

**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, 2017



Certified
Public
Accountants

CITY OF MODESTO
Transportation Development Act Funds
For the Year Ended June 30, 2017

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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, 2017, and the related notes to the financial statements, 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, 2017, 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, 2017, 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 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 financial statements for the year ended June 30, 2016, from which such summarized information was derived. We have previously audited the 2016 financial statements, and we expressed an unmodified audit opinion on the financial statements in our report dated December 14, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, 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 November 13, 2017, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's 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
November 13, 2017

CITY OF MODESTO
Transportation Development Act Funds
Balance Sheet - Local Transportation Special Revenue Funds
June 30, 2017
(with comparative totals as of June 30, 2016)

	Non- Motorized	Streets and Roads	Totals	
			2017	2016
ASSETS				
Cash and cash equivalents	\$ 1,140,677	\$ 473,002	\$ 1,613,679	\$ 1,324,378
Interest receivable	2,475	1,049	3,524	2,718
Due from other governments	-	-	-	110,277
 Total Assets	 <u>\$ 1,143,152</u>	 <u>\$ 474,051</u>	 <u>\$ 1,617,203</u>	 <u>\$ 1,437,373</u>
LIABILITIES				
Unearned revenue	\$ 1,141,378	\$ 231,246	\$ 1,372,624	\$ 1,216,481
FUND BALANCES				
Restricted	<u>1,774</u>	<u>242,805</u>	<u>244,579</u>	<u>220,892</u>
 Total Liabilities and Fund Balances	 <u>\$ 1,143,152</u>	 <u>\$ 474,051</u>	 <u>\$ 1,617,203</u>	 <u>\$ 1,437,373</u>

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, 2017
(with comparative totals for the year ended June 30, 2016)

	Non- Motorized	Streets and Roads	Totals	
			2017	2016
REVENUES				
Intergovernmental:				
Local Transportation Funds	\$ -	\$ -	\$ -	\$ 550,590
Other	-	28,193	28,193	19,270
Interest	9,073	-	9,073	11,177
Change in fair value of investments	(6,084)	-	(6,084)	2,112
Total Revenues	2,989	28,193	31,182	583,149
EXPENDITURES				
Current:				
Administrative services	184	-	184	1,931
Capital outlay:				
Street rehabilitation	2,805	-	2,805	8,084
Total Expenditures	2,989	-	2,989	10,015
Excess of Revenues Over Expenditures	-	28,193	28,193	573,134
OTHER FINANCING SOURCES				
Transfers:				
Out to other funds of the City	-	(4,506)	(4,506)	(770,974)
Changes in fund balances	-	23,687	23,687	(197,840)
Fund balances, beginning of year	1,774	219,118	220,892	418,732
Fund balances, end of year	<u>\$ 1,774</u>	<u>\$ 242,805</u>	<u>\$ 244,579</u>	<u>\$ 220,892</u>

See accompanying notes to the financial statements.

CITY OF MODESTO
Transportation Development Act Funds
Statement of Net Position - Bus Enterprise Fund
June 30, 2017
(with comparative totals as of June 30, 2016)

	2017	2016
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 6,612,999	\$ 8,743,727
Accounts receivable	93,013	70,660
Interest receivable	14,809	17,411
Prepaid expenses	42,339	16,810
Due from other governments	4,441,449	2,504,287
Total Current Assets	11,204,609	11,352,895
Noncurrent assets:		
Capital assets:		
Land and construction in progress	4,283,145	4,777,335
Other capital assets, net of accumulated depreciation	34,879,740	34,649,044
Total Noncurrent Assets	39,162,885	39,426,379
Total Assets	50,367,494	50,779,274
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows of resources related to pensions	675,680	178,451
LIABILITIES		
Current liabilities:		
Accounts payable	2,694,636	2,368,848
Accrued salaries and benefits	37,515	39,884
Unearned revenue PTMISEA	2,524,518	4,166,093
Unearned revenue CTSG	-	9,958
Unearned revenue Capital Transit	1,702,453	1,309,261
Unearned revenue LTF/LCTOP	2,110,282	1,765,931
Total Current Liabilities	9,069,404	9,659,975
Noncurrent liabilities:		
Net pension liability	2,759,942	2,149,389
Total liabilities	11,829,346	11,809,364
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows of resources related to pensions	124,743	249,231
NET POSITION		
Investment in capital assets	39,162,885	39,426,379
Unrestricted	(73,800)	(527,249)
Total Net Position	\$ 39,089,085	\$ 38,899,130

