

CITY OF MODESTO
TRANSPORTATION DEVELOPMENT ACT FUNDS
FINANCIAL STATEMENTS
FOR THE YEAR ENDED
JUNE 30, 2013

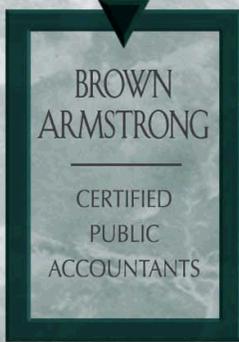
**CITY OF MODESTO
TRANSPORTATION DEVELOPMENT ACT FUNDS**

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2013

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BROWN ARMSTRONG

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Honorable Members of the City Council
City of Modesto, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Local Transportation Special Revenue Funds and the Bus Enterprise Fund (collectively known as the Transportation Development Act Funds) of the City of Modesto (the City), California, as of and for the year ended June 30, 2013, and the related notes, as listed in the table of contents. The prior year partial comparative data has been derived from the basic financial statements of the Transportation Development Act Funds for the year ended June 30, 2012, and in our report dated December 21, 2012.

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 Transportation Development Act Funds of the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over the Transportation Development Act Funds. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Transportation Development Act Funds of the City as of June 30, 2013, and the respective changes in financial position, and cash flows thereof, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, during the year ended June 30, 2013, the Transportation Development Act Funds implemented Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which modified the current financial reporting of those elements. Our opinion is not modified with respect to the matter.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 2, 2013, on our consideration of the City's internal control over financial reporting as it relates to the Transportation Development Act Funds and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance as it relates to the Transportation Development Act Funds.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
December 2, 2013

**CITY OF MODESTO
TRANSPORTATION DEVELOPMENT ACT FUNDS
LOCAL TRANSPORTATION SPECIAL REVENUE FUNDS
BALANCE SHEETS
JUNE 30, 2013
WITH COMPARATIVE AMOUNTS FOR JUNE 30, 2012**

	Non-Motorized	Streets and Roads	Totals	
			2013	2012
ASSETS				
Cash and cash equivalents	\$ 586,098	\$ 544,080	\$ 1,130,178	\$ 939,362
Interest receivable	1,854	8,909	10,763	3,005
Due from other governments	-	364,068	364,068	12,263
Total Assets	\$ 587,952	\$ 917,057	\$ 1,505,009	\$ 954,630
LIABILITIES				
Deferred revenue	\$ 588,721	\$ 914,968	\$ 1,503,689	\$ 959,182
Total Liabilities	588,721	914,968	1,503,689	959,182
FUND BALANCES				
Restricted	-	2,089	2,089	-
Unassigned	(769)	-	(769)	(4,552)
Total Fund Balances (Deficit)	(769)	2,089	1,320	(4,552)
Total Liabilities and Fund Balances	\$ 587,952	\$ 917,057	\$ 1,505,009	\$ 954,630

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, 2013
WITH COMPARATIVE AMOUNTS FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	Non-Motorized	Streets and Roads	Totals	
			2013	2012
REVENUES				
Intergovernmental	\$ 16,356	\$ 2,479,245	\$ 2,495,601	\$ 144,151
Interest	4,884	18,284	23,168	6,586
Net decrease in fair value of investments	(3,479)	(10,105)	(13,584)	(5,574)
Total Revenues	17,761	2,487,424	2,505,185	145,163
EXPENDITURES				
Current:				
Administrative services	13,272	85,201	98,473	6,277
Capital outlay:				
Street rehabilitation	4,616	95,277	99,893	17,258
Total Expenditures	17,888	180,478	198,366	23,535
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(127)	2,306,946	2,306,819	121,628
OTHER FINANCING USES				
Transfers out to City	-	(2,300,947)	(2,300,947)	(127,203)
Total Other Financing Uses	-	(2,300,947)	(2,300,947)	(127,203)
NET CHANGE IN FUND BALANCES	(127)	5,999	5,872	(5,575)
Fund balance (deficit), July 1, as previously reported	(642)	(3,910)	(4,552)	2,935
Prior period adjustment	-	-	-	(1,912)
Fund balance (deficit), June 30	\$ (769)	\$ 2,089	\$ 1,320	\$ (4,552)

See accompanying notes to financial statements.

