

BROWN ARMSTRONG
Certified Public Accountants

AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO THE PASSENGER FACILITY CHARGE PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE

To the Honorable City Council of the City of Modesto, California

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Compliance

We have audited the compliance of the City of Modesto with the compliance requirements described in the Passenger Facility Charge Audit Guide for Public Agencies, issued by the Federal Aviation Administration (Guide), for its passenger facility charge (PFC) program for the year ended June 30, 2011. Compliance requirements of laws and regulations applicable to its passenger facility charge program is the responsibility of City of Modesto's management. Our responsibility is to express an opinion on the City of Modesto'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 the Guide. Those standards and the Guide require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a direct and material effect on the passenger facility charge program occurred. An audit includes examining, on a test basis, evidence about the City of Modesto'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 examination does not provide a legal determination on the City of Modesto's compliance with those requirements.

As described in the accompanying Schedule of Findings and Questioned Costs, the City of Modesto did not comply with certain reporting requirements that are applicable to its PFC program. Compliance with such requirements is necessary, in our opinion, for the City of Modesto to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the City of Modesto complied, in all material respects, with the compliance requirements referred to above that are applicable to its PFC program for the year ended June 30, 2011.

Internal Control Over Compliance

The management of the City of Modesto is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws and regulations applicable to the PFC program. In planning and performing our audit, we considered the City of Modesto's internal control over compliance with requirements that could have a direct and material effect on the PFC program in order to determine our auditing procedure for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance with the Guide.



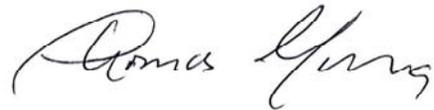
REGISTERED with the Public Company Accounting Oversight Board and MEMBER of the American Institute of Certified Public Accountants

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws and regulations that would be material in relation to the PFC program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

The City of Modesto's response to Finding 2011-1 is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the City of Modesto's responses and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the City Council, management, and the Federal Aviation Administration and is not intended to be, and should not be, used by anyone other than these specified parties.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

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

Bakersfield, California
January 27, 2012

**CITY OF MODESTO
SCHEDULE OF REVENUE
FOR THE YEAR ENDING JUNE 30, 2011**

<u>Revenues:</u>	<u>Date Approved</u>	<u>Amount Approved</u>	<u>Cumulative Total - June 30, 2010</u>	<u>September 30, 2010</u>	<u>December 31, 2010</u>	<u>March 31, 2011</u>	<u>June 30, 2011</u>	<u>Year Ended June 30, 2011</u>	<u>Cumulative Total - June 30, 2011</u>
Passenger facility charge revenue received			\$ 359,925	\$ 22,950	\$ 17,590	\$ 41,181	\$ 19,893	\$ 101,614	\$ 461,539
Interest earned			314	229	238	181	233	881	1,195
Total passenger facility charge revenue received			360,239	23,179	17,828	41,362	20,126	102,495	462,734
<u>Expenditures:</u>									
Application 08-07-C-00-MOD	June 6, 2008								
Project 1	Rehabilitate Taxi Lanes	\$ 30,864	18,309	-	-	-	-	-	18,309
Project 2	Install/Upgrade Airfield Guidance Signs	24,691	24,022	-	-	-	-	-	24,022
Project 3	Improve Airport Drainage	12,346	-	-	-	-	-	-	-
Project 4	Expand/Construct Parking Lot	82,667	82,667	-	-	-	-	-	82,667
Project 5	Rehabilitate Apron	76,316	76,316	-	-	-	-	-	76,316
Project 6	Conduct Part 150 Noise Compatibility Study	15,750	15,750	-	-	-	-	-	15,750
Project 7	Miscellaneous Planning Study	12,500	11,383	1	-	184	-	185	11,568
Project 8	Procure Aircraft Rescue and Firefighting Vehicle	42,500	14	62	32,363	-	-	32,425	32,439
Project 9	PFC Administrative Costs	40,000	40,000	-	-	-	-	-	40,000
Total passenger facility charge revenue expended			268,461	63	32,363	184	-	32,610	301,071
PFC Expenditures (Over)/Under Revenues			\$ 91,778	\$ 114,894	\$ 100,359	\$ 141,537	\$ 161,663	\$ 161,663	\$ 161,663

**CITY OF MODESTO
PFC REVENUE PROGRAM
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
SCHEDULE OF SIGNIFICANT DEFICIENCIES**

2011-1 – Air Carrier Quarterly Reports

Criteria

While performing testing on cash remittance and revenue reports, we noted two remittances that did not match the revenue report obtained from the air carrier Allegiant Air.

Condition

In accordance with 14 CFR Part 158.65 of the Federal Aviation Regulations, each carrier collecting PFC's for a public agency shall file a quarterly reports to the public agency that shall state the collecting carrier and airport involved, the total PFC revenue collected, the total amount of PFC revenue refunded to passengers, and the amount of collected revenue withheld by the collecting carrier for reimbursement of expenses. The reports shall also include the dates and amounts of each remittance for the quarter. It is the public agency's responsibility to ensure that they receive these reports from all the air carriers collecting PFC's for the City of Modesto (the City). Furthermore, it is the public agency's responsibility to verify amounts reported on the revenue reports received from the air carriers match remittances recorded by the public agency.

