

**CITY OF MODESTO  
TRANSPORTATION DEVELOPMENT ACT FUNDS**

Independent Auditor's Reports,  
Financial Statements,  
Required Supplementary Information,  
and Independent Accountant's Report

For the Year Ended June 30, 2016



Certified  
Public  
Accountants



**CITY OF MODESTO**  
**Transportation Development Act Funds**  
**For the Year Ended June 30, 2016**

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## 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, California (City), as of and for the year ended June 30, 2016, and the related notes, as listed in the table of contents.

#### *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 entity'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 entity's internal control. 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 opinions.

#### *Opinions*

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Local Transportation Special Revenue Funds and the Bus Enterprise Fund of the City as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Emphasis of Matters***

### ***Basis of Presentation***

As discussed in Note 1, the financial statements of the Transportation Development Act Funds of the City are intended to present the financial position, the changes in financial position, and, where applicable, cash flows of only that portion of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City that is attributable to the transactions of the Transportation Development Act Funds. They do not purport to, and do not present fairly the financial position of the City as of June 30, 2016, the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### ***Prior-Year Comparative Information***

The financial statements of the Local Transportation Special Revenue Funds include summarized prior-year comparative information. Such information does not include all of the information required or sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Local Transportation Special Revenue Funds' financial statements for the year ended June 30, 2015, from which such summarized information was derived. We have previously audited the Local Transportation Special Revenue Funds' 2015 financial statements, and we expressed an unmodified audit opinion on the Local Transportation Special Revenue Funds' financial statements in our report dated December 3, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

#### ***Required Supplementary Information***

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

Accounting principles generally accepted in the United States of America require that the schedule of the Bus Fund's proportionate share of the net pension liability and schedule of the Bus Fund's contributions be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

**Other Reporting Required by *Government Auditing Standards* and the  
Transportation Development Act**

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2016, 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 as it relates to the Transportation Development Act Funds. 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 as it relates to the Transportation Development Act Funds. 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.

*Macias Gini & O'Connell LLP*

Walnut Creek, California  
December 14, 2016

**CITY OF MODESTO**  
**Transportation Development Act Funds**  
**Balance Sheet - Local Transportation Special Revenue Funds**  
**June 30, 2016**  
**(with comparative totals as of June 30, 2015)**

	Non- Motorized	Streets and Roads	Totals	
			2016	2015
<b>ASSETS</b>				
Cash and cash equivalents	\$ 986,466	\$ 337,912	\$ 1,324,378	\$ 1,759,143
Interest receivable	2,006	712	2,718	5,873
Due from other governments	-	110,277	110,277	312,826
<b>Total Assets</b>	<b>\$ 988,472</b>	<b>\$ 448,901</b>	<b>\$ 1,437,373</b>	<b>\$ 2,077,842</b>
<b>LIABILITIES</b>				
Accounts payable	\$ -	\$ -	\$ -	\$ 6,745
Unearned revenue	986,698	229,783	1,216,481	1,652,365
<b>Total Liabilities</b>	<b>986,698</b>	<b>229,783</b>	<b>1,216,481</b>	<b>1,659,110</b>
<b>FUND BALANCES</b>				
Restricted	1,774	219,118	220,892	418,732
<b>Total Liabilities and Fund Balances</b>	<b>\$ 988,472</b>	<b>\$ 448,901</b>	<b>\$ 1,437,373</b>	<b>\$ 2,077,842</b>

See accompanying notes to the financial statements.

**CITY OF MODESTO**  
**Transportation Development Act Funds**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances -**  
**Local Transportation Special Revenue Funds**  
**For the Year Ended June 30, 2016**  
**(with comparative totals for the year ended June 30, 2015)**

	Non- Motorized	Streets and Roads	Totals	
			2016	2015
<b>REVENUES</b>				
Intergovernmental:				
Local Transportation Funds	\$ 21,459	\$ 529,131	\$ 550,590	\$ 2,539,783
Other	-	19,270	19,270	1,383,848
Interest	7,839	3,338	11,177	21,899
Change in fair value of investments	1,116	996	2,112	(8,792)
<b>Total Revenues</b>	<b>30,414</b>	<b>552,735</b>	<b>583,149</b>	<b>3,936,738</b>
<b>EXPENDITURES</b>				
Current:				
Administrative services	1,931	-	1,931	60,176
Capital outlay:				
Street rehabilitation	2,792	5,292	8,084	1,535,875
<b>Total Expenditures</b>	<b>4,723</b>	<b>5,292</b>	<b>10,015</b>	<b>1,596,051</b>
<b>Excess of Revenues Over Expenditures</b>	<b>25,691</b>	<b>547,443</b>	<b>573,134</b>	<b>2,340,687</b>
<b>OTHER FINANCING SOURCES</b>				
Transfers:				
In from other funds of the City	-	-	-	207,337
Out to other funds of the City	(25,692)	(745,282)	(770,974)	(2,235,197)
<b>Total Other Financing Sources</b>	<b>(25,692)</b>	<b>(745,282)</b>	<b>(770,974)</b>	<b>(2,027,860)</b>
Changes in fund balances	(1)	(197,839)	(197,840)	312,827
Fund balances, beginning of year	1,775	416,957	418,732	105,905
Fund balances, end of year	<u>\$ 1,774</u>	<u>\$ 219,118</u>	<u>\$ 220,892</u>	<u>\$ 418,732</u>

See accompanying notes to the financial statements.

