the Transportation Development Act Funds for the year ended June 30, 2011, and in our report dated December 28, 2011, we expressed an unqualified opinion on those basic financial statements.

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 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 the 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 Transportation Development Act Funds 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 Transportation Development Act Funds of the City as of June 30, 2012, and the results of their operations and their 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 our report dated December 21, 2012, on our consideration of the Transportation Development Act Funds' internal control over financial reporting and on our tests of their compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

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

Management has omitted the management discussion and analysis (MD&A) and Statement of Revenues, Expenditures and Changes in Fund Balance – Budget to Actual – Local Transportation Special Revenue Funds that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

BROWN ARMSTRONG  
ACCOUNTANCY CORPORATION

*Brown Armstrong  
Accountancy Corporation*

Bakersfield, California  
December 21, 2012

**CITY OF MODESTO  
TRANSPORTATION DEVELOPMENT ACT FUNDS  
LOCAL TRANSPORTATION SPECIAL REVENUE FUNDS  
BALANCE SHEETS  
JUNE 30, 2012  
WITH COMPARATIVE AMOUNTS FOR JUNE 30, 2011**

	Non-Motorized	Streets and Roads	Totals	
			2012	2011
<b>ASSETS</b>				
Cash and cash equivalents	\$ 324,564	\$ 614,798	\$ 939,362	\$ 477,338
Interest receivable	923	2,082	3,005	1,408
Due from other governments	-	12,263	12,263	-
<b>Total Assets</b>	<b>\$ 325,487</b>	<b>\$ 629,143</b>	<b>\$ 954,630</b>	<b>\$ 478,746</b>
<b>LIABILITIES</b>				
Accounts payable	\$ -	\$ -	\$ -	\$ 3,791
Deferred revenue	326,129	633,053	959,182	472,020
<b>Total Liabilities</b>	<b>326,129</b>	<b>633,053</b>	<b>959,182</b>	<b>475,811</b>
<b>FUND BALANCES</b>				
Unassigned	(642)	(3,910)	(4,552)	2,935
<b>Total Fund Balances</b>	<b>(642)</b>	<b>(3,910)</b>	<b>(4,552)</b>	<b>2,935</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 325,487</b>	<b>\$ 629,143</b>	<b>\$ 954,630</b>	<b>\$ 478,746</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, 2012  
WITH COMPARATIVE AMOUNTS FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

	Non-Motorized	Streets and Roads	Totals	
			2012	2011
<b>REVENUES</b>				
Intergovernmental	\$ -	144,151	\$ 144,151	\$ 305,375
Interest	-	6,586	6,586	5,125
Net decrease in fair value of investments	(1,713)	(3,861)	(5,574)	(744)
<b>Total Revenues</b>	<b>(1,713)</b>	<b>146,876</b>	<b>145,163</b>	<b>309,756</b>
<b>EXPENDITURES</b>				
Current:				
Administrative services	-	6,277	6,277	-
Capital outlay:				
Street rehabilitation	-	17,258	17,258	248,001
<b>Total Expenditures</b>	<b>-</b>	<b>23,535</b>	<b>23,535</b>	<b>248,001</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(1,713)</b>	<b>123,341</b>	<b>121,628</b>	<b>61,755</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers out to City	-	(127,203)	(127,203)	(61,709)
<b>Total Other Financing Uses</b>	<b>-</b>	<b>(127,203)</b>	<b>(127,203)</b>	<b>(61,709)</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>(1,713)</b>	<b>(3,862)</b>	<b>(5,575)</b>	<b>46</b>
Fund Balance, July 1, as previously reported	1,071	1,864	2,935	2,889
Prior period adjustment	-	(1,912)	(1,912)	-
<b>Fund balances, June 30</b>	<b>\$ (642)</b>	<b>\$ (3,910)</b>	<b>\$ (4,552)</b>	<b>\$ 2,935</b>

See accompanying notes to financial statements.

