

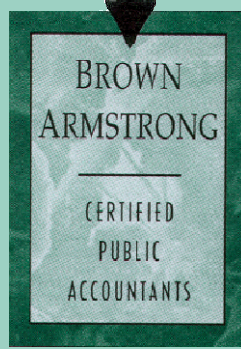
CITY OF MODESTO
TRANSPORTATION DEVELOPMENT ACT FUNDS
FINANCIAL STATEMENTS
FOR THE YEARS ENDED
JUNE 30, 2009 AND 2008

**CITY OF MODESTO
TRANSPORTATION DEVELOPMENT ACT FUNDS
FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008**

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INDEPENDENT AUDITOR'S REPORT

Honorable Members of the City Council
City of Modesto, California

We have audited the accompanying financial statements of the Local Transportation Special Revenue Funds and the Bus Enterprise Fund (collectively known as the Transportation Development Act Funds) of the City of Modesto (the City), as of and for the year ended June 30, 2009, as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on the financial statements based on our audits. The prior year summarized information has been derived from the City's fiscal 2008 financial statements; in our report dated December 18, 2008 we expressed an unqualified opinion on those financial statements.

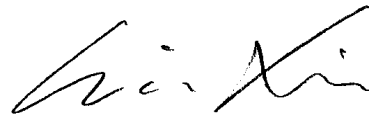
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards for financial audits contained in the *Government Audit Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement. An audit includes examining on a test basis evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Local Transportation Special Revenue Funds and the Bus Enterprise Fund of the City as of June 30, 2009 and the results of its operations and its cash flows, where applicable, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards* we have also issued a report dated November 30, 2009 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial report or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

A handwritten signature in black ink, appearing to read "B. A. Armstrong", is written over the printed name of the firm.

Bakersfield, California
November 30, 2009

**CITY OF MODESTO
TRANSPORTATION DEVELOPMENT ACT FUNDS
LOCAL TRANSPORTATION SPECIAL REVENUE FUNDS
BALANCE SHEETS
JUNE 30, 2009
WITH COMPARATIVE AMOUNTS FOR JUNE 30, 2008**

	Non-Motorized	Streets and Roads	Totals	
			2009	2008
ASSETS				
Cash and cash equivalents	\$ 130,820	\$ 177,991	\$ 308,811	\$ 614,782
Loan receivable	-	-	-	400,000
Interest receivable	1,386	3,502	4,888	15,628
Due from other governments	-	198,795	198,795	367,748
Total Assets	\$ 132,206	\$ 380,288	\$ 512,494	\$ 1,398,158
LIABILITIES				
Deferred revenue	\$ 132,206	\$ 380,288	\$ 512,494	\$ 1,398,158
Total Liabilities	132,206	380,288	512,494	1,398,158
FUND BALANCES				
Reserved for encumbrances	-	-	-	-
Undesignated	-	-	-	-
Total Fund Balances	-	-	-	-
Total Liabilities and Fund Balances	\$ 132,206	\$ 380,288	\$ 512,494	\$ 1,398,158

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, 2009
WITH COMPARATIVE AMOUNTS FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

	Non-Motorized	Streets and Roads	Totals	
			2009	2008
REVENUES				
Intergovernmental	\$ 413,635	\$ 2,039,706	\$ 2,453,341	\$ 2,395,326
Interest	10,562	67,746	78,308	96,556
Net increase in fair value of investments	3,448	8,710	12,158	37,537
Total Revenues	427,645	2,116,162	2,543,807	2,529,419
EXPENDITURES				
Current:				
Street rehabilitation	-	119,375	119,375	96,258
Capital outlay:				
Street rehabilitation	-	42,341	42,341	54,255
Total Expenditures	-	161,716	161,716	150,513
EXCESS OF REVENUES OVER EXPENDITURES	427,645	1,954,446	2,382,091	2,378,906
OTHER FINANCING SOURCES (USES)				
Transfers out to City	(427,645)	(1,954,446)	(2,382,091)	(2,477,028)
Total Other Financing Uses	(427,645)	(1,954,446)	(2,382,091)	(2,477,028)
NET CHANGE IN FUND BALANCES	-	-	-	(98,122)
Fund balances, beginning of year	-	-	-	98,122
Fund balances, end of year	\$ -	\$ -	\$ -	\$ -

See accompanying notes to financial statements.