**CITY OF MODESTO**  
**Transportation Development Act Funds**  
**Statement of Net Position - Bus Enterprise Fund**  
**June 30, 2016**  
**(with comparative totals as of June 30, 2015)**

	2016	2015
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 8,743,727	\$ 8,665,578
Accounts receivable	70,660	9,834
Interest receivable	17,411	22,900
Prepaid expenses	16,810	-
Due from other governments	2,504,287	9,016,320
Total Current Assets	11,352,895	17,714,632
Noncurrent assets:		
Capital assets:		
Land and construction in progress	4,777,335	7,734,731
Other capital assets, net of accumulated depreciation	34,649,044	33,562,637
Total Noncurrent Assets	39,426,379	41,297,368
Total Assets	50,779,274	59,012,000
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred outflows of resources related to pensions	178,451	143,374
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	2,368,848	8,389,038
Accrued salaries and benefits	39,884	49,371
Unearned revenue PTMISEA	4,166,093	4,424,121
Unearned revenue CTSG	9,958	9,871
Unearned revenue Capital Transit	1,309,261	432,076
Unearned revenue LTF	1,765,931	1,630,003
Total Current Liabilities	9,659,975	14,934,480
Noncurrent liabilities:		
Net pension liability	2,149,389	1,899,090
Total liabilities	11,809,364	16,833,570
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred inflows of resources related to pensions	249,231	570,009
<b>NET POSITION</b>		
Investment in capital assets	39,426,379	41,297,368
Unrestricted	(527,249)	454,427
Total Net Position	\$ 38,899,130	\$ 41,751,795

See accompanying notes to the financial statements.

**CITY OF MODESTO**  
**Transportation Development Act Funds**  
**Statement of Revenues, Expenses, and Changes**  
**in Fund Net Position - Bus Enterprise Fund**  
**For the Year Ended June 30, 2016**  
**(with comparative totals for the year ended June 30, 2015)**

	2016	2015
<b>OPERATING REVENUES</b>		
Charges for services	\$ 2,939,307	\$ 3,093,783
Miscellaneous	413,308	330,879
Total Operating Revenues	3,352,615	3,424,662
<b>OPERATING EXPENSES</b>		
Contractual services	11,641,063	11,436,759
Depreciation	2,826,031	2,260,367
Maintenance and supplies	1,626,841	2,229,174
Salaries and wages	1,290,492	1,124,173
Administrative services	779,613	949,105
Employee benefits	401,581	418,885
Allocated indirect administrative costs	316,333	244,305
Utilities	147,511	144,123
Insurance	20,234	21,864
Other	121,161	180,321
Total Operating Expenses	19,170,860	19,009,076
Operating Loss	(15,818,245)	(15,584,414)
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Intergovernmental:		
Local Transportation Funds	7,395,436	6,066,318
State Transit Assistance	2,121,886	2,730,887
Federal Transit Administration	3,127,699	4,245,381
Proposition 1B	-	16,296
CMAQ grants	341,431	32,204
Low Carbon Transit Operations Program	(183,548)	183,908
Other	28,515	-
Loss on disposition of capital assets	(171,075)	-
Interest income	829	9,758
Rental income	154,797	91,217
Change in fair value of investments	7,427	(25,021)
Total Nonoperating Revenues	12,823,397	13,350,948
Loss Before Capital Contributions and Transfers	(2,994,848)	(2,233,466)
Capital contributions:		
Local Transportation Funds	64,661	10,563
Federal Transit Administration	394,005	6,483,261
Proposition 1B	635,679	5,134,068
Low Carbon Transit Operations Program	25,490	-
Transfers in from other funds of the City	1,500	1,500
Transfers out to other funds of the City	(979,152)	-
Change in Net Position	(2,852,665)	9,395,926
Net Position, beginning of year	41,751,795	32,355,869
Net Position, end of year	\$ 38,899,130	\$ 41,751,795

See accompanying notes to the financial statements.