**CITY OF MODESTO
TRANSPORTATION DEVELOPMENT ACT FUNDS
BUS ENTERPRISE FUND
STATEMENTS OF NET POSITION
JUNE 30, 2013
WITH COMPARATIVE AMOUNTS FOR JUNE 30, 2012**

	2013	2012
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 11,341,136	\$ 4,532,011
Accounts receivable	43,026	20,809
Interest receivable	23,255	8,803
Due from other governments	2,394,226	3,512,850
Prepaid expenses	4,572	-
Total Current Assets	13,806,215	8,074,473
Noncurrent assets:		
Capital assets:		
Land and construction in progress	4,080,111	17,813,088
Other capital assets, net of accumulated depreciation	28,063,447	13,001,116
Total Noncurrent Assets	32,143,558	30,814,204
Total Assets	45,949,773	38,888,677
LIABILITIES		
Current liabilities:		
Accounts payable	974,255	1,412,370
Accrued salaries and benefits	48,502	55,196
Unearned revenue - PTMISEA (Note 4)	6,962,182	1,153,688
Unearned revenue - CTSG (Note 5)	560,935	563,612
Unearned revenue - Capital Transit (Note 6)	1,912,338	2,021,041
Unearned revenue - LTF (Note 6)	561,719	89,657
Total Current Liabilities	11,019,931	5,295,564
NET POSITION		
Net investment in capital assets	32,143,558	30,814,204
Unrestricted	2,786,284	2,778,909
Total Net Position	\$ 34,929,842	\$ 33,593,113

See accompanying notes to financial statements.

**CITY OF MODESTO
TRANSPORTATION DEVELOPMENT ACT FUNDS
BUS ENTERPRISE FUND
STATEMENTS OF REVENUES, EXPENSES,
AND CHANGES IN FUND NET POSITION
FOR THE YEAR ENDED JUNE 30, 2013
WITH COMPARATIVE AMOUNTS FOR THE YEAR ENDED JUNE 30, 2012**

	<u>2013</u>	<u>2012</u>
OPERATING REVENUES		
Charges for services	\$ 2,790,093	\$ 2,713,965
Miscellaneous	156,844	178,595
	<u>2,946,937</u>	<u>2,892,560</u>
Total Operating Revenues		
OPERATING EXPENSES		
Contractual services	10,573,168	10,176,769
Maintenance and supplies	2,378,175	2,394,410
Depreciation	1,973,341	1,439,223
Salaries and wages	1,107,733	1,088,742
Administrative services	1,367,733	797,687
Allocated indirect administrative costs	131,566	131,573
Employee benefits	436,376	449,389
Utilities	160,147	110,813
Insurance	55,248	51,596
Other	150,504	134,075
	<u>18,333,991</u>	<u>16,774,277</u>
Total Operating Expenses		
Operating Loss	<u>(15,387,054)</u>	<u>(13,881,717)</u>
Nonoperating Revenues (Expenses)		
City Local Transportation Fund allocations	177,802	73,009
Other intergovernmental revenue	8,502,093	9,017,957
CMAQ grant for Rideshare Program	44,198	37,381
Loss on disposition of capital assets	(1,879)	-
Interest income (loss)	55,140	(7,211)
Rental income	117,325	88,392
Net decrease in fair value of investments	(45,276)	(12,025)
	<u>8,849,403</u>	<u>9,197,503</u>
Total Nonoperating Revenues (Expenses)		
Loss Before Contributions and Transfers	(6,537,651)	(4,684,214)
Capital contributions:		
Federal Transit Administration Grant	5,283,630	11,885,663
Proposition 1B	40,347	2,038,036
Transfers in from City	1,500	1,500
Transfers out to City	(9,170)	(8,271)
	<u>5,316,307</u>	<u>13,946,928</u>
Change in Net Position	(1,221,344)	9,232,714
Net Position, July 1, as Previously Reported	33,593,113	24,366,300
Prior Period Adjustment	2,558,073	(5,901)
	<u>36,151,186</u>	<u>24,360,399</u>
Net Position, June 30	<u>\$ 34,929,842</u>	<u>\$ 33,593,113</u>