**CITY OF MODESTO  
TRANSPORTATION DEVELOPMENT ACT FUNDS  
BUS ENTERPRISE FUND  
STATEMENTS OF NET ASSETS  
JUNE 30, 2012  
WITH COMPARATIVE AMOUNTS FOR JUNE 30, 2011**

	2012	2011
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 4,532,011	\$ 6,618,021
Accounts receivable	20,809	9,804
Interest receivable	8,803	21,839
Due from other governments	3,512,850	2,823,152
Total Current Assets	8,074,473	9,472,816
Noncurrent assets:		
Capital assets:		
Land and construction in progress	17,813,088	7,735,559
Other capital assets, net of accumulated depreciation	13,001,116	13,858,336
Total Noncurrent Assets	30,814,204	21,593,895
Total Assets	38,888,677	31,066,711
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	1,412,370	2,042,063
Accrued salaries and benefits	55,196	43,764
Unearned revenue - PTMISEA (Note 4)	1,153,688	1,143,479
Unearned revenue - CTSG (Note 5)	563,612	564,425
Unearned revenue - Capital Transit (Note 6)	2,021,041	2,906,680
Unearned revenue - LTF (Note 6)	89,657	-
Total Current Liabilities	5,295,564	6,700,411
<b>NET ASSETS</b>		
Invested in capital assets	30,814,204	21,593,895
Unrestricted	2,778,909	2,772,405
Total Net Assets	\$ 33,593,113	\$ 24,366,300

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 YEAR ENDED JUNE 30, 2012  
WITH COMPARATIVE AMOUNTS FOR THE YEAR ENDED JUNE 30, 2011**

	2012	2011
OPERATING REVENUES		
Charges for services	\$ 2,713,965	\$ 2,608,140
Miscellaneous	178,595	198,984
	2,892,560	2,807,124
OPERATING EXPENSES		
Contractual services	10,176,769	9,614,708
Maintenance and supplies	2,394,410	2,038,182
Depreciation	1,439,223	1,367,440
Salaries and wages	1,088,742	964,606
Administrative services	797,687	715,910
Allocated indirect administrative costs	131,573	257,671
Employee benefits	449,389	465,402
Utilities	110,813	94,127
Insurance	51,596	147,536
Other	134,075	68,886
	16,774,277	15,734,468
Total Operating Expenses		
Operating Loss	(13,881,717)	(12,927,344)
Nonoperating Revenues (Expenses)		
City Local Transportation Fund Allocations	73,009	345,447
Other Intergovernmental Revenue	9,017,957	7,166,589
State Transit Assistance Fund Allocations	-	2,922,607
CMAQ Grant for Rideshare Program	37,381	44,129
Loss on disposition of capital assets	-	(131,152)
Interest income (loss)	(7,211)	60,764
Rental income	88,392	87,619
Net decrease in fair value of investments	(12,025)	(7,922)
	9,197,503	10,488,081
Total Nonoperating Revenues (Expenses)		
Loss Before Contributions and Transfers	(4,684,214)	(2,439,263)
Capital contributions:		
Federal Transit Administration Grant	11,885,663	3,244,490
Proposition 1B	2,038,036	695,347
Transfers in from City	1,500	1,500
Transfers out to City	(8,271)	(240,969)
	9,232,714	1,261,105
Change in Net Assets		
Net assets, July 1, as previously reported	24,366,300	24,137,927
Prior period adjustment	(5,901)	(1,032,732)
	24,360,399	23,105,195
Net assets, June 30	\$ 33,593,113	\$ 24,366,300

See accompanying notes to financial statements.



**CITY OF MODESTO  
TRANSPORTATION DEVELOPMENT ACT FUNDS  
BUS ENTERPRISE FUND  
STATEMENTS OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2012  
WITH COMPARATIVE AMOUNTS FOR THE YEAR ENDED JUNE 30, 2011**