**CITY OF MODESTO**  
**Transportation Development Act Funds**  
**Statement of Cash Flows - Bus Enterprise Fund**  
**For the Year Ended June 30, 2016**  
**(with comparative totals for the year ended June 30, 2015)**

	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers and users	\$ 3,274,979	\$ 3,460,980
Payments to suppliers	(20,672,946)	(8,853,031)
Payments to employees	(1,807,116)	(1,539,283)
	(19,205,083)	(6,931,334)
 <b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Cash receipts/(payments) from grants:		
Local Transportation Funds	6,568,055	6,828,000
State Transit Assistance	2,121,886	2,730,887
Federal Transit Administration	6,747,594	1,453,760
CMAQ grant for Rideshare Program	330,795	2,140
Low Carbon Transit Operations Program	(183,548)	-
Other	(142,560)	396,697
Transfers in from other funds of the City	1,500	1,500
Transfers out to other funds of the City	(979,152)	-
	14,464,570	11,412,984
 <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisition and construction of capital assets	(955,042)	(11,629,328)
Capital contributions:		
Local Transportation Funds	941,846	340,563
Federal Transit Administration	4,260,088	2,639,679
Proposition 1B	377,738	2,308,078
Low Carbon Transit Operations Program	25,490	-
	4,650,120	(6,341,008)
 <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest received	13,745	18,127
Rental income received	154,797	91,217
	168,542	109,344
 Change in cash and cash equivalents	78,149	(1,750,014)
Cash and cash equivalents, beginning of year	8,665,578	10,415,592
Cash and cash equivalents, end of year	\$ 8,743,727	\$ 8,665,578

See accompanying notes to the financial statements.

**CITY OF MODESTO**  
**Transportation Development Act Funds**  
**Statement of Cash Flows - Bus Enterprise Fund**  
**For the Year Ended June 30, 2016**  
**(with comparative totals for the year ended June 30, 2015)**

	2016	2015
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	\$ (15,818,245)	\$ (15,584,414)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	2,826,031	2,260,367
Changes in assets and liabilities:		
Accounts receivable	(60,826)	36,318
Prepaid expenses	(16,810)	-
Accounts payable	(6,020,190)	6,352,620
Accrued salaries and benefits	(9,487)	14,432
Net pension liability and related deferred outflows/inflows	(105,556)	(10,657)
Net cash used in operating activities	\$ (19,205,083)	\$ (6,931,334)

See accompanying notes to the financial statements.

**CITY OF MODESTO**  
**Transportation Development Act Funds**  
**Notes to the Financial Statements**  
**For the Year Ended June 30, 2016**

**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 a special revenue 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 180 days of the end of the current fiscal period. During the year ended June 30, 2016, the City changed its availability period from 60 days to 180 days. However, this accounting change had no effect on the District's financial statements. 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 City is not legally required to adopt a budget for the TDA Funds. Therefore, budget comparison information is not included in these 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.

The financial statements include certain prior-year summarized comparative information in total but not at the level of detail required for a presentation in accordance with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the TDA's financial statements for the year ended June 30, 2015, from which the summarized information was derived.

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 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.

**CITY OF MODESTO**  
**Transportation Development Act Funds**  
**Notes to the Financial Statements**  
**For the Year Ended June 30, 2016**

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

The City reports the following Enterprise 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.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are charges to customers for bus fares, 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. Due from Other Governments/Unearned 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.

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

E. 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 other City funds 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.

**CITY OF MODESTO**  
**Transportation Development Act Funds**  
**Notes to the Financial Statements**  
**For the Year Ended June 30, 2016**

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

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.

F. 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 City is 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 City, using the highest level of decision-making authority (City Council). To be reported as committed, amounts cannot be used for any other purpose unless the City takes 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 City *intends* to use for a specific purpose. Intent can be expressed by the City at either the highest level of decision-making authority or by an official or body to which the City delegates the authority. This is also the classification for residual funds in the 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 City establishes and modifies or rescinds 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 City 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 City's policy to use restricted resources first, followed by the committed, assigned, and unassigned resources as they are needed.

G. Net Position

Net position is the excess of all the assets and deferred outflows of resources over all the liabilities and deferred inflows of resources, 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:

**CITY OF MODESTO**  
**Transportation Development Act Funds**  
**Notes to the Financial Statements**  
**For the Year Ended June 30, 2016**

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

*Investment in Capital Assets* describes the portion of net position which is represented by the current net book value of the 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 City cannot unilaterally alter. These principally include resources from grant revenues with Federal and State limitations on how the City may expend these grant funds.

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

H. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Miscellaneous Plan (Plan) and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the CalPERS Financial Office. For this purpose, benefit payments (including refunds of employee contributions) are recognized when currently due and payable in accordance with the benefit terms. Investments of the Plan are reported at fair value.

GASB Statement No. 68 requires that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

Valuation Date:	June 30, 2014
Measurement Date:	June 30, 2015
Measurement Period:	July 1, 2014 to June 30, 2015

I. New Accounting Pronouncements

During the year ended June 30, 2016, the City implemented the following GASB standards:

GASB Statement No. 72, *Fair Value Measurement and Application*. This statement is intended to improve accounting and financial reporting for state and local governments' investments by enhancing the comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. This statement did not have a significant impact to the TDA Funds' financial statements.

GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68*. This statement establishes requirements for those pensions and pension plans that are not administrated through a trust meeting specified criteria and thus are not covered by Statement Nos. 67 and 68. This statement did not have a significant impact to the TDA Funds' financial statements.

**CITY OF MODESTO**  
**Transportation Development Act Funds**  
**Notes to the Financial Statements**  
**For the Year Ended June 30, 2016**

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

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which supersedes Statement No. 55. This statement clarifies the hierarchy of generally accepted accounting principles (GAAP), and reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within the scope of authoritative GAAP. This statement did not have a significant impact to the TDA Funds' financial statements.

GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*. The statement addresses accounting and financial reporting for certain external investment pools and pool participants. The statement establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. It also establishes additional note disclosure requirements to include information about any limitations or restrictions on participant withdrawals. This statement did not have a significant impact to the TDA Funds' financial statements.

The City is currently evaluating its accounting practices to determine the potential impact on the financial statements for the following GASB Statements:

In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This statement addresses reporting by OPEB plans that administer benefits on behalf of governments. This Statement is effective for the TDA Funds' fiscal year ending June 30, 2017.

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This statement addresses reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments. This Statement is effective for the TDA Funds' fiscal year ending June 30, 2018.

In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures*. This statement requires governments that enter into tax abatement agreements to disclose the following information about the agreements: (i) brief descriptive information; (ii) the gross dollar amount of taxes abated during the period; and (iii) commitments made by a government, other than to abate taxes, as part of a tax abatement agreement. This Statement is effective for the TDA Funds' fiscal year ending June 30, 2017.

In December 2015, the GASB issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. The objective of this statement is to address a practice issue regarding the scope and applicability of Statement No. 68 associated with pensions provided through certain cost-sharing multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. Such plans are not considered a state or local government pension plan and are used to provide benefits to both employees of state and local governments and employees of employers that are not state or local governments. This Statement is effective for the TDA Funds' fiscal year ending June 30, 2017.

**CITY OF MODESTO**  
**Transportation Development Act Funds**  
**Notes to the Financial Statements**  
**For the Year Ended June 30, 2016**

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

In January 2016, the GASB issued Statement No. 80, *Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14*. The objective of this statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This statement amends the blending requirements established in GASB Statement No. 14, *The Financial Reporting Entity*, as amended. This Statement is effective for the TDA Funds' fiscal year ending June 30, 2017.

In March 2016, the GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*. The statement provides recognition and measurement guidance for situations in which a government is a beneficiary of these agreements. This Statement is effective for the TDA Funds' fiscal year ending June 30, 2018.

In March 2016, the GASB issued Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73*, to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. The statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practices for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. This Statement is effective for the TDA Funds' fiscal year ending June 30, 2017.

**NOTE 2 – INVESTMENT IN CITY OF MODESTO POOL**

The cash and investments of the TDA Funds are held in the City's investment pool. The cash and investments of the TDA Funds are reported as cash and cash equivalents on the balance sheet and statement of net position because the City can spend cash of the TDA Funds at any time without prior notice or penalty. At June 30, 2016, the City's investment pool is unrated and the weighted average maturity is 518 days. Interest earned on pool cash and investments is credited to each participant in the pool based on each participant's average monthly cash balance. The Modesto City Council has oversight responsibility of the City investment pool. Detailed information concerning the City's pooled cash and investments, including information regarding the fair value of investments, may be found in the City's Comprehensive Annual Financial Report. The TDA Funds' investments in the pool are stated at fair value. As of June 30, 2016, the fair value of the TDA Funds' position in the pool is the same as the value of its pool shares.

The fair value hierarchy established by generally accepted accounting principles is based on the valuation inputs used to measure the fair value of the assets. The TDA Funds' investment in the City's investment pool is exempt from fair value hierarchy disclosures.

**CITY OF MODESTO**  
**Transportation Development Act Funds**  
**Notes to the Financial Statements**  
**For the Year Ended June 30, 2016**

**NOTE 3 – CAPITAL ASSETS**

Capital asset activity for the Bus Enterprise Fund for the year ended June 30, 2016, was as follows:

	Beginning Balance	Additions and transfers in	Deletions and transfers out	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 4,060,454	\$ -	\$ -	\$ 4,060,454
Construction in progress	3,674,277	716,881	(3,674,277)	716,881
Total capital assets, not being depreciated	7,734,731	716,881	(3,674,277)	4,777,335
Capital assets, begin depreciated:				
Buildings	23,240,846	467,566	-	23,708,412
Improvements	4,336,165	-	-	4,336,165
Furnishings and equipment	1,448,291	-	(52,404)	1,395,887
Vehicles	222,284	-	-	222,284
Buses and fareboxes	27,997,105	3,653,855	(3,163,161)	28,487,799
Total capital assets, being depreciated	57,244,691	4,121,421	(3,215,565)	58,150,547
Less accumulated depreciation for:				
Buildings	(5,467,167)	(765,543)	-	(6,232,710)
Improvements	(1,929,661)	(206,367)	-	(2,136,028)
Furnishings and equipment	(577,767)	(127,695)	47,164	(658,298)
Vehicles	(163,599)	(16,042)	-	(179,641)
Buses and fareboxes	(15,543,860)	(1,710,384)	2,959,418	(14,294,826)
Total accumulated depreciation	(23,682,054)	(2,826,031)	3,006,582	(23,501,503)
Total capital assets, being depreciated, net	33,562,637	1,295,390	(208,983)	34,649,044
Total capital assets, net	\$ 41,297,368	\$ 2,012,271	\$ (3,883,260)	\$ 39,426,379

Depreciation expense ended June 30, 2016 was \$2,826,031.