**CITY OF MODESTO
TRANSPORTATION DEVELOPMENT ACT FUNDS
BUS ENTERPRISE FUND
STATEMENTS OF NET ASSETS
JUNE 30, 2009 AND 2008**

	2009	2008
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 3,632,067	\$ 6,209,741
Accounts receivable	66,747	10,036
Interest receivable	14,621	26,817
Due from other governments	5,776,105	3,717,046
Total Current Assets	9,489,540	9,963,640
Noncurrent assets:		
Capital assets:		
Land and construction in progress	5,483,456	5,422,416
Other capital assets, net of accumulated depreciation	13,990,573	14,813,718
Total Noncurrent Assets	19,474,029	20,236,134
Total Assets	28,963,569	30,199,774
LIABILITIES		
Current liabilities:		
Accounts payable	856,727	873,964
Accrued salaries and benefits	29,486	24,933
Due to other governments	23,399	21,684
Unearned Revenue - PTMISEA (Note 5)	1,523,613	1,751,311
Unearned Revenue - CTSG (Note 6)	359,011	-
Unearned Revenue - Capital Transit (Note 7)	2,844,848	4,416,764
Unearned Revenue - LTF (Note 7)	904,792	-
Total Current Liabilities	6,541,876	7,088,656
NET ASSETS		
Invested in capital assets	19,474,029	20,236,134
Unrestricted	2,947,664	2,874,984
Total Net Assets	\$ 22,421,693	\$ 23,111,118

See accompanying notes to financial statements.

**CITY OF MODESTO
TRANSPORTATION DEVELOPMENT ACT FUNDS
BUS ENTERPRISE FUND
STATEMENTS OF REVENUES, EXPENSES,
AND CHANGES IN FUND NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
OPERATING REVENUES		
Charges for services	\$ 2,799,327	\$ 2,531,732
Miscellaneous	144,781	651,030
	<u>2,944,108</u>	<u>3,182,762</u>
OPERATING EXPENSES		
Contractual services	9,285,564	8,563,460
Maintenance and supplies	1,855,583	2,127,239
Depreciation	1,771,675	1,556,642
Salaries and wages	1,099,176	1,019,695
Administrative services	625,337	643,256
Allocated indirect administrative costs	53,477	83,131
Employee benefits	406,183	383,044
Utilities	88,584	81,832
Insurance	30,599	117,014
Other	85,391	111,219
	<u>15,301,569</u>	<u>14,686,532</u>
Operating Loss	<u>(12,357,461)</u>	<u>(11,503,770)</u>
NONOPERATING REVENUES (EXPENSES)		
Federal Transit Administration Grants	2,792,713	2,412,598
City Local Transportation Fund Allocations	6,597,851	4,846,046
State Transit Assistance Fund Allocations	1,127,400	2,913,823
CMAQ Grant for Rideshare Program	62,200	43,688
Gain (Loss) on disposition of capital assets	(44,446)	-
Interest income	14,339	55,618
Rental income	112,519	78,850
Net increase in fair value of investments	36,366	74,223
	<u>10,698,942</u>	<u>10,424,846</u>
Total Nonoperating Revenues (Expenses)	<u>10,698,942</u>	<u>10,424,846</u>
Loss Before Contributions and Transfers	(1,658,519)	(1,078,924)
Capital contributions		
Federal Transit Administration Grant	702,751	1,427,189
Proposition 1B	277,270	837,278
Transfers in from City	21,530	462,500
Transfers out to City	(9,100)	(18,000)
	<u>(666,068)</u>	<u>1,630,043</u>
Change in Net Assets	<u>(666,068)</u>	<u>1,630,043</u>
Net assets, July 1, as previously reported	23,111,118	21,481,075
Prior period adjustment	(23,357)	-
	<u>22,884,761</u>	<u>21,481,075</u>
Net assets, June 30	<u>\$ 22,421,693</u>	<u>\$ 23,111,118</u>

See accompanying notes to financial statements.