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, 2017
(with comparative totals for the year ended June 30, 2016)

	2017	2016
OPERATING REVENUES		
Charges for services	\$ 2,777,228	\$ 2,939,307
Miscellaneous	475,818	413,308
Total Operating Revenues	3,253,046	3,352,615
OPERATING EXPENSES		
Contractual services	12,873,108	11,641,063
Depreciation	2,762,049	2,826,031
Maintenance and supplies	1,944,319	1,626,841
Salaries and wages	1,430,275	1,290,492
Administrative services	839,572	779,613
Employee benefits	569,719	401,581
Allocated indirect administrative costs	265,638	316,333
Utilities	160,043	147,511
Insurance	34,319	20,234
Other	101,775	121,161
Total Operating Expenses	20,980,817	19,170,860
Operating Loss	(17,727,771)	(15,818,245)
NONOPERATING REVENUES (EXPENSES)		
Intergovernmental:		
Local Transportation Funds	7,948,374	7,395,436
State Transit Assistance	1,963,515	2,121,886
Federal Transit Administration	4,684,992	3,127,699
Proposition 1B	8,719	-
CMAQ grants	198,651	341,431
Low Carbon Transit Operations Program	216,396	(183,548)
Other	-	28,515
Loss on disposition of capital assets	(1,155,603)	(171,075)
Interest income	(18,507)	829
Rental income	91,033	154,797
Change in fair value of investments	(41,433)	7,427
Total Nonoperating Revenues	13,896,137	12,823,397
Loss Before Capital Contributions and Transfers	(3,831,634)	(2,994,848)
Capital contributions:		
Local Transportation Funds	431,125	64,661
Federal Transit Administration	1,585,018	394,005
Proposition 1B	1,693,413	635,679
Low Carbon Transit Operations Program	310,533	25,490
Transfers in from other funds of the City	26,435	1,500
Transfers out to other funds of the City	(24,935)	(979,152)
Change in Net Position	189,955	(2,852,665)
Net Position, beginning of year	38,899,130	41,751,795
Net Position, end of year	\$ 39,089,085	\$ 38,899,130

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, 2017
(with comparative totals for the year ended June 30, 2016)

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers and users	\$ 3,205,164	\$ 3,274,979
Payments to suppliers	(15,892,986)	(20,672,946)
Payments to employees	(2,013,527)	(1,807,116)
	(14,701,349)	(19,205,083)
 CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Cash receipts/(payments) from grants:		
Local Transportation Funds	8,652,981	6,568,055
State Transit Assistance	2,509,986	2,121,886
Federal Transit Administration	3,478,581	6,747,594
CMAQ grant for Rideshare Program	166,587	330,795
Low Carbon Transit Operations Program	216,396	(183,548)
Other	-	(142,560)
Transfers in from other funds of the City	26,435	1,500
Transfers out to other funds of the City	(24,935)	(979,152)
	15,026,031	14,464,570
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(3,699,403)	(955,042)
Proceeds from the sale of property and equipment	45,245	-
Capital contributions:		
Local Transportation Funds	824,317	941,846
Federal Transit Administration	235,453	4,260,088
Proposition 1B	50,599	377,738
Low Carbon Transit Operations Program	54,684	25,490
	(2,489,105)	4,650,120
 CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	(57,338)	13,745
Rental income received	91,033	154,797
	33,695	168,542
 Change in cash and cash equivalents	(2,130,728)	78,149
Cash and cash equivalents, beginning of year	8,743,727	8,665,578
Cash and cash equivalents, end of year	\$ 6,612,999	\$ 8,743,727