**CITY OF MODESTO**  
**Transportation Development Act Funds**  
**Notes to the Financial Statements**  
**For the Year Ended June 30, 2016**

**NOTE 4 – 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, the Stanislaus Council of Governments (StanCOG), the transportation planning agency 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 Bus Enterprise 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:

	2016	2015
Charges for services	\$ 2,939,307	\$ 3,093,783
Advertising revenue	235,393	-
Less: Non-fare charges	(14,115)	(14,136)
Fare revenues	3,160,585	3,079,647
Operating expenses	19,170,860	19,009,076
Less expenses not related to fare generated activities:		
Depreciation	(2,826,031)	(2,260,367)
Transfers in from other City funds	(1,500)	(1,500)
Capital activities	(153,057)	(534,334)
Grant and rent-funded activities	(87,041)	(44,815)
Adjustments	(825,022)	(1,057,540)
Applicable operating expenses	\$ 15,278,209	\$ 15,110,520
Fare ratio	20.69%	20.38%

**NOTE 5 – PROPOSITION 1B: 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.

**CITY OF MODESTO**  
**Transportation Development Act Funds**  
**Notes to the Financial Statements**  
**For the Year Ended June 30, 2016**

**NOTE 5 – PROPOSITION 1B: PUBLIC TRANSPORTATION MODERNIZATION, IMPROVEMENT, AND SERVICE ENHANCEMENT ACCOUNT (PTMISEA)** (Continued)

In fiscal year 2016, the City received \$350,092 from State of California Department of Transportation passed through StanCOG. The City spent \$647,378 in various projects during the year and earned an additional \$39,258 in interest, leaving \$4,166,093 of unspent PTMISEA funds as of June 30, 2016.

Project Name	Beginning Unearned Revenue	Interest Earned	New Receipts	Expended	Ending Unearned Revenue
Rehabilitation of existing buses	\$ 24,598	\$ 216	\$ -	\$ (24,137)	\$ 677
New and refurbish buses	2,732,737	22,907	-	(623,241)	2,132,403
Bus stops	95,056	956	11,700	-	107,712
Depository	442,165	3,903	-	-	446,068
Security	1,129,565	9,970	-	-	1,139,535
Fareboxes	-	1,306	338,392	-	339,698
<b>Total</b>	<b>\$4,424,121</b>	<b>\$ 39,258</b>	<b>\$ 350,092</b>	<b>\$ (647,378)</b>	<b>\$4,166,093</b>

**NOTE 6 – PROPOSITION 1B: CALIFORNIA TRANSIT SECURITY GRANT (CTSG)**

In fiscal year 2016, the City received no additional funding but received \$87 in interest on the unspent funds, and had no disbursements of CTSG funds, leaving \$9,958 of unspent CTSG funds as of June 30, 2016.

**NOTE 7 – CAPITAL TRANSIT AND LOCAL TRANSPORTATION FUNDS**

Unearned revenue for the TDA Funds for the year ended June 30, 2016, was as follows:

	Local Transportation Special Revenue Funds		
	Non-Motorized	Streets and Roads	Total
Unearned revenue, beginning of year	\$ 855,110	\$ 797,255	\$ 1,652,365
TDA funds allocated	153,047	-	153,047
TDA funds earned	(21,459)	(529,131)	(550,590)
Adjustment	-	(38,341)	(38,341)
<b>Unearned revenue, end of year</b>	<b>\$ 986,698</b>	<b>\$ 229,783</b>	<b>\$ 1,216,481</b>

  

	Bus Enterprise Fund		
	LTF/LCTOP	Capital Transit/ LCTOP	Total
Unearned revenue, beginning of year	\$ 1,630,003	\$ 432,076	\$ 2,062,079
TDA funds allocated	7,531,364	992,333	8,523,697
TDA funds earned	(7,395,436)	(90,151)	(7,485,587)
Adjustment	-	(24,997)	(24,997)
<b>Unearned revenue, end of year</b>	<b>\$ 1,765,931</b>	<b>\$ 1,309,261</b>	<b>\$ 3,075,192</b>

**CITY OF MODESTO**  
**Transportation Development Act Funds**  
**Notes to the Financial Statements**  
**For the Year Ended June 30, 2016**