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, 2013
WITH COMPARATIVE AMOUNTS FOR THE YEAR ENDED JUNE 30, 2012**

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers and users	\$ 4,024,320	\$ 2,204,893
Payments to suppliers	(9,085,480)	(1,526,699)
Payments to employees	(1,550,803)	(13,616,962)
Payments for interfund services used	-	(809,654)
	<u>(6,611,963)</u>	<u>(13,748,422)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Operating grants received	8,724,093	8,341,761
Transfers in from City	1,500	1,500
Transfers out to City	(9,170)	(8,271)
	<u>8,716,423</u>	<u>8,334,990</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(744,622)	(10,665,433)
Proceeds from the sale of property and equipment	(1,879)	-
Proposition 1B funds	40,347	2,038,036
Capital contributions received	5,283,630	11,885,663
	<u>4,577,476</u>	<u>3,258,266</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received (paid)	55,140	(7,211)
Rental income received	117,325	88,392
Net decrease in the fair value of investments	(45,276)	(12,025)
	<u>127,189</u>	<u>69,156</u>
Net increase (decrease) in cash and cash equivalents	6,809,125	(2,086,010)
Cash and cash equivalents at beginning of period	4,532,011	6,618,021
Cash and cash equivalents at end of period	<u>\$ 11,341,136</u>	<u>\$ 4,532,011</u>

See accompanying notes to financial statements.

CITY OF MODESTO
TRANSPORTATION DEVELOPMENT ACT FUNDS
BUS ENTERPRISE FUND
STATEMENTS OF CASH FLOWS (Continued)
FOR THE YEAR ENDED JUNE 30, 2013
WITH COMPARATIVE AMOUNTS FOR THE YEAR ENDED JUNE 30, 2012

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:		
Operating loss	\$ (15,387,054)	\$ (13,881,717)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation	1,973,341	1,439,223
Rental income		
Changes in assets and liabilities:		
Accounts receivable	1,081,955	(687,667)
Prepaid expenses	(4,572)	-
Accounts payable	(438,115)	(629,693)
Accrued salaries and benefits	6,162,482	11,432
	<u>6,162,482</u>	<u>11,432</u>
Net cash used by operating activities	<u>\$ (6,611,963)</u>	<u>\$ (13,748,422)</u>

See accompanying notes to financial statements.

**CITY OF MODESTO
TRANSPORTATION DEVELOPMENT ACT FUNDS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of Reporting Entity

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

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

The Local Transportation Special Revenue Funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible with the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under the accrual basis of accounting. Intergovernmental and interest revenues are considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Under Governmental Accounting Standards Board (GASB) Statement No. 34, budgetary comparison information is required to be presented for each major special revenue fund with a legally adopted budget. The TDA funds are not legally required to adopt a budget for the special revenue governmental funds. Therefore, budget comparison information is not included in the TDA Funds' financial statements.

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

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

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

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

The City reports the following Enterprise (proprietary) Fund:

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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.

C. Management's Use of Estimates

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

D. Cash and Cash Equivalents

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

E. Due from Other Governments/Deferred Revenue

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

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

F. Capital Assets

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

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

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

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 authority or by an official or body to which the TDA Funds delegate the authority. This is also the classification for residual funds in the TDA Funds' special revenue funds.
- **Unassigned** - For the TDA Special Revenue Funds, the unassigned classification is used only if expenditures incurred for specific purposes exceed the amounts restricted, committed, or assigned to those purposes.

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

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

H. Net Position

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

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

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. New Accounting Pronouncements

During the fiscal year ending June 30, 2013, the TDA Funds implemented the following GASB standards:

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. Upon implementation, there was no effect on the TDA Funds' accounting or financial reporting.

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. Upon implementation, there was no effect on the TDA Funds' accounting or financial reporting.

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

GASB Statement No. 63 – *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* modifies financial reporting of those elements. The largest change was the replacement of the Statement of Net (Plan, if retirement entity) Assets with a Statement of Net (Plan) Position and a Statement of Changes in Net (Plan) Position instead of the Statement of Changes in Net (Plan) Assets upon implementation for periods beginning after December 15, 2011. The TDA Funds have implemented 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. Upon implementation, there was no effect on the TDA Funds' accounting or financial reporting.

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

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

GASB Statement No. 66 – *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.