	2012	2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers and users	\$ 2,204,893	\$ 1,947,492
Payments to suppliers	(1,526,699)	(10,728,972)
Payments to employees	(13,616,962)	(1,419,561)
Payments for interfund services used	(809,654)	(973,581)
Net Cash Used by Operating Activities	(13,748,422)	(11,174,622)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Operating grants received	8,341,761	10,773,838
Transfers in from City	1,500	1,500
Transfers out to City	(8,271)	(240,969)
Net Cash Provided by Noncapital Financing Activities	8,334,990	10,534,369
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisition and construction of capital assets	(10,665,433)	(3,060,955)
Proceeds from the sale of property and equipment	-	32,065
Proposition 1B funds	2,038,036	695,347
Capital contributions received	11,885,663	3,244,490
Net Cash Used by Capital and Related Financing Activities	3,258,266	910,947
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest received (paid)	(7,211)	60,764
Rental income received	88,392	87,619
Net decrease in the fair value of investments	(12,025)	(7,922)
Net Cash Provided by Investing Activities	69,156	140,461
Net increase (decrease) in cash and cash equivalents	(2,086,010)	411,155
Cash and cash equivalents at beginning of period	6,618,021	6,206,866
Cash and cash equivalents at end of period	\$ 4,532,011	\$ 6,618,021
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:</b>		
Operating loss	\$ (13,881,717)	\$ (12,927,344)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation	1,439,223	1,367,440
Rental income		
Changes in assets and liabilities:		
Accounts receivable	(687,667)	(859,632)
Accounts payable	(629,693)	1,234,467
Accrued salaries and benefits	11,432	10,447
Net cash used by operating activities	\$ (13,748,422)	\$ (11,174,622)

See accompanying notes to financial statements.

**CITY OF MODESTO  
TRANSPORTATION DEVELOPMENT ACT FUNDS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012**

**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 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.

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

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

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

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

The City reports the following Enterprise (proprietary) Fund:

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

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 are charges to customers for payroll related expenses, sales and services. Operating expenses for the enterprise fund includes the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

C. Management's Use of Estimates

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

D. Cash and Cash Equivalents

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

E. Due from Other Governments/Deferred Revenue

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

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

F. Capital Assets

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

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

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

## NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### G. Fund Equity

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

- **Nonspendable** - Amounts that are not in spendable form (such as inventory) or are required either legally or contractually to be maintained intact.
- **Restricted** - Amounts with constraints placed on their use that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitutional or enabling legislation.
- **Committed** - Amounts constrained to specific purposes by the TDA Funds themselves, using the TDA Funds' highest level of decision-making authority (City Council). To be reported as committed, amounts cannot be used for any other purpose unless the TDA Funds take the same highest level action to remove or change the constraint. The underlying action that imposed the limitation needs to occur no later than the close of the reporting period.
- **Assigned** - Amounts the TDA Funds *intend* to use for a specific purpose. Intent can be expressed by the TDA Funds at either the highest level of decision making or by an official or body to which the TDA Funds delegate the authority. This is also the classification for residual funds in the TDA Funds' special revenue fund.
- **Unassigned** - The residual classification for the TDA Funds' General Fund that includes amounts not contained in the other classifications. In other funds, the unassigned classification is used only if expenditures incurred for specific purposes exceed the amounts restricted, committed, or assigned to those purposes.

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

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

### H. Net Assets

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

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

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

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

## **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

### I. New Accounting Pronouncements

Recently released standards by the Governmental Accounting Standards Board (GASB) affecting future fiscal years are as follows:

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

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

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

**GASB Statement No. 63** – *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* modifies current financial reporting of those elements. The largest change will be the replacement of the current Statement of Net (Plan if retirement entity) Assets with a Statement of Net (Plan) Position and a Statement of Changes in Net Position instead of the current Statement of Changes in (Plan) Net Assets upon implementation for periods beginning after December 15, 2011. The TDA Funds will implement this change for the fiscal year ended June 30, 2013.

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

**GASB Statement No. 65** – *Items Previously Reported as Assets and Liabilities*. The provisions of GASB Statement No. 65 are effective for financial statements beginning after December 15, 2012. The TDA Funds will implement this change for the fiscal year ended June 30, 2013.