**CITY OF MODESTO
TRANSPORTATION DEVELOPMENT ACT FUNDS
BUS ENTERPRISE FUND
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008**

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers and users	\$ 2,999,916	\$ 3,286,420
Payments to suppliers	(10,780,519)	(10,195,583)
Payments to employees	(1,500,370)	(1,396,716)
Payments for interfund services used	(1,261,254)	(1,410,747)
	<u>(10,542,227)</u>	<u>(9,716,626)</u>
Net Cash Used by Operating Activities		
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Operating grants received	8,568,123	9,843,357
Transfers in from City	21,530	462,500
Transfers out to City	(9,100)	(18,000)
	<u>8,580,553</u>	<u>10,287,857</u>
Net Cash Provided by Noncapital Financing Activities		
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(1,054,017)	(2,649,963)
Proposition 1B funds	277,270	2,588,589
Capital contributions received	97,839	1,427,189
	<u>(678,908)</u>	<u>1,365,815</u>
Net Cash Provided (Used) by Capital and Related Financing Activities		
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	26,542	45,809
Net increase in the fair value of investments	36,366	74,223
	<u>62,908</u>	<u>120,032</u>
Net Cash Provided by Investing Activities		
Net increase (decrease) in cash and cash equivalents	(2,577,674)	2,057,078
Cash and cash equivalents at beginning of period	<u>6,209,741</u>	<u>4,152,663</u>
Cash and cash equivalents at end of period	<u>\$ 3,632,067</u>	<u>\$ 6,209,741</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating loss	\$ (12,357,461)	\$ (11,503,770)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	1,771,675	1,556,642
Rental income	112,519	78,850
Changes in assets and liabilities:		
Accounts receivable	(56,714)	24,808
Accounts payable	(17,238)	120,821
Accrued salaries and benefits	4,992	6,023
	<u>(10,542,227)</u>	<u>(9,716,626)</u>
Net cash used by operating activities	<u>\$ (10,542,227)</u>	<u>\$ (9,716,626)</u>

See accompanying notes to financial statements.

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of Reporting Entity

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

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

The Local Transportation Special Revenue Funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible with the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. Intergovernmental and interest are considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period.

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

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

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

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

The City reports the following Enterprise (proprietary) Fund:

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

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their enterprise funds, subject to the same limitation. The City has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund is charges to customers for payroll related expenses, sales and services. Operating expenses for the enterprise fund includes the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Management's Use of Estimates

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

D. Cash and Cash Equivalents

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

E. Due from Other Governments/Deferred Revenue

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

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

F. Capital Assets

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

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

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

G. Fund Equity

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

NOTE 2 – CAPITAL ASSETS

Capital asset activity for the Bus Enterprise Fund for the year ended June 30, 2009 was as follows:

	Beginning Balance	Additions	Ending Balance
Capital assets, not being depreciated:			
Land	\$ 4,060,454	\$ -	\$ 4,060,454
Construction in progress	1,361,962	61,040	1,423,002
Total capital assets not being depreciated	<u>5,422,416</u>	<u>61,040</u>	<u>5,483,456</u>
Capital assets, being depreciated:			
Buildings	6,998,525	23,518	7,022,043
Improvements	2,272,369	791,835	3,064,204
Vehicles	61,863	133,178	195,041
Furnishings and equipment	255,529	-	255,529
Buses and fareboxes	18,496,420	-	18,496,420
Total capital assets being depreciated	<u>28,084,706</u>	<u>948,531</u>	<u>29,033,237</u>
Less accumulated depreciation for:			
Buildings	(2,421,661)	(219,786)	(2,641,447)
Improvements	(659,565)	(109,230)	(768,795)
Vehicles	(178,032)	(11,996)	(190,028)
Furnishings and equipment	(29,626)	(14,822)	(44,448)
Buses and fareboxes	(9,982,105)	(1,415,841)	(11,397,946)
Total accumulated depreciation	<u>(13,270,989)</u>	<u>(1,771,675)</u>	<u>(15,042,664)</u>
Total capital assets being depreciated, net	<u>14,813,717</u>	<u>(823,144)</u>	<u>13,990,573</u>
Total capital assets, net	<u>\$ 20,236,133</u>	<u>\$ (762,104)</u>	<u>\$ 19,474,029</u>

Depreciation expense was \$1,556,645 and \$1,771,675 for the years ended June 30, 2009 and 2008, respectively.