**NOTE 8 – PENSION PLAN**

**General Information about the Pension Plan**

*Plan Description* – All of the Bus Fund qualified employees are eligible to participate in the City’s Miscellaneous Pension Plan (Plan), an agent multi-employer defined benefit pension plan administered by the California Public Employees’ Retirement System (CalPERS). Departments and funds of the City, including the Bus Fund, are in a cost-sharing arrangement in which all risks and costs are shared proportionately. A full description of the Plan regarding number of employees covered, benefit provisions, assumptions (for funding, but not accounting purposes), and membership information are listed in the June 30, 2013 Annual Actuarial Valuation Report. Details of the benefits provided can be obtained in Appendix B of the actuarial valuation report. This report and CalPERS’ audited financial statements are publicly available reports that can be obtained at CalPERS’ website at [www.calpers.ca.gov](http://www.calpers.ca.gov) under Forms and Publications.

The California Legislature passed and the Governor signed the “Public Employees’ Pension Reform Act of 2013” (PEPRA) on September 12, 2012. PEPRA contained a number of provisions intended to reduce future pension obligations. PEPRA primarily affects new pension plan members who are enrolled for the first time after December 2012. Benefit provisions under the Plan and other requirements are established by State statute and City resolution.

*Benefits Provided* – The benefits for the Plan are based on members’ years of services, age, final compensation, and benefit formula. Benefits are provided for disability, death, and survivors of eligible members or beneficiaries. Members come fully vested in their retirement benefits earned to date after five years of credited service.

The Plan’s provisions and benefits in effect at June 30, 2016 and 2015 are summarized as follows:

Hire date	<u>Prior to January 17, 2012</u>	<u>January 17, 2012 to December 31, 2012</u>	<u>On or After January 1, 2013</u>
Benefit formula	2% @ 55	2% @ 60	2% @ 62
Benefit vesting schedule	5 years of service	5 years of service	5 years of service
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	50 to 67	50 to 67	52 to 67
Monthly benefits, as a % of eligible compensation	1.426 to 2.418%	1.092 to 2.418%	1.000 to 2.500%

*Contributions* – Section 20814(c) of the California Public Employees Retirement Law (PERL) requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through the CalPERS’ annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The City is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

**CITY OF MODESTO**  
**Transportation Development Act Funds**  
**Notes to the Financial Statements**  
**For the Year Ended June 30, 2016**

**NOTE 8 – PENSION PLAN** (Continued)

For the measurement period ended June 30, 2015 (the measurement date) for the Plan, the average active employee contribution rate was 6.933% of annual pay and the employer’s contribution rate was 13.539% of annual payroll. For the measurement period ended June 30, 2014 (the measurement date) for the Plan, the average active employee contribution rate was 6.971% of annual pay and the employer’s contribution rate was 11.984% of annual payroll. Employer contribution rates may change if plan contracts are amended. It is the responsibility of the City to make necessary accounting adjustments to reflect the impact due to any employer-paid member contributions or situations where members are paying a portion of the employer contribution.

For the year ended June 30, 2016, the employer contributions recognized as a deferred outflow of resources was \$178,451.

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

As of June 30, 2016, the Bus Fund reported a liability of \$2,149,389 for its proportionate share of the net pension liability. The net pension liability at June 30, 2016, was measured as of June 30, 2015, using an annual actuarial valuation as of June 30, 2014, rolled forward to June 30, 2015 using standard update procedures. The Bus Fund’s proportion of the net pension liability was based on its contributions to the Plan relative to all contributions to the Plan. At June 30, 2016, the Bus Fund’s proportion was 2.6843%.

For the year ended June 30, 2016, the Bus Fund recognized pension expense of \$80,173. At June 30, 2016, the Bus Fund reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

June 30, 2016	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contribution subsequent to measurement date	\$ 178,451	\$ -
Changes of assumptions		(130,073)
Differences between expected and actual experiences	-	(61,595)
Net difference between projected and actual earnings on pension plan investments	-	(57,563)
Totals	<u>\$ 178,451</u>	<u>\$ (249,231)</u>

**CITY OF MODESTO**  
**Transportation Development Act Funds**  
**Notes to the Financial Statements**  
**For the Year Ended June 30, 2016**

**NOTE 8 – PENSION PLAN** (Continued)

Amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in future pension expense as follows:

Year Ending June 30	
2017	\$ (132,562)
2018	(132,562)
2019	(103,115)
2020	<u>119,008</u>
Total	<u>\$ (249,231)</u>

*Actuarial Assumptions* – The total pension liabilities in the June 30, 2014 actuarial valuations, which were rolled forward to June 30, 2015, were determined using the following actuarial method and assumptions:

Valuation Date	June 30, 2014
Measurement Date	June 30, 2015
Actuarial Cost Method	Entry-Age Normal
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation	2.75%
Payroll Growth	3.00%
Salary Increases	Varies by Entry Age and Service
Investment Rate of Return	7.65% Net of Pension Plan Investment and Administrative Expenses, includes Inflation
Mortality Rate Table <sup>(1)</sup>	Derived using CalPERS' Membership Data for all Funds
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

<sup>(1)</sup> The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 2014 experience study report available on CalPERS website.

