

CITY OF MODESTO, CALIFORNIA

**INDEPENDENT AUDITORS' REPORTS
AND
SCHEDULE OF PASSENGER FACILITY CHARGE
REVENUES AND EXPENDITURES**

**FOR THE YEAR ENDED
JUNE 30, 2018**

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INDEPENDENT AUDITORS' REPORT

To the Honorable City Council
City of Modesto, California

Report on the Financial Statements

We have audited the accompanying schedule of passenger facility charge revenues and expenditures of the City of Modesto, California, for the year ended June 30, 2018, and the related notes to the schedule of passenger facility charge revenues and expenditures, which collectively comprise the passenger facility charge program 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 and the requirements of the Passenger Facility Charge Audit Guide for Public Agencies; 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.

Auditors' Responsibility

Our responsibility is to express an opinion 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 opinion.

Opinion

In our opinion, the schedule of passenger facility charge revenues and expenditures referred to above presents fairly, in all material respects, the financial position of the passenger facility charge revenues and expenditures, for the year ending June 30, 2018, in accordance with accounting principles generally accepted in the United States of America and the requirements of the Passenger Facility Charge Audit Guide for Public Agencies.

Emphasis of Matter

As discussed in Note 1, the schedule of passenger facility charge revenues and expenditures of the City of Modesto is designed to present the financial position and transactions of the passenger facility charge program as previously noted, for the year ending June 30, 2018. It does not purport to, and does not present fairly the financial position of the City of Modesto, California as of June 30, 2018, 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 25, 2018, on our consideration of the passenger facility charge financial statements internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Modesto passenger facility charge program's internal control over financial reporting and compliance.

HUDSON HENDERSON & COMPANY, INC.

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Fresno, California
September 25, 2018

CITY OF MODESTO, CALIFORNIA
SCHEDULE OF PASSENGER FACILITY CHARGE REVENUES AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2018

Revenues:	Cumulative Total	For the Quarter Ended				For the Year Ended	Cumulative Total
	June 30, 2017	September 30, 2017	December 31, 2017	March 31, 2018	June 30, 2018	June 30, 2018	June 30, 2018
Passenger facility charge revenue received	\$ 979,132	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 979,132
Interest earned	56,764	21	23	25	30	99	56,863
Total passenger facility charge revenue received	1,035,896	21	23	25	30	99	1,035,995
Expenditures:							
Application No. Project No.	Date Approved Project Name	Amount Approved					
Completed and Closed Applications		\$ 836,798	836,798	-	-	-	836,798
Open Projects:							
16-10-C-00-MOD	May 1, 2016						
10-001	Wildlife Hazard Assessments	12,362	9,515	-	-	-	9,515
10-002	Obstruction Removal - Design	7,332	7,332	-	-	-	7,332
10-003	Obstruction Removal - Construction	35,245	35,245	-	-	-	35,245
10-004	Security and Perimeter Fencing - Design	12,584	12,584	-	-	-	12,584
10-005	Rehabilitate Runway 10L/28R - Design	32,991	32,991	-	-	-	32,991
10-006	West Apron Rehabilitation - Design	16,989	16,989	-	-	-	16,989
10-007	Rehabilitate Runway 10L/28R - Construction	78,551	78,551	-	-	-	78,551
Total passenger facility charge revenue expended		1,030,005	-	-	-	-	1,030,005
Unliquidated passenger facility charge revenues		\$ 5,891	\$ 21	\$ 23	\$ 25	\$ 30	\$ 99

The accompanying notes are an integral part of the schedule of passenger facility charge revenues and expenditures

CITY OF MODESTO, CALIFORNIA
NOTES TO THE SCHEDULE OF PASSENGER FACILITY CHARGE
REVENUES AND EXPENDITURES

NOTE 1 – BASIS OF PRESENTATION

The accompanying schedule of passenger facility charge revenues and expenditures (the Schedule) includes the passenger facility charge activity at the Modesto City-County Airport by the City of Modesto, California (the City). Interest income is earned on deposit balances of passenger facility charge receipts. Passenger facility charge collection revenue and expenditures are presented on the cash basis of accounting, and the interest income is presented on the accrual basis of accounting. The information in this schedule is presented for purposes of additional analysis, as specified in the *Passenger Facility Charge Audit Guide for Public Agencies*, issued by the Federal Aviation Administration (FAA). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in preparation of, the City's basic financial statements.