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, 2017
(with comparative totals for the year ended June 30, 2016)

	2017	2016
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	\$ (17,727,771)	\$ (15,818,245)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	2,762,049	2,826,031
Changes in assets and liabilities:		
Accounts receivable	(22,353)	(60,826)
Prepaid expenses	(25,529)	(16,810)
Accounts payable	325,788	(6,020,190)
Accrued salaries and benefits	(2,369)	(9,487)
Net pension liability and related deferred outflows/inflows	(11,164)	(105,556)
Net cash used in operating activities	\$ (14,701,349)	\$ (19,205,083)

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, 2017

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 not the 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. 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 Funds financial statements for the year ended June 30, 2016, 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, 2017

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, 2017

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.
- **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:

Investment in Capital Assets describes the portion of net position which is represented by the current net book value of the capital assets.

CITY OF MODESTO
Transportation Development Act Funds
Notes to the Financial Statements
For the Year Ended June 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2015
Measurement Date:	June 30, 2016
Measurement Period:	July 1, 2015 to June 30, 2016

I. New Accounting Pronouncements

During the year ended June 30, 2017, the City implemented the following GASB standards:

GASB Statement No. 77, *Tax Abatement Disclosures*, is intended to improve financial reporting relating to disclosures of tax abatement transactions. Statement No. 77 requires governments that enter into tax abatement agreements to disclose (1) descriptive information about the agreements, such as the tax being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments made by tax abatement recipients; (2) the gross dollar amount of taxes abated during the period; (3) commitments made by a government, other than to abate taxes, as part of a tax abatement agreement. This statement did not have a significant impact to the City's financial statements.

GASB Statement No. 78, *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*, amends the scope and applicability of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer. This statement also establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and require supplementary information for pensions that have the characteristics described above. This statement did not have a significant impact to the City's financial statements.

CITY OF MODESTO
Transportation Development Act Funds
Notes to the Financial Statements
For the Year Ended June 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

GASB Statement No. 80, *Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14*. The statement establishes an additional blending requirement for the financial statement presentation of component units. This statement did not have a significant impact to the City’s financial statements.

GASB Statement No. 82, *Pension Issues – An Amendment of GASB Statements No. 67, No. 68, and No. 73*, addresses 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 No. 67 and No. 68*. Specifically, this 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 Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. This statement did not have a significant impact to the City’s 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 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 City’s fiscal year ending June 30, 2018.

In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations*, addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. The Statement is effective for the City’s fiscal year ending June 30, 2019.

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*, improves guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The Statement is effective for the City’s fiscal year ending June 30, 2020.

In March 2017, the GASB issued Statement No. 85, *Omnibus 2017*, addresses practical issues that have been identified during implementation and application of certain GASB Statements. The statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, pensions and other postemployment benefits. This Statement is effective for the City’s fiscal year ending June 30, 2018.

In May 2017, the GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*, improves consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources – resources other than the proceeds of refunding debt – are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. This Statement is effective for the City’s fiscal year ending June 30, 2018.

CITY OF MODESTO
Transportation Development Act Funds
Notes to the Financial Statements
For the Year Ended June 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In June 2017, the GASB issued Statement No. 87, *Leases*, increases the usefulness of government' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The Statement is effective for the City's fiscal year ending June 30, 2021.

NOTE 2 – INVESTMENT IN CITY OF MODESTO POOL

The cash and investments of the TDA Funds are pooled with other City of Modesto funds. 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, 2017, the City's investment pool is unrated and the weighted average maturity is 483 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. 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. As of June 30, 2017, the fair value of the TDA Funds' position in the pool is the same as the value of its pool shares. The TDA Funds' investments in the City of Modesto's investment pool are exempt from fair value hierarchy disclosure.