GASB Statement No. 67 – *Financial Reporting for Pension Districts - 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. New Accounting Pronouncements (Continued)

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

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

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

NOTE 2 – CAPITAL ASSETS

Capital asset activity for the Bus Enterprise Fund for the year ended June 30, 2013, 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	13,752,634	19,657	(13,752,634)	19,657
Total capital assets, not being depreciated	17,813,088	19,657	(13,752,634)	4,080,111
Capital assets, being depreciated:				
Buildings	7,022,043	13,585,230	2,573,953	23,181,226
Improvements	4,322,176	13,739	250	4,336,165
Furnishings and equipment	526,988	695,318	150,081	1,372,387
Vehicles	222,284	-	-	222,284
Buses and fareboxes	18,745,370	-	-	18,745,370
Total capital assets, being depreciated	30,838,861	14,294,287	2,724,284	47,857,432
Less accumulated depreciation for:				
Buildings	(3,300,379)	(648,560)	-	(3,948,939)
Improvements	(1,307,196)	(207,742)	-	(1,514,938)
Furnishings and equipment	(266,140)	(104,808)	17,101	(353,847)
Vehicles	(104,825)	(22,229)	-	(127,054)
Buses and fareboxes	(12,859,205)	(990,002)	-	(13,849,207)
Total accumulated depreciation	(17,837,745)	(1,973,341)	17,101	(19,793,985)
Total capital assets, being depreciated, net	13,001,116	12,320,946	2,741,385	28,063,447
Total capital assets, net	\$ 30,814,204	\$ 12,340,603	\$ (11,011,249)	\$ 32,143,558

Depreciation expense ending June 30, 2013 was \$1,973,341. In the current year, an asset was transferred which had been fully depreciated in the amount of \$7,718, and depreciation for June 30, 2012, was \$1,439,223.

NOTE 3 – COMPLIANCE REQUIREMENTS OF LOCAL TRANSPORTATION FUNDS

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

	Fixed Route and Demand Response Transit Services	
	2013	2012
Charges for services	\$ 2,758,989	\$ 2,646,022
Operating expenses	\$ 18,333,991	\$ 16,774,277
Less:		
Depreciation	(1,973,341)	(1,439,223)
Capital cost of contracting		
Grant and rent-funded activities	(690,572)	(594,119)
Adjustments	(1,293,537)	-
Applicable operating expenses	\$ 14,376,541	\$ 14,740,935
Fare ratio	19.19%	17.95%

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

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

In fiscal year 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 included 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 included 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 included 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. In fiscal year 2013, the City earned an additional \$5,463 in interest on previous unearned revenue, as well as received an additional \$5,838,246 in revenue. The City expended \$35,315 on various projects during the year, leaving \$6,962,182 of unspent PTMISEA funds as of June 30, 2013.

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

Project Name	2011-12 Unearned Revenue	Interest Earned in 2012-13	New Revenue in 2012-13	Expended in Fiscal Year 2012-13	Unearned Revenue
Rehabilitation of existing buses	\$ 238,431	\$ 1,109	\$ -	\$ 7,731	\$ 231,809
Buses	669,640	3,256	4,140,005	-	4,812,901
Bus stops	245,617	1,098	-	27,484	219,231
Depository	-	-	198,241	-	198,241
Security	-	-	1,500,000	-	1,500,000
Total	<u>\$ 1,153,688</u>	<u>\$ 5,463</u>	<u>\$ 5,838,246</u>	<u>\$ 35,215</u>	<u>\$ 6,962,182</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 included the purchase and installation of video cameras for the Bus Yard, Cash Fare Collection Facilities, and 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 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 \$5,132 for camera purchases during the fiscal year 2012, leaving an ending balance of CTSG unspent funding as of June 30, 2012, of \$563,612. In fiscal year 2013, the City received no additional funding, but received \$2,455 in interest accruals on unspent funding. The City disbursed \$5,132 for camera purchases during the fiscal year 2013, leaving an ending balance of CTSG unspent funding as of June 30, 2013, of \$560,935.

NOTE 6 – DEFERRED REVENUE

Deferred revenue for the TDA Funds and State Transit Act Funds for the year ended June 30, 2013, was as follows:

	<u>2013</u>
Non-Motorized Fund:	
Deferred revenue, beginning of year	\$ 326,129
TDA funds allocated	246,236
TDA funds earned	<u>16,356</u>
Deferred revenue, end of year	<u>\$ 588,721</u>

	<u>2013</u>
Streets and Roads Fund:	
Deferred revenue, beginning of year	\$ 633,053
TDA funds allocated	2,761,160
TDA funds earned	<u>(2,479,245)</u>
Deferred revenue, end of year	<u>\$ 914,968</u>

