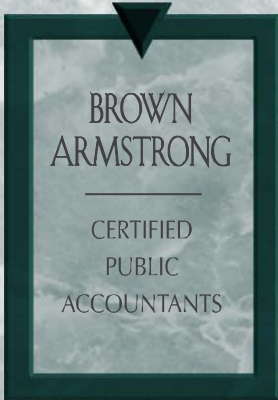


CITY OF MODESTO
SINGLE AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2012

**CITY OF MODESTO
SINGLE AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2012**

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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

The Honorable Mayor and City Council
of the City of Modesto, California

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Modesto, California (the City), as of and for the year ended June 30, 2012, which collectively comprise the City’s basic financial statements and have issued our report thereon dated January 31, 2013. 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.

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

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

Compliance and Other Matters

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

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

This report is intended solely for the information and use of management, City Council, others within the City, 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
January 31, 2013

BROWN
ARMSTRONG

CERTIFIED
PUBLIC
ACCOUNTANTS

BROWN ARMSTRONG

Certified Public Accountants

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT
ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

The Honorable Mayor and City Council
of the City of Modesto, California

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Compliance

We have audited the City of Modesto, California's (the City) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2012. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 a major federal program 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.

In our opinion, the City complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.



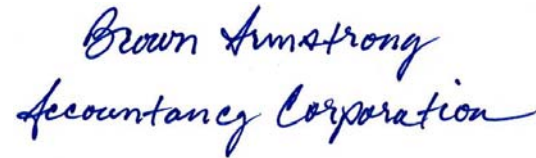
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Accounting Oversight Board and
MEMBER of the American Institute of
Certified Public Accountants

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance 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 compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, City Council, others within the City, 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
February 28, 2013

**BROWN
ARMSTRONG**

CERTIFIED
PUBLIC
ACCOUNTANTS

BROWN ARMSTRONG

Certified Public Accountants

**INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY
INFORMATION – SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

The Honorable Mayor and City Council
of the City of Modesto, California

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Modesto, California (the City), as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements, and have issued our report thereon dated January 31, 2013.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

This report is intended solely for the information and use of the City Council, audit committee, and management of the City, as well as the City's 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
February 28, 2013

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**CITY OF MODESTO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Grantor Agency and Award Title	Identifying Pass-Through Grant Number	Federal Catalog Number	Program Expenditures
Department of Housing and Urban Development			
Community Development Block Grants (CDBG) Cluster			
Community Development and Urban Development - NSP	B-08-MN-06-0004	14.218	* \$ 2,390,336
Community Development and Urban Development	B-06-MC-060002	14.218	* 281,815
Community Development and Urban Development	B-11-MC-060002	14.218	* 68,150
Community Development and Urban Development	B-10-MC-060002	14.218	* 2,267,461
ARRA Neighborhood Stabilization Program 3	B-11-MN-06-0004	14.253	* 79,436
ARRA Recovery Act - Comm Econ Development - HPRP	S-09-MY-060002	14.253	* 167,650
ARRA Recovery Act - Comm Econ Development - CDBG_R	B-09-MY-060002	14.253	* 78,115
CDBG Cluster Subtotal			5,332,963
Department of Housing and Urban Development			
Emergency Shelter Grants Program	S-10-MC-060002	14.231	4,070
Emergency Shelter Grants Program	E-11-MC-060002	14.231	102,575
Program Subtotal			106,645
Department of Housing and Urban Development			
HOME Investment Partnership Grant	M-07-MC-060207	14.239	* 309,734
HOME Investment Partnership Grant	M-11-MC-060207	14.239	* 85,998
HOME Investment Partnership Grant	M-10-MC-060207	14.239	* 29,562
HOME Investment Partnership Grant	M-08-MC-060207	14.239	* 591,691
Program Subtotal			1,016,985
Department of Housing and Urban Development			
ARRA - Neighborhood Stabilization Program 2	B-09-LN-CA-0053	14.256	* 1,455,753
Department of Housing and Urban Development			
Smart Valley Places HUD SCI Grant	SC360080-11-04	14.703	112,471
United States Department of Justice			
Secure our Schools	2011-CK-WX-0027	16.710	* 23,893
ARRA - CHRP Grant	2009-RJ-WX-0022	16.710	* 1,109,261
Program Subtotal			1,133,154
United States Department of Justice			
ARRA Recovery Act - Byrne Memorial Justice Assistance Grant	2009-SB-B9-0405	16.804	* 193,537

* Denotes major program.

See accompanying notes to schedule of expenditures of federal awards and independent auditor's report on compliance with requirements that could have a direct and material effect on each major program and internal control over compliance in accordance with OMB Circular A-133.