CITY OF MODESTO
Transportation Development Act Funds
Notes to the Financial Statements
For the Year Ended June 30, 2017

NOTE 3 – CAPITAL ASSETS

Capital asset activity for the Bus Enterprise Fund for the year ended June 30, 2017, 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	716,881	198,554	(692,744)	222,691
Total capital assets, not being depreciated	<u>4,777,335</u>	<u>198,554</u>	<u>(692,744)</u>	<u>4,283,145</u>
Capital assets, begin depreciated:				
Buildings	23,708,412	88,649	-	23,797,061
Improvements	4,336,165	5,283	(1,385,752)	2,955,696
Furnishings and equipment	1,395,887	43,618	(27,317)	1,412,188
Vehicles	222,284	16,834	-	239,118
Buses and fareboxes	28,487,799	4,039,188	(2,573,884)	29,953,103
Total capital assets, being depreciated	<u>58,150,547</u>	<u>4,193,572</u>	<u>(3,986,953)</u>	<u>58,357,166</u>
Less accumulated depreciation for:				
Buildings	(6,232,710)	(776,744)	-	(7,009,454)
Improvements	(2,136,028)	(134,637)	415,915	(1,854,750)
Furnishings and equipment	(658,298)	(130,460)	27,317	(761,441)
Vehicles	(179,641)	(17,452)	-	(197,093)
Buses and fareboxes	(14,294,826)	(1,702,756)	2,342,894	(13,654,688)
Total accumulated depreciation	<u>(23,501,503)</u>	<u>(2,762,049)</u>	<u>2,786,126</u>	<u>(23,477,426)</u>
Total capital assets, being depreciated, net	<u>34,649,044</u>	<u>1,431,523</u>	<u>(1,200,827)</u>	<u>34,879,740</u>
Total capital assets, net	<u>\$ 39,426,379</u>	<u>\$ 1,630,077</u>	<u>\$ (1,893,571)</u>	<u>\$ 39,162,885</u>

Depreciation expense for the year ended June 30, 2017 was \$2,762,049.

CITY OF MODESTO
Transportation Development Act Funds
Notes to the Financial Statements
For the Year Ended June 30, 2017

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 July 1, 2016, the Stanislaus Council of Governments (StanCOG), the transportation planning agency for Stanislaus County, approved a split system farebox recovery ratio of 20% for Fixed Route and 10% for Demand Response. The City’s Bus Enterprise Fund separated the fixed route and demand response calculations for 2017 to show compliance with the required farebox recovery ratios. The Bus Enterprise Fund’s fare ratio of operating revenues to operating expenses for the year ended June 30, 2017, as calculated below, indicates the City is in compliance with the provisions of the TDA:

	Fixed Route	Demand Response
Charges for services	\$ 2,460,410	\$ 316,818
Advertising revenue	188,916	-
Less: Non-fare charges	-	-
Fare revenues	2,649,326	316,818
Operating expenses	17,706,239	3,274,578
Less expenses not related to fare generated activities:		
Depreciation	(2,762,049)	-
Transfers in from other City funds	(26,435)	-
Capital activities	(124,040)	(248,189)
Grant and rent-funded activities	(873,505)	-
Adjustments	(1,096,314)	-
Applicable operating expenses	\$ 12,823,896	\$ 3,026,389
Fare ratio	20.66%	10.47%

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, 2017

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

In fiscal year 2017, the City received \$7,426 from State of California Department of Transportation passed through StanCOG. The City spent \$1,692,092 in various projects during the year and earned an additional \$43,091 in interest, leaving \$2,524,518 of unspent PTMISEA funds as of June 30, 2017.

Project Name	Beginning Unearned Revenue	Interest Earned	New Receipts	Expended	Ending Unearned Revenue
Rehabilitation of existing buses	\$ 677	\$ 8	\$ -	\$ (685)	\$ -
New and refurbish buses	2,132,403	19,692	-	(1,462,942)	689,153
Bus stops	107,712	1,393	-	(8,719)	100,386
Depository	446,068	5,081	-	(57,826)	393,323
Security	1,139,535	12,981	-	(161,920)	990,596
Fareboxes	339,698	3,936	7,426	-	351,060
Total	\$4,166,093	\$ 43,091	\$ 7,426	\$ (1,692,092)	\$2,524,518

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

In fiscal year 2017, the City received no additional funding but received \$82 in interest on the unspent funds and disbursed all of CTSG funds of \$10,040, leaving \$0 of unspent CTSG funds as of June 30, 2017.