	<u>LTF</u>	<u>Capital Transit</u>	<u>Total</u>
	<u>2013</u>	<u>2013</u>	
Bus Enterprise Fund:			
Deferred revenue, beginning of year	\$ 89,657	\$ 2,021,041	\$ 2,110,698
TDA funds allocated	294,260	-	294,260
TDA funds earned	<u>177,802</u>	<u>(108,703)</u>	<u>69,099</u>
Deferred revenue, end of year	<u>\$ 561,719</u>	<u>\$ 1,912,338</u>	<u>\$ 2,474,057</u>

NOTE 7 – PRIOR PERIOD ADJUSTMENT

During the fiscal year ended June 30, 2013, a total prior period adjustment of \$(2,558,073) was made to the beginning net position of the Bus Enterprise Fund. This adjustment consisted of costs that were not captured in construction in progress expenses for the Bus Maintenance Facility. The prior period adjustment was to correctly apply funding expenditures that were not properly accounted for in the prior fiscal 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 the basic financial statements. Management has determined that no events require disclosure in accordance with accounting standards generally accepted in the United States of America. These subsequent events have been evaluated through December 2, 2013, which is the date the basic financial statements were issued.

BROWN
ARMSTRONG

CERTIFIED
PUBLIC
ACCOUNTANTS

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**

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Honorable Members of the City Council
City of Modesto, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Local Transportation Special Revenue Funds and the Bus Enterprise Fund (collectively known as the Transportation Development Act Funds) of the City of Modesto, California (the City), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's Transportation Development Act Funds' basic financial statements, and have issued our report thereon dated December 2, 2013. Our audit was further made to determine that Transportation Development Act funds allocated to and received by the City were expended in conformance with the applicable statutes, rules, and regulations of the Transportation Development Act, including Sections 6666 and 6667 of Title 21, Chapter 3, of the California Code of Regulations, and the allocation instructions and resolutions of the Stanislaus Council of Governments.

Internal Control Over Financial Reporting

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

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



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

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

Compliance and Other Matters

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

Purpose of this Report

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

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

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

Bakersfield, California
December 2, 2013

BROWN
ARMSTRONG

CERTIFIED
PUBLIC
ACCOUNTANTS

BROWN ARMSTRONG

Certified Public Accountants

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

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Honorable Members of the City Council
City of Modesto, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Local Transportation Special Revenue Funds and the Bus Enterprise Fund (collectively known as the Transportation Development Act Funds) of the City of Modesto, California (the City), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City Transportation Development Act Funds' basic financial statements, and have issued our report thereon dated December 2, 2013. Our audit was further made to determine that Public Transportation Modernization, Improvement, and Service Enhancement Account (PTMISEA) funds allocated to and received by the City were expended in conformance with the applicable statutes, rules, and regulations of the PTMISEA Guideline.

Internal Control Over Financial Reporting

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

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



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

Compliance and Other Matters

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

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

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

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

During the fiscal year ended June 30, 2008, the City applied for and received \$2,588,589 from the State’s PTMISEA account for (1) the purchase and installation of a bus washer, (2) the purchase and installation of AVL technology in Fixed Route Buses, and (3) the purchase of eleven new buses. During the fiscal year ended June 30, 2010, the City applied for and received \$841,995 for (1) the construction of a new maintenance facility and (2) the rehabilitation of existing buses. During the fiscal year ended June 30, 2011, the City applied for and received \$608,000 for (1) the purchase of a truck and buses and 2) the improvement of existing bus stops. During the fiscal year ended June 30, 2012, the City applied for and received \$1,208,315, of which \$10,136 was interest on prior year unexpended proceeds. As of June 30, 2013, PTMISEA funds earned and expended were verified in the course of our audit as follows:

Schedule of PTMISEA Proposition 1B Funds For the Year Ended June 30, 2013	
Description	Amount
Proceeds earned:	
PTMISEA (interest)	\$5,463
2013 grant funding	5,838,246
Expenditures incurred:	
Expended in fiscal year 2012/13	\$35,215
Increase in PTMISEA funds during the year ended June 30, 2013	\$5,808,494
Unexpended proceeds at June 30, 2012	\$1,153,688
Unexpended proceeds at June 30, 2013	\$6,962,182

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

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

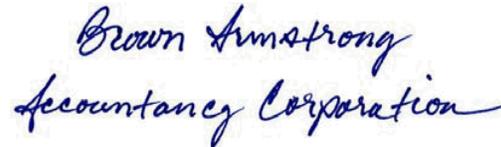
Opinion

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

Purpose

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

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

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

Bakersfield, California
December 2, 2013