CITY OF MODESTO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Grantor Agency and Award Title	Identifying Pass-Through Grant Number	Federal Catalog Number	Program Expenditures
United States Department of Transportation			
ARFF Vehicle	3-06-0153-32	20.106	287
Planning Studies	3-06-0153-33	20.106	3,087
Airport Runway Safety	3-06-0153-34	20.106	23,793
Wind Cones	3-06-0153-34	20.106	5,066
Airport Apron Rehab	3-06-0153-34	20.106	999
NW Apron	3-06-0153-34	20.106	15,922
NW Apron	3-06-0153-35	20.106	165,489
Misc. Airport Studies	3-06-0153-35	20.106	859
Program Subtotal			<u>215,502</u>
United States Department of Transportation (Passed through California Department of Transportation)			
Carpenter Road Bridge	10-107724L	20.205 *	558,295
Roundabouts	10-956524L	20.205 *	3,676
RT Carp/State and Sisk Secondary	10-956525L	20.205 *	727
SR99 Pelandale Interchange	10-472108L	20.205 *	799,456
2010 Pavement Condition Survey	10-956895L	20.205 *	26,233
Sylvan Ave - Coffee/Oakdale Pvmr Rehab	10-956904L	20.205 *	475,392
Oakdale Rd - Scenic/Sylvan PVMR Rehab	10-956907L	20.205 *	34,130
Dale Rd CCTV Cameras	10-956679L	20.205 *	247,168
Right Turn LNS - 4 Intersections	10-956681L	20.205 *	489,244
New Traffic Signals (2008)	10-956690L	20.205 *	572
Rideshare Program	10-956691L	20.205 *	22,451
Rideshare Program	10-957056L	20.205 *	14,930
Conant Ave - Curbs and Gutters	10-956700L	20.205 *	279
Right Turn Lane Bangs and Prescott	10-957044L	20.205 *	47,128
Update Traffic Signals - 2010	10-957053L	20.205 *	33,819
New Traffic Signals (2010)	10-957052L	20.205 *	39,949
Retime Downtown Traffic Signals 2010	10-957051L	20.205 *	25,780
CED- RT Turn Ln Oakdale/Scenic	10-956975L	20.205 *	13,983
Oakdale/Sylvan Intersct Improv	1000020580L-N	20.205 *	50,559
RT Turn Ln McHenry to Briggs	10-4A9808L	20.205 *	45,294
RT Turn Ln at Prescott and Plaza	1000020602L-N	20.205 *	34,114
Update Traffic Signals - 2010	1000020600	20.205 *	2,844
Traffic Model Maintenance	1000020579L-N	20.205 *	39,527
Roundabouts Hillglen	10-956716L	20.205 *	22
N/B McHenry to E/B Briggsmore	10-956944L	20.205 *	213,407
E/B Briggsmore to S/B McHenry	10-956942L	20.205 *	59,325
Virginia Corridor - Phase V	10-956741L	20.205 *	2,090,604
Virginia Corridor - Phase VI	10-4A2534L	20.205 *	948
State Route 219	10-0N0008L	20.205 *	(204)
Landscaping Briggsmore and SR99	10-STA-99-PM	20.205 *	23,184
CalTrans 2010 Community Based Transp Planning	74A0554	20.205 *	42,543
ARRA - CAPE and Slurry Seal	ESPL-5059(160)	20.205 *	39,623
ARRA - Overlay and ADA Curb Ramp	ESPL-5059(166)	20.205 *	2,440,216
Program Subtotal			<u>7,915,218</u>

* Denotes major program.

See accompanying notes to schedule of expenditures of federal awards and independent auditor's report on compliance with requirements that could have a direct and material effect on each major program and internal control over compliance in accordance with OMB Circular A-133.