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

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

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

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

**NOTE 2 – CAPITAL ASSETS**

Capital asset activity for the Bus Enterprise Fund for the year ended June 30, 2012, was as follows:

	Beginning Balance	Additions	Deletions/ Adjustments	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 4,060,454	\$ -		\$ 4,060,454
Construction in progress	3,675,105	10,088,619	(11,090)	13,752,634
Total capital assets, not being depreciated	<u>7,735,559</u>	<u>10,088,619</u>	<u>(11,090)</u>	<u>17,813,088</u>
Capital assets, being depreciated:				
Buildings	7,022,043	-	-	7,022,043
Improvements	4,322,301	-	(125)	4,322,176
Furnishings and equipment	526,988	-	-	526,988
Vehicles	222,284	-	-	222,284
Buses and fareboxes	18,163,242	582,128	-	18,745,370
Total capital assets, being depreciated	<u>30,256,858</u>	<u>582,128</u>	<u>(125)</u>	<u>30,838,861</u>
Less accumulated depreciation for:				
Buildings	(3,080,834)	(219,545)	-	(3,300,379)
Improvements	(1,100,031)	(207,165)	-	(1,307,196)
Furnishings and equipment	(229,938)	(36,202)	-	(266,140)
Vehicles	(82,596)	(22,229)	-	(104,825)
Buses and fareboxes	(11,905,123)	(954,082)	-	(12,859,205)
Total accumulated depreciation	<u>(16,398,522)</u>	<u>(1,439,223)</u>	<u>-</u>	<u>(17,837,745)</u>
Total capital assets, being depreciated, net	<u>13,858,336</u>	<u>(857,095)</u>	<u>(125)</u>	<u>13,001,116</u>
Total capital assets, net	<u>\$ 21,593,895</u>	<u>\$ 9,231,524</u>	<u>\$ (11,215)</u>	<u>\$ 30,814,204</u>

Depreciation expense was \$1,439,223 and \$1,367,440 for the years ended June 30, 2012 and 2011, respectively.

**NOTE 3 – COMPLIANCE REQUIREMENTS OF LOCAL TRANSPORTATION FUNDS**

The Bus Enterprise Fund is subject to TDA provisions requiring the calculation and adherence of fare and local support ratios for TDA transit funding. Effective November 17, 2010, StanCOG, TPA for Stanislaus County, approved a permanent combined system farebox recovery ratio of 15%. The City's Bus Enterprise Fund is now required to combine the fixed route and demand response into one calculation. In the prior year, the City's Bus Enterprise Fund had to maintain a minimum fare ratio of 20 percent for fixed route and 10 percent for demand response. The fund's fare ratio of operating revenues to operating expenses, as calculated below, indicates the City is in conformance with the provisions of the TDA:

	Fixed Route & Demand Response Transit Services	
	2012	2011
Charges for services	<u>\$ 2,646,022</u>	<u>\$ 2,553,015</u>
Operating expenses	\$ 16,774,277	\$ 15,734,468
Less:		
Depreciation	(1,439,223)	(1,367,440)
Capital cost of contracting		
Grant and rent-funded activities	<u>(594,119)</u>	<u>(635,121)</u>
Applicable operating expenses	<u>\$ 14,740,935</u>	<u>\$ 13,731,907</u>
Fare ratio	<u>17.95%</u>	<u>18.59%</u>

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

In November 2006, California voters passed a bond measure enacting the Highway Safety, Traffic Reduction, Air Quality and Port Security Bond Act of 2006. Of the \$19.925 billion of State general obligation bonds authorized, \$4 billion was set aside by the State as instructed by the statute as the Public Transportation Modernization, Improvement, and Service Enhancement Act (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 StanCOG for three projects that were related to 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 11 new buses. In fiscal year 2010, the City received \$841,995 from the State of California Department of Transportation passed through StanCOG for two projects that include the construction of a maintenance facility and rehabilitations on existing buses. In fiscal year 2010, the City spent \$1,278,248 on installing AVL in fixed route buses and the purchase of 11 new buses. The remaining amount of \$1,097,085 was not spent in fiscal year 2010. In fiscal year 2011, the City received \$608,000 from the State of California Department of Transportation passed through StanCOG for four new projects that include the purchase of a truck, buses, and improvements to bus stops. In fiscal year 2011, the City spent \$571,816 on the construction of a new maintenance facility and improvements to bus stops, and earned an additional \$10,210 in interest on unspent proceeds. As of June 30, 2011, the City had \$1,143,479 remaining of unspent PTMISEA funds. In fiscal year 2012, the City earned an additional \$10,136 in interest on previous unearned revenue, as well as received an additional \$1,198,179 in revenue. The City expended \$1,198,106 on various projects during the year, leaving \$1,153,688 of unspent PTMISEA funds as of June 30, 2012.