All other actuarial assumptions used in the June 30, 2014 valuation was based on the results of actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study report can be obtained at CalPERS website under Forms and Publications.

**CITY OF MODESTO**  
**Transportation Development Act Funds**  
**Notes to the Financial Statements**  
**For the Year Ended June 30, 2016**

**NOTE 8 – PENSION PLAN** (Continued)

*Discount Rate* – The discount rate used to measure the total pension liability at June 30, 2016 was 7.65 percent. To determine whether the municipal bond rate should be used in the calculation of a discount rate for the Plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the discount rate is adequate and the use of municipal bond rate calculation is not necessary. The long-term expected discount rate of 7.65 percent is applied to all plans in the Public Employees Retirement Fund for the June 30, 2015 measurement date. The stress test results are presented in a detailed report called “GASB Crossover Testing Report” that can be obtained at CalPERS’ website under the GASB 68 section.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS staff took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds’ asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These geometric rates of return are net of administrative expenses.

The target allocation for the June 30, 2015 measurement date was as follows:

<b>Asset Class</b>	<b>New Strategic Allocation</b>	<b>Real Return Years 1 - 10 <sup>(1)</sup></b>	<b>Real Return Years 11+ <sup>(2)</sup></b>
Global Equity	51.00%	5.25%	5.71%
Global Fixed Income	19.00%	0.99%	2.43%
Inflation Sensitive	6.00%	0.45%	3.36%
Private Equity	10.00%	6.83%	6.95%
Real Estate	10.00%	4.50%	5.13%
Infrastructure and Forestland	2.00%	4.50%	5.09%
Liquidity	2.00%	-0.55%	-1.05%
<b>Total</b>	<b>100.00%</b>		

<sup>(1)</sup> An expected inflation of 2.5% used for this period.

<sup>(2)</sup> An expected inflation of 3.0% used for this period.

**CITY OF MODESTO**  
**Transportation Development Act Funds**  
**Notes to the Financial Statements**  
**For the Year Ended June 30, 2016**

**NOTE 8 – PENSION PLAN** (Continued)

*Sensitivity of the Bus Fund's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate* – The following presents the net pension liability of the Plan as of the June 30, 2015 measurement date, calculated using the discount rate of 7.65 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.65 percent) or 1 percentage-point higher (8.65 percent) than the current rate:

	<b>Discount Rate - 1% (6.65%)</b>	<b>Current Discount Rate (7.65%)</b>	<b>Discount Rate + 1% (8.65%)</b>
Bus Fund's Proportionate Share of Plan's Net Pension Liability	\$ 3,594,255	\$ 2,149,389	\$ 1,124,699

*Pension Plan Fiduciary Net Position* – Detailed information about the pension plan's fiduciary net position is available in the separately issued CalPERS financial report. Copies of which may be obtained from the CalPERS Executive Offices, Lincoln Plaza East, 400 Q Street, Sacramento, California 95811.

**CITY OF MODESTO**  
**Transportation Development Act Funds**  
**Required Supplementary Information (Unaudited)**  
**Schedule of the Bus Fund's Proportionate Share**  
**of the Net Pension Liability**  
**Last 10 Years\***

	<u>2016</u>	<u>2015</u>
<b>Miscellaneous Plan:</b>		
Bus Fund's proportion of the net pension liability	2.68432%	2.55465%
Bus Fund's proportionate share of the net pension liability	\$ 2,149,389	\$ 1,899,090
Bus Fund's covered-employee payroll	\$ 1,115,678	\$ 1,127,265
Plan net pension liability as a percentage of their covered-employee payroll	201.29%	168.47%
Plan fiduciary net position as a percentage of the total pension liability	79.02%	81.18%

**Notes to Schedule:**

**Changes in assumptions:**

In 2015, there were no changes in assumptions.

\* - GASB Statement No. 68 was implemented in 2015.

**CITY OF MODESTO**  
**Transportation Development Act Funds**  
**Required Supplementary Information (Unaudited)**  
**Schedule of the Bus Fund's Contributions**  
**Last 10 Years\***

	2016	2015
<b>Miscellaneous Plan:</b>		
Contractually required contribution	\$ 178,451	\$ 143,374
Contributions in relation to the contractually required contribution	178,451	143,374
Contribution deficiency (excess)	\$ -	\$ -
Bus Fund's covered-employee payroll	\$ 1,127,265	\$ 1,075,274
Contributions as a percentage of covered-employee payroll	15.83%	13.33%

**Notes to Schedule:**

The actuarial methods and assumptions used to determine contribution rates for the year ended June 30, 2016 were from the actuarial valuations for the year ended June 30, 2013.