**CITY OF MODESTO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Grantor Agency and Award Title	Identifying Pass-Through Grant Number	Federal Catalog Number	Program Expenditures
United States Department of Transportation			
Federal Transit Agency			
Federal Transit Cluster			
Transit, Maintenance, and Capital Purchases	CA-95-X078	20.500	1,851,090
Transit, Maintenance, and Capital Purchases	CA-90-Y568	20.500	63,747
Transit, Maintenance, and Capital Purchases	CA-90-Y680	20.500	91,228
Transit, Maintenance, and Capital Purchases	CA-03-0562	20.500	4,179,143
Transit, Maintenance, and Capital Purchases	CA-04-0105	20.500	275,352
Transit, Maintenance, and Capital Purchases	CA-90-Y870	20.500	3,829,425
Transit, Maintenance, and Capital Purchases	CA-95-X148	20.500	582,130
Transit, Maintenance, and Capital Purchases	CA-04-0198	20.500	859,650
Transit, Maintenance, and Capital Purchases	CA-90-Y754	20.507	<u>18,934</u>
Program Subtotal			<u>11,750,699</u>
United States Department of Transportation			
JARC	CA-37-X101	20.516	<u>35,751</u>
United States Department of Transportation			
New Freedom	CA-57-X027	20.521	<u>126,201</u>
United States Department of Transportation (Passed through State of California Office of Traffic Safety)			
STEP Grant 2010-2011	PT1108	20.600	61,759
Sobriety Checkpoint Mini Grant	SC11262	20.600	9,562
STEP Grant 2011-2012	20491	20.600	173,353
Avoid the 12 - City of Turlock Fiduciary	20793	20.600	13,822
Avoid the 12 - City of Turlock Fiduciary	AL0967	20.600	<u>38,645</u>
Program Subtotal			<u>297,141</u>
United States Department of Energy			
ARRA - PRN - HVAC Improvements (EECBG)	0628930 - SC0003034	81.128 *	46,767
ARRA - PRN - Install Foam Roof (EECBG)	0628930 - SC0003034	81.128 *	148,863
ARRA - PRN - Install Solar Panels (EECBG)	0628930 - SC0003034	81.128 *	282,555
ARRA - PRN - LED Street Lights Replacement (EECBG)	0628930 - SC0003034	81.128 *	398,564
ARRA - PRN - Transportation Center Energy Upgrade (EECBG)	0628930 - SC0003034	81.128 *	24,854
ARRA - PRN - Modesto Centre Plaza Lighting (EECBG)	0628930 - SC0003034	81.128 *	<u>710,816</u>
Program Subtotal			<u>1,612,419</u>
FEMA			
Assistance to Firefighter Grant (2009)	EMW-2009-FR-00214	97.044	561,851
Assistance to Firefighter Grant (2009)	EMW-2009-FO-06594	97.044	<u>17,600</u>
Program Subtotal			<u>579,451</u>
Total Expenditures of Federal Awards			<u>\$ 31,883,890</u>

* Denotes major program.

See accompanying notes to schedule of expenditures of federal awards and independent auditor's report on compliance with requirements that could have a direct and material effect on each major program and internal control over compliance in accordance with OMB Circular A-133.

**CITY OF MODESTO
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012**

NOTE 1 – REPORTING ENTITY

The Schedule of Expenditure of Federal Awards (the Schedule) includes expenditures of federal awards for the City of Modesto, California, (the City) and its component units as disclosed in the Notes to the City's Basic Financial Statements.

NOTE 2 – BASIS OF ACCOUNTING

Basis of accounting refers to *when* revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus applied. All governmental funds and agency funds are accounted for using the modified accrual basis of accounting. All proprietary funds are accounted for using the accrual basis of accounting. Expenditures of Federal Awards reported on the Schedule are recognized when incurred.

NOTE 3 – DIRECT AND INDIRECT (PASS-THROUGH) FEDERAL AWARDS

Federal awards may be granted directly to the City by a federal granting agency or may be granted to other government agencies which pass-through federal awards to the City. The Schedule includes both of these types Federal award programs when they occur.

**CITY OF MODESTO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012**

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of auditor’s report issued: Unqualified

Internal control over financial reporting:

- Material weakness identified? Yes No
- Significant deficiencies identified that are not considered to be material weaknesses? Yes None Reported

Noncompliance material to financial statements noted? Yes No

Federal Awards

Type of auditor’s report issued on compliance for major programs: Unqualified

Internal control over major federal programs:

- Material weakness identified? Yes No
- Significant deficiencies identified that are not considered to be material weaknesses? Yes None reported

Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133, Section .510(a)? Yes No

Identification of major programs:

<u>CFDA #(s)</u>	<u>Name of Federal Program or Cluster</u>
14.218, 14.253	Community Development Block Grant Cluster, including ARRA Grants
14.239	HOME Investment Partnership Grant
14.256	ARRA – Neighborhood Stabilization Program 2
16.710	COPS Technology Grant, including ARRA Grants
16.804	ARRA – Byrne Memorial Justice Assistance Grant
20.205	CalTrans Highway Planning Cluster, including ARRA Grants
	ARRA – Energy Efficiency and Conservation Block Grant Program
81.128	(EECBG)

The threshold for distinguishing type A and B programs was \$956,517.

Auditee qualified as low-risk auditee? Yes No

SECTION II – FINANCIAL STATEMENT FINDINGS

Our audit disclosed no current year findings required to be reported in accordance with *Government Auditing Standards*.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Our audit disclosed no current year findings and questioned costs required to be reported in accordance with Section .510(a) of OMB Circular A-133.

SECTION IV – STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

No findings in prior year.