NOTE 7 – CAPITAL TRANSIT AND LOCAL TRANSPORTATION FUNDS

Unearned revenue for the TDA Funds for the year ended June 30, 2017, was as follows:

	Local Transportation Special Revenue Funds		
	Non-Motorized	Streets and Roads	Total
Unearned revenue, beginning of year	\$ 986,698	\$ 229,783	\$ 1,216,481
TDA funds allocated	154,680	1,463	156,143
TDA funds earned	-	-	-
Adjustment	-	-	-
Unearned revenue, end of year	\$ 1,141,378	\$ 231,246	\$ 1,372,624

CITY OF MODESTO
Transportation Development Act Funds
Notes to the Financial Statements
For the Year Ended June 30, 2017

NOTE 7 – CAPITAL TRANSIT AND LOCAL TRANSPORTATION FUNDS (Continued)

	Bus Enterprise Fund		
	LTF/LCTOP	Capital Transit/ LCTOP	Total
Unearned revenue, beginning of year	\$ 1,765,931	\$ 1,309,261	\$ 3,075,192
TDA funds allocated	8,462,269	1,181,703	9,643,972
TDA funds earned	(8,164,770)	(741,658)	(8,906,428)
Adjustment	46,852	(46,853)	(1)
Unearned revenue, end of year	<u>\$ 2,110,282</u>	<u>\$ 1,702,453</u>	<u>\$ 3,812,735</u>

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. CalPERS issues a separate comprehensive annual financial report. Copies of the annual audited financial statements are publicly available reports that can be obtained at CalPERS’ website at www.calpers.ca.gov under Forms and Publications or may be obtained from the CalPERS Executive Office, 400 Q Street, Sacramento, California 95811.

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, 2017 and 2016 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%

CITY OF MODESTO
Transportation Development Act Funds
Notes to the Financial Statements
For the Year Ended June 30, 2017

NOTE 8 – PENSION PLAN (Continued)

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.

For the measurement period ended June 30, 2016 (the measurement date) for the Plan, the average active employee contribution rate was 6.846% of annual pay and the employer’s contribution rate was 15.31% of annual payroll. 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. 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, 2017, the employer contributions recognized as a deferred outflow of resources was \$227,290.

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

As of June 30, 2017, the Bus Fund reported a liability of \$2,759,942 for its proportionate share of the net pension liability. The net pension liability at June 30, 2017, was measured as of June 30, 2016, using an annual actuarial valuation as of June 30, 2015, rolled forward to June 30, 2016 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, 2017, the Bus Fund’s proportion was 2.7634%.

For the year ended June 30, 2017, the Bus Fund recognized pension expense of \$220,413. At June 30, 2017, the Bus Fund reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

June 30, 2017	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contribution subsequent to measurement date	\$ 227,290	\$ -
Changes of assumptions		(121,505)
Differences between expected and actual experiences	-	(3,238)
Net difference between projected and actual earnings on pension plan investments	448,390	-
Totals	\$ 675,680	\$ (124,743)

CITY OF MODESTO
Transportation Development Act Funds
Notes to the Financial Statements
For the Year Ended June 30, 2017

NOTE 8 – PENSION PLAN (Continued)

The pension contributions made subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other 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	
2018	\$ (30,390)
2019	(35)
2020	204,136
2021	<u>149,936</u>
Total	<u>\$ 323,647</u>

Actuarial Assumptions – The total pension liabilities in the June 30, 2015 actuarial valuations, which were rolled forward to June 30, 2016, were determined using the following actuarial method and assumptions:

Valuation Date	June 30, 2015
Measurement Date	June 30, 2016
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	7.50% Net of Pension Plan Investment and Administrative Expenses, includes Inflation
Mortality Rate Table ⁽¹⁾	Derived using CalPERS' Membership Data for all Funds

⁽¹⁾ 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.