Actuarial cost method	Entry-Age Normal
Actuarial assumptions:	
Inflation	2.75%
Salary increase	Varies <sup>(1)</sup>
Payroll growth	3.00% <sup>(2)</sup>
Investment rate of return	7.50%
Retirement age	2010 Experience Study <sup>(3)</sup>
Mortality	2010 Experience Study <sup>(4)</sup>

<sup>(1)</sup> Depending on age, service, and type of employment.

<sup>(2)</sup> Net of pension plan investment and administrative expenses, including inflation.

<sup>(3)</sup> The probabilities of retirement are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007.

<sup>(4)</sup> The probabilities of mortality are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007. Pre-retirement and post-retirement mortality rates include 5 years of projected mortality improvement using Scale AA published by the Society of Actuaries.

\* - GASB Statement No. 68 was implemented in 2015.

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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, 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 (City), as of and for the year ended June 30, 2016, and the related notes to the financial statements, and have issued our report thereon dated December 14, 2016.

### **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 as it relates to the Transportation Development Act Funds (internal control) 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. Accordingly, we do not express an opinion on the effectiveness of City’s internal control.

*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.

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 City’s Transportation Development Act Funds financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, including the applicable statutes, rules and regulations of the Transportation Development Act and the allocation instructions and resolutions of the Stanislaus Council of Governments as required by Sections 6666 and 6667 of Title 21, Division 3, Chapter 2, Article 5.5 of the California Code of Regulations, 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* or the Transportation Development Act.

**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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and the Transportation Development Act in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Macias Gini & O'Connell LLP". The signature is written in a cursive, professional style.

Walnut Creek, California

December 14, 2016



**Independent Accountant’s Report on Compliance with the Public  
Transportation Modernization, Improvement, and Service  
Enhancement Account (PTMISEA)**

Honorable Members of the City Council  
City of Modesto, California

We have examined the City of Modesto’s (City) compliance with the verification of receipt and appropriate expenditure of bond funds audit requirements per the Public Transportation Modernization, Improvement and Service Enhancement Account (PTMISEA) Guidelines during the year ended June 30, 2016. Management is responsible for the City’s compliance with those requirements. Our responsibility is to express an opinion on the City’s compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included 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 examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the City’s compliance with specified requirements.

In our opinion, the City complied, in all material respects, with the aforementioned requirements for the year ended June 30, 2016.

This report is intended solely for the information and use of the Stanislaus Council of Governments, management, the State of California Department of Transportation, and State Controller’s Office and is not intended to be and should not be used by anyone other than these specified parties.

Walnut Creek, California  
December 14, 2016

**CITY OF MODESTO**  
**Transportation Development Act Funds**  
**Summary Schedule of Prior Audit Findings**  
**For the Year Ended June 30, 2016**

**2015 Comment:**

***2015-001 – Restatements of Prior Year Financial Statements***

Condition/Effect:

The City did not properly record capital assets nor properly accrue revenue in its Bus Fund in the 2014 financial statements. This condition resulted in the City restating its 2014 Bus Fund financial statements to increase “capital assets – construction in progress” and decrease “maintenance and supplies expenses” by \$766, and decrease “buses and fareboxes accumulated depreciation” and “depreciation expenses” by \$685,745. In addition, “due from other governments” and “intergovernmental – Federal Transit Administration” were increased by \$26,037.

Recommendation:

The City should record transactions in its Bus Fund accurately to present restatements in the following year.

Status:

Corrected.

**2015 Comment:**

***2015-002 – Intergovernmental – Nonoperating Revenues and Capital Contributions***

Condition/Effect:

The City did not correctly present intergovernmental and capital contributions in its Bus Fund for the year ended June 30, 2014, nor were such initial amounts correct for the year ended June 30, 2015.

This condition resulted in the City reclassifying its 2014 Bus Fund financial statements decreasing “capital contributions” and increasing “intergovernmental revenues” by \$4,672,465. Also, additional analysis was necessary for the City’s 2015 Bus Fund financial statements to be presented correctly.

Recommendation:

The City should analyze its intergovernmental revenue sufficiently to determine whether the reimbursements relate to operating expenses or capital outlays.

Status:

Corrected.

**CITY OF MODESTO**  
**Transportation Development Act Funds**  
**Summary Schedule of Prior Audit Findings**  
**For the Year Ended June 30, 2016**

**2015 Comment:**

*2015-003 – Compilation of Financial Statements*

Condition/Effect:

The City did not compile the financial information in a manner necessary to prepare its Bus Fund financial statements.

This condition resulted in the auditor spending a significant amount of time to compile the financial information from the trial balance of the City's Bus Fund and to work with the City to adjust the initial financial statement compilation to meet the City's approval.

Recommendation:

The City should compile the trial balance of its Bus Fund as to enable the auditor to prepare its Bus Fund financial statements that meet the City's approval.

Status:

Corrected.

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