NOTE 3 – COMPLIANCE REQUIREMENTS OF LOCAL TRANSPORTATION FUNDS

The Bus Enterprise Fund is subject to State Transportation Development Act provisions requiring the calculation and adherence of fare and local support ratios for TDA transit funding. Accordingly, the City's Bus Enterprise Fund must maintain a minimum fare ratio of 20 percent. 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:

	Transit Services	
	2009	2008
Charges for services	<u>\$ 2,799,327</u>	<u>\$ 2,531,732</u>
Operating expenses	15,301,569	14,686,532
Less:		
Depreciation	(1,771,675)	(1,556,642)
Grant and rent-funded activities	(1,125,939)	(682,064)
Applicable operating expenses	<u>\$ 12,403,955</u>	<u>\$ 12,447,826</u>
Fare ratio	<u>22.57%</u>	<u>20.34%</u>

NOTE 4 – LOAN RECEIVABLE

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

NOTE 5 – PUBLIC TRANSPORTATION MODERNIZATION IMPROVEMENT AND SERVICE ENHANCEMENT ACT (PTMISEA)

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

On May 16, 2008, the City received \$2,588,589 from State of California Department of Transportation passed through Stanislaus Council of Government (StanCOG) for three projects that were related to Public Transportation Modernization Improvement and Service Enhancement Account (PTMISEA) funds. Projects include the purchase and installation of a bus washer, purchase and installation of AVL technology in Fixed Route Buses and to purchase eleven new buses. In fiscal year 2009, the City spent \$276,838 on purchasing and installing AVL technology in Fixed Route Buses, as well as an additional \$432 in planning the purchase of eleven new buses. The remaining amount of \$1,523,613 was not spent in fiscal year 2009.

<u>Project Name</u>	<u>2007/08 Unearned Revenue</u>	<u>Interest Earned in 2008-09</u>	<u>Expended in Fiscal 2008-09</u>	<u>Unearned Revenue</u>
Purchase and Install Bus Washer	\$ 245,495	\$ 6,949	\$ -	\$ 252,444
Purchase and Install AVL in Fixed Route Buses	276,838	7,836	276,838	7,836
Purchase 11 buses to replace 1983 and 1990 buses	<u>1,228,978</u>	<u>34,787</u>	<u>432</u>	<u>1,263,333</u>
Total	<u>\$ 1,751,311</u>	<u>\$ 49,572</u>	<u>\$ 277,270</u>	<u>\$ 1,523,613</u>

NOTE 6 – CALIFORNIA TRANSIT SECURITY GRANT (CTSG)

On August 1, 2008, the City received \$349,032 from the Governor's Office of Homeland Security (OHS) for three projects related to the California Transit Security Grant Program (CTSG). Projects include the purchase and install of video cameras for the Bus Yard and Cash Fare Collection Facilities and in the Downtown Transportation Center. In fiscal year 2009, none of the funds had been expended, and as of June 30, 2009, \$359,011 remained as deferred revenue, including \$9,979 of interest earned on the funds received.

NOTE 7 – DEFERRED REVENUE

Deferred Revenue for the Transportation Development Act Funds and State Transit Act Funds for the year ended June 30, 2009 was as follows:

	<u>2009</u>
Non-Motorized Special Revenue Fund:	
Deferred revenue, beginning of year	\$ 452,055
TDA funds allocated	107,796
TDA funds earned	<u>(427,645)</u>
Deferred revenue, end of year	<u>\$ 132,206</u>

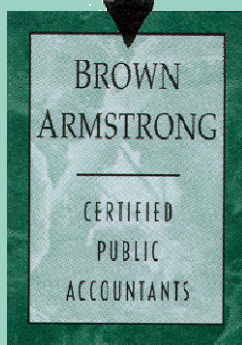
	<u>2009</u>
Street and Roads Special Revenue Fund:	
Deferred revenue, beginning of year	\$ 946,103
TDA funds allocated	1,550,347
TDA funds earned	<u>(2,116,162)</u>
Deferred revenue, end of year	<u>\$ 380,288</u>

	<u>LTF</u>	<u>Capital Transit</u>	<u>STA</u>	<u>Total</u>
	<u>2009</u>	<u>2009</u>	<u>2009</u>	
Transit Enterprise Fund:				
Deferred revenue, beginning of year	\$ -	\$ 4,416,764	\$ -	\$ 4,416,764
TDA funds allocated	7,502,643	123,726	1,127,400	8,753,769
TDA funds earned	<u>(6,597,851)</u>	<u>(1,695,642)</u>	<u>(1,127,400)</u>	<u>(9,420,893)</u>
Deferred revenue, end of year	<u>\$ 904,792</u>	<u>\$ 2,844,848</u>	<u>\$ -</u>	<u>\$ 3,749,640</u>

NOTE 8 – PRIOR PERIOD ADJUSTMENT

A reduction in the prior period Net Assets for the Bus Enterprise Fund of \$23,357 was recorded during the current fiscal year for amounts that were due to the 10th Street Place JPA for building services. The amount was the representative proportion of services contributions that are allocated to the Bus Enterprise Fund for prior service periods.