**NOTE 4 – PUBLIC TRANSPORTATION MODERNIZATION, IMPROVEMENT, AND SERVICE ENHANCEMENT ACT (PTMISEA) (Continued)**

<u>Project Name</u>	<u>2010-11 Unearned Revenue</u>	<u>Interest Earned in 2011-12</u>	<u>New Revenue in 2011-12</u>	<u>Expended in Fiscal Year 2011-12</u>	<u>Unearned Revenue</u>
Purchase and install bus washer	\$ 257,219	\$ (10,357)	\$ -	\$ 246,862	\$ -
Construction of new maintenance facility	68,885	14,411	636,327	719,623	-
Rehabilitation of existing buses	241,792	1,372	-	4,733	238,431
Truck	20,035	35	20,000	40,070	-
Buses	408,705	2,935	258,000	-	669,640
Bus stops	126,808	1,301	144,852	27,344	245,617
Depository	20,035	77	20,000	40,112	-
Security	-	362	119,000	119,362	-
Total	<u>\$ 1,143,479</u>	<u>\$ 10,136</u>	<u>\$ 1,198,179</u>	<u>\$ 1,198,106</u>	<u>\$ 1,153,688</u>

**NOTE 5 – CALIFORNIA TRANSIT SECURITY GRANT (CTSG)**

On August 1, 2008, the City received \$349,032 from the Governor's Office of Homeland Security (OHS) for three projects related to the California Transit Security Grant Program (CTSG). Projects include the purchase and installation of video cameras for the Bus Yard and Cash Fare Collection Facilities and in the Downtown Transportation Center. In fiscal year 2011, the City spent \$157,000 on purchasing security cameras and received an additional \$558,032 of funding, along with the addition of \$1,597 of interest earned on the funds received, for a total CTSG deferred revenue of \$564,425 as of June 30, 2011. In fiscal year 2012, the City received an additional \$876,064 in funding, along with an additional \$3,123 in interest accruals on unspent funding. The City disbursed \$879,999 for security purchases during the fiscal year 2012, leaving an ending balance of CTSG unspent funding as of June 30, 2012 of \$563,612.



**NOTE 6 – DEFERRED REVENUE**

Deferred revenue for the Transportation Development Act Funds and State Transit Act Funds for the year ended June 30, 2012, was as follows:

	<u>2012</u>		
Non-Motorized Fund:			
Deferred revenue, beginning of year	\$ 111,844		
TDA funds allocated	214,285		
TDA funds earned	<u>-</u>		
Deferred revenue, end of year	<u>\$ 326,129</u>		
	<u>2012</u>		
Streets and Roads Fund:			
Deferred revenue, beginning of year	\$ 360,176		
TDA funds allocated	417,028		
TDA funds earned	<u>(144,151)</u>		
Deferred revenue, end of year	<u>\$ 633,053</u>		
	<u>LTF</u>	<u>Capital Transit</u>	<u>Total</u>
	<u>2012</u>	<u>2012</u>	
Bus Enterprise Fund:			
Deferred revenue, beginning of year	\$ -	\$ 2,906,680	\$ 2,906,680
TDA funds allocated	162,666	-	162,666
TDA funds earned	<u>(73,009)</u>	<u>(885,639)</u>	<u>(958,648)</u>
Deferred revenue, end of year	<u>\$ 89,657</u>	<u>\$ 2,021,041</u>	<u>\$ 2,110,698</u>

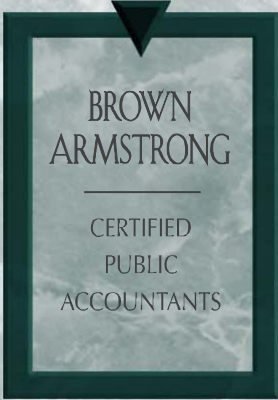
**NOTE 7 – PRIOR PERIOD ADJUSTMENT**

During the fiscal year ended June 30, 2012, a prior period adjustment of (\$1,912) was made to the beginning balance of the Streets and Roads Local Transportation Special Revenue Fund. The prior period adjustment was to correct and properly match grant funding expenditures that were not properly accounted for in the prior fiscal year.