Cause

As of March 2011 the City was aware of their responsibility to notify air carriers of their noncompliance and request for the quarterly revenue reports. Our prior audit procedures brought this requirement to the City's attention and a corrective action plan was placed in effect. As of March 2011, the cashier's office produces a monthly report listing all airlines that have submitted PFC revenue to the City and forwards this report and copies of the remittances to the City Airport Division administrative support. This division ensures they utilize the procedures to track air carrier remittances and reporting and to notify carriers of their obligations when the remittances and reporting are not in accordance with Section 158.65. If an error is discovered or a revenue report is omitted, the City Airport Division is required to issue a letter to the airline carrier requiring corrective action for completion of PFC revenue collection. However, the 2 checks in question are dated December 25, 2010 and February 25, 2011, both prior to the March 2011 implementation of corrective action.

Effect

Prior to March 2011 the City had no way of verifying the amount that was remitted to them was correct as revenue reports were not consistently provided by each airline carrier. Even when the revenue reports were provided, as in the case of the 2 samples in question, there was no one at the City level assigned to reconcile the amounts collected from each airline to revenue reports.

Recommendation

We recommend that the City staff maintain enforcement of the PFC revenue procedures implemented in March 2011. Upon collection of PFC revenues, we recommend the City cashiers maintain a monthly listing of all airlines that have submitted PFC revenue to the City and forward this report and copies of the remittances to the City Airport Division administrative support for their review. If an error is discovered or a revenue report is omitted, we recommend a letter of noncompliance be sent to the airline carrier along with the remittance so that the airline may take corrective action.

Management Response/Corrective Action Plan

Based on 14 CFR Part 158.65, the City has updated their procedures to ensure compliance. When PFC revenues are collected, City cashiers are required to compare the check remitted to the PFC revenue report to ensure total amount collected reconciles to the check. Every month the cashier's office will produce a report listing all airlines that have submitted PFC revenue to the City and forward this report and copies of the remittances to the City Airport Division administrative support. This division will ensure they utilize the procedures to track air carrier remittances and reporting and to notify carriers of their obligations when the remittances and reporting are not in accordance with Section 158.65.

**CITY OF MODESTO
PFC REVENUE PROGRAM
STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
SCHEDULE OF SIGNIFICANT DEFICIENCIES**

2010-1 – Air Carrier Quarterly Reports

Condition

In accordance with 14 CFR Part 158.65 of the Federal Aviation Regulations, each carrier collecting PFC's for a public agency shall file a quarterly reports to the public agency that shall state the collecting carrier and airport involved, the total PFC revenue collected, the total amount of PFC revenue refunded to passengers, and the amount of collected revenue withheld by the collecting carrier for reimbursement of expenses. The reports shall also include the dates and amounts of each remittance for the quarter. While performing testing on cash remittance and reports, we noted that for several of the remittances, the City never obtained a report from the air carriers. Furthermore, the City was not aware that it was their responsibility to ensure that they receive these reports from all the air carriers collecting PFC's for the City.

Recommendation

We recommend that the City staff review the PFC Revenue Program requirements and update their policies and procedures accordingly. This will ensure that the City will be in compliance with all program requirements and avoid any complications from noncompliance.

Management Response

Based on 14 CFR Part 158.65, the City has updated their procedures to ensure compliance. Every month the cashier's office will produce a report listing all airlines that have submitted PFC revenue to the City and forward this report and copies of the remittances to the City Airport Division administrative support. This division will ensure they utilize the procedures to track air carrier remittances and reporting and to notify carriers of their obligations when the remittances and reporting are not in accordance with Section 158.65.

Current Year Status

During our field work conducted for the June 30, 2011, PFC compliance audit, we determined that the City has not implemented and is not in compliance with 14 CAFR Part 158.65 of the Federal Aviation Regulations. See the accompanying PFC revenue program Schedule of Findings and Questioned Costs for the current year item 2011-1.

2010-2 – Interest Revenue

Condition

In accordance with 14 CFR Part 158.67 of the Federal Aviation Regulations, each public agency shall establish and maintain for each approved application a separate accounting record. The accounting record shall identify the PFC revenue received from the collecting carriers, interest earned on such revenue, the amounts used on each project, and the amount reserved for currently approved projects. Through review of the City's accounting records, we were unable to determine that the City recorded the interest revenue earned from unused PFC revenue as PFC revenue. Interest was reported on the quarterly reports through a manual calculation, but is not supported by the City's accounting records.

Recommendation

We recommend that the City staff review the PFC Revenue Program requirements and update their policies and procedures accordingly. This will ensure that the City will be in compliance with all program requirements and avoid any complications from noncompliance.

Management Response

In accordance with 14 CAFR Part 158.67, the City has updated their policies to ensure compliance. In conjunction with reporting PFC's and interest revenue to the Federal Aviation Administration (in SOAR), a journal entry will be done to record the interest revenue in the PFC organization (5413) that is for PFC revenue only in the Airport Capital Improvement Fund (6320). The journal entry will move the interest that is normally posted in the Airport Operating Fund (6310) to this PFC organization account. This will mirror the manual spreadsheet that is maintained to track all PFC revenue, any unused PFC revenue and any interest accruing for the unused revenue.

Current Year Status

During our field work conducted for the June 30, 2011, PFC compliance audit, we determined that the City has implemented and is in compliance with 14 CAFR Part 158.67 of the Federal Aviation Regulations. A journal entry is made quarterly to record interest revenue in the PFC cost center (53310) that is for PFC revenue only in the Special Aviation Fund (4320). These journal entries moved interest that is normally posted in the Airport Operating Fund (4310). The interest earned on unused PFC revenues is then reported as a separate line-item on a manual spreadsheet maintained to track all PFC revenue.