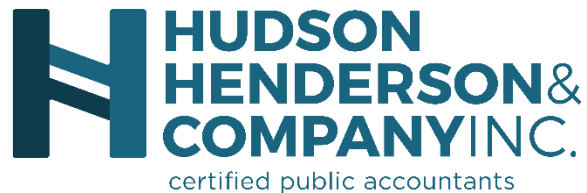
Passenger facility charge expenditures may consist of direct project costs, administrative costs, debt service costs and bond financing costs, if requested in the application. Eligible expenditures not requested or approved in the application are not applied against passenger facility charge collections. The Schedule includes the eligible expenditures that have been applied against passenger facility charge collections through June 30, 2018, however, the City did not collect any passenger facility charges during the year because commercial airlines discontinued operations in June 2014.

NOTE 2 – PASSENGER FACILITY CHARGE MATCHING FUNDS

Passenger facility charge revenue is used to match funding for various grants. Funding provided under government grants is considered earned as the related allowable expenditures are incurred.

NOTE 3 – RELATIONSHIP TO FEDERAL FINANCIAL REPORTS

Amounts reported in the Schedule agree to or can be reconciled with the amounts reported to the FAA on the Passenger Facility Charge Quarterly Status Reports.



**INDEPENDENT AUDITORS' 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**

To the Honorable 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 schedule of passenger facility charge revenues and expenditures of the City of Modesto, California (the City), for the year ended June 30, 2018, and the related notes to the schedule of passenger facility charge revenues and expenditures, which collectively comprise the passenger facility charge program financial statements, and have issued our report thereon dated September 25, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the passenger facility charge program financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the passenger facility charge program financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 City's passenger facility charge program 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 passenger facility charge program financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our testing disclosed an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, as described in the accompanying schedule of findings and responses, finding 2018-001.

The City's Response to the Finding

The City's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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

HUDSON HENDERSON & COMPANY, INC.

A handwritten signature in blue ink that reads "Hudson Henderson & Company, Inc." in a cursive script.

Fresno, California
September 25, 2018



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH APPLICABLE
REQUIREMENTS OF THE PASSENGER FACILITY CHARGE PROGRAM AND
INTERNAL CONTROL OVER COMPLIANCE**

To the Honorable City Council
City of Modesto, California

Compliance

We have audited the City of Modesto, California's (the City) compliance with compliance requirements described in the *Passenger Facility Audit Guide for Public Agencies*, issued by the Federal Aviation Administration (the Guide) applicable to the City's passenger facility charge program at the Modesto City-County Airport for the year ended June 30, 2018.

Management's Responsibility for the Financial Statements

Compliance with the requirements referred to above is the responsibility of the City's management.

Auditors' Responsibility

Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the Guide. Those standards and the Guide require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the passenger facility charge program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide legal determination of the City's compliance with those requirements.

Opinion

In our opinion, the City complied, in all material respects, except for the compliance finding as noted in the accompanying schedule of findings and responses, 2018-001, with the compliance requirements referred to above that are applicable to its passenger facility charge program for the year ended June 30, 2018.

Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on the passenger facility charge program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with the Guide.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws and regulations that would be material in relation to the passenger facility charge program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted an instance involving the internal control over compliance and its operation that we consider to be a material weakness, see in the accompanying schedule of findings and responses, finding 2018-001.

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

HUDSON HENDERSON & COMPANY, INC.

Hudson Henderson & Company, Inc.

Fresno, California
September 25, 2018

**CITY OF MODESTO, CALIFORNIA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2018**

**Finding 2018-001 – Material Weakness: Compliance
Quarterly Reporting**

Criteria:

As per the *Passenger Facility Audit Guide for Public Agencies*, issued by the Federal Aviation Administration (the FAA), Section 158.63 requires that the public agency provide quarterly reports to carriers collecting PFC revenues for the public agency, with a copy to the appropriate FAA Airports office. The PFC quarterly report must include PFC revenue received from collecting carriers, interest earned, and expenditures for the quarter; cumulative PFC revenue received, interest earned, expenditures, and the amount committed for use on currently approved projects, including the quarter; the PFC level for each project (e.g., \$3 or \$4.50) as specified in the ROD for that project; and the current project schedule. The report must be provided on or before the last day of the calendar month following the calendar quarter or other period agreed by the public agency and collecting carrier.

Condition:

During our fieldwork and testing performed, we noted the City submitted three out of the four required PFC quarterly reports in the fiscal year to the FAA after the last day of the calendar month following the quarter being reported.

Cause of Condition:

Management was unaware of the continuing requirement for this fiscal year as the only activity within the PFC was the earning of interest on unspent funds.

Effect of Condition:

As a result, the City was out of compliance with Section 158.63 of the FAA guide requiring