During the fiscal year ended June 30, 2012, a total prior period adjustment of (\$5,901) was made to the beginning net assets of the Bus Enterprise Fund. This adjustment consisted of a reduction of (\$11,090) in previously capitalized in error construction in progress expenses. This reduction was offset by expenses of \$5,189 that were expensed in error in the prior year, when they should have been classified as prepaid expenses the prior year and then expensed in the current year.

**NOTE 8 – SUBSEQUENT EVENTS**

In compliance with accounting standards generally accepted in the United States of America, management has evaluated events that have occurred after year-end to determine if these events are required to be disclosed in these basic financial statements. Management has determined that no events require disclosure in accordance with accounting standards generally accepted in the United States of America. These subsequent events have been evaluated through December 21, 2012, which is the date the basic financial statements were issued.



# BROWN ARMSTRONG

*Certified Public Accountants*

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

Honorable Members of the City Council  
City of Modesto, California

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We have audited the financial statements of the Local Transportation Special Revenue Funds and the Bus Enterprise Fund (collectively known as the Transportation Development Act Funds) of the City of Modesto (the City), as of and for the year ended June 30, 2012, and have issued our report thereon dated December 21, 2012. 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

Management of the Transportation Development Act Funds is responsible for establishing and maintaining effective 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

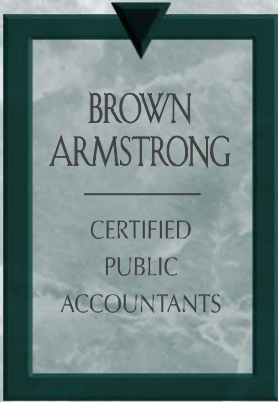
As part of obtaining reasonable assurance about whether the Transportation Development Act Funds' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have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

*Brown Armstrong  
Accountancy Corporation*

Bakersfield, California  
December 21, 2012



# BROWN ARMSTRONG

*Certified Public Accountants*

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

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Honorable Members of the City Council  
City of Modesto, California

We have audited the financial statements of the Proposition 1B funds of the City of Modesto (the City), as of and for the year ended June 30, 2012, and have issued our report thereon dated, December 21, 2012. 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 PTMISEA Guideline.

#### Internal Control Over Financial Reporting

Management of the City is responsible for establishing and maintaining effective 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 City's internal control over financial reporting.

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

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



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

Compliance and Other Matters

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

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

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

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

During the fiscal year ended June 30, 2008, the City applied for and received \$2,588,589 from the State's PTMISEA account for (1) the purchase and installation of a bus washer, (2) the purchase in installation of AVL technology in Fixed Route Buses, and (3) the purchase of eleven new buses. During the fiscal year ended June 30, 2010, the City applied for and received \$841,995 for (1) the construction of a new maintenance facility and (2) the rehabilitation of existing buses. During the fiscal year ended June 30, 2011, the City applied for and received \$608,000 for (1) the purchase of a truck and buses and 2) the improvement of existing bus stops. As of June 30, 2012, 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, 2012</b>	
<b>Description</b>	<b>Amount</b>
Proceeds earned:	
PTMISEA (interest)	\$10,136
2012 grant funding	1,198,179
Expenditures incurred:	
Expended in fiscal year 2011/12	1,198,106
Increase in PTMISEA Funds during the year ended June 30, 2012	10,209
Unexpended proceeds at June 30, 2011	\$1,143,479
Unexpended proceeds at June 30, 2012	<u>\$1,153,688</u>

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the Transportation Development Act Funds. 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 Transportation Development Act Funds allocated to and received by the City pursuant to the PTMISEA Act were expended in conformance with the applicable statutes, rules and regulations of the PTMISEA Act and the allocation instructions and resolutions of the Stanislaus Council of Governments (StanCOG).

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

BROWN ARMSTRONG  
ACCOUNTANCY CORPORATION

*Brown Armstrong  
Accountancy Corporation*

Bakersfield, California  
December 21, 2012