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

Honorable Members of the City Council
City of Modesto, California

We have audited the financial statements of the Local Transportation Special Revenue Funds and the Bus Enterprise Fund (collectively known as the Transportation Development Act Funds) of the City of Modesto (the City), as of and for the year ended June 30, 2009, and have issued our report thereon dated November 30, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our audit was further made to determine that Transportation Development Act funds allocated to and received by the City were expended in conformance with the applicable statutes, rules and regulations of the Transportation Development Act, including sections 6666 and 6667 of Title 21, Chapter 3, of the California Code of Regulations, and the allocation instructions and resolutions of the Stanislaus Council of Governments.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the 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 Funds' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Funds' internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Funds' ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Funds' financial statements that is more than inconsequential will not be prevented or detected by the Funds' internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Funds' internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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.

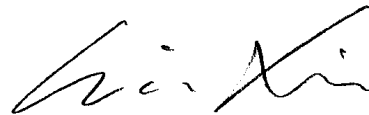
We noted certain matters that we reported to City of Modesto management in a separate letter dated November 30, 2009.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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*.

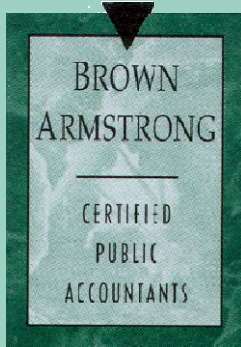
This report is intended for the information of the Council, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than the above parties.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

A handwritten signature in black ink, appearing to read "S. K. H.", is written over the printed name of the corporation.

Bakersfield, California
November 30, 2009

Peter C. Brown, CPA
Burton H. Armstrong, CPA, MST
Andrew J. Paulden, CPA
Steven R. Starbuck, CPA
Chris M. Thornburgh, CPA
Eric H. Xin, CPA, MBA
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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS* AND
PUBLIC TRANSPORTATION MODERNIZATION IMPROVEMENT
AND SERVICE ENHANCEMENT ACCOUNT (PTMISEA)**

Honorable Members of the City Council
City of Modesto, California

We have audited the financial statements of the Proposition 1B of the City of Modesto (the City), as of and for the year ended June 30, 2009, and have issued our report thereon dated November 30, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our audit was further made to determine that Public Transportation Modernization Improvement and Service Enhancement Account (PTMISEA) funds allocated to and received by the City were expended in conformance with the applicable statutes, rules and regulations of the Public Transportation Modernization Improvement and Service Enhancement Account Guideline.

Internal Control Over Financial Reporting

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

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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.

We noted certain matters that we reported to City of Modesto management in a separate letter dated November 30, 2009.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts.

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

Public Transportation Modernization Improvement and Service Enhancement Account (PTMISEA)

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

During the fiscal year ended June 30, 2008, the City applied for and received \$2,588,589 from the State's PTMISEA account for (1) the purchase and installation of a bus washer, (2) the purchase in installation of AVL technology in Fixed Route Buses, and (3) the purchase of eleven new buses. As of June 30, 2009, PTMISEA funds earned and expended were verified in the course of our audit as follows:

Schedule of PTMISEA Bond 1B Funds For the Year Ended June 30, 2009	
Description	Amount
Proceeds earned:	
PTMISEA (interest)	\$ 49,572
Expenditures incurred:	
Purchase and install AVL in Fixed Route Buses	(276,838)
Purchase of new buses and installation	(432)
Increase (decrease) in PTMISEA Funds during the year ended June 30, 2009	(227,698)
Unexpended proceeds at June 30, 2008	\$1,751,311
Unexpended proceeds at June 30, 2009	<u>\$1,523,613</u>

We conducted our audit on compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in Government Audit Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the TDA funds. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City's compliance with those requirements.

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

This report is intended for the information of the Council, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than the above parties.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION



Bakersfield, California
November 30, 2009