All other actuarial assumptions used in the June 30, 2015 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, 2017

NOTE 8 – PENSION PLAN (Continued)

Discount Rate – The discount rate used to measure the total pension liability at June 30, 2017 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, 2016 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, 2016 measurement date was as follows:

<u>Asset Class</u>	<u>New Strategic Allocation</u>	<u>Real Return Years 1 - 10 ⁽¹⁾</u>	<u>Real Return Years 11+ ⁽²⁾</u>
Global Equity	51.00%	5.25%	5.71%
Global Fixed Income	20.00%	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	1.00%	-0.55%	-1.05%
Total	<u>100.00%</u>		

⁽¹⁾ An expected inflation of 2.5% used for this period.

⁽²⁾ 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, 2017

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, 2016 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:

	Discount Rate - 1% (6.65%)	Current Discount Rate (7.65%)	Discount Rate + 1% (8.65%)
Bus Fund's Proportionate Share of Plan's Net Pension Liability	\$ 4,337,214	\$ 2,759,942	\$ 1,744,499

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*

	2015	2016	2017
Miscellaneous Plan:			
Bus Fund's proportion of the net pension liability	2.55465%	2.68432%	2.76335%
Bus Fund's proportionate share of the net pension liability	\$ 1,899,090	\$ 2,149,389	\$ 2,759,942
Bus Fund's covered payroll	\$ 1,127,265	\$ 1,115,678	\$ 1,249,245
Plan net pension liability as a percentage of their covered payroll	168.47%	201.29%	233.94%
Plan fiduciary net position as a percentage of the total pension liability	81.18%	79.02%	74.26%

Notes to Schedule:

Changes in assumptions:

The discount rate was changed from 7.50 percent (net of administrative expense) in 2015 to 7.65% in 2016.

* - 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*

	2015	2016	2017
Miscellaneous Plan:			
Contractually required contribution	\$ 143,374	\$ 178,451	\$ 227,290
Contributions in relation to the contractually required contribution	143,374	178,451	227,290
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Bus Fund's covered payroll	\$ 1,075,274	\$ 1,127,265	\$ 1,115,678
Contributions as a percentage of covered payroll	13.33%	15.83%	15.31%

Notes to Schedule:

The actuarial methods and assumptions used to determine contribution rates for the year ended June 30, 2017 were from the actuarial valuations for the year ended June 30, 2014.

Actuarial cost method	Entry-Age Normal
Actuarial assumptions:	
Inflation	2.75%
Salary increase	Varies ⁽¹⁾
Payroll growth	3.00% ⁽²⁾
Investment rate of return	7.50%
Retirement age	2014 Experience Study ⁽³⁾
Mortality	2014 Experience Study ⁽⁴⁾

(1) Depending on age, service, and type of employment.

(2) Net of pension plan investment and administrative expenses, including inflation.

(3) The probabilities of retirement are based on the 2014 CalPERS Experience Study for the period 1997 to 2011.

(4) The probabilities of mortality are based on the 2014 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, 2017, and the related notes to the financial statements, and have issued our report thereon dated November 13, 2017.

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.

Macias Gini & O'Connell LLP

Walnut Creek, California
November 13, 2017



**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 per the Public Transportation Modernization, Improvement and Service Enhancement Account (PTMISEA) Guidelines during the year ended June 30, 2017. Management is responsible for the City's compliance with the specified requirements. Our responsibility is to express an opinion on the City's compliance with the specified requirements based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether the City complied, in all material respects, with the specified requirements referenced above. An examination involves performing procedures to obtain evidence about whether the City complied with the specified requirements. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material noncompliance, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide 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 during the year ended June 30, 2017.

Walnut Creek, California
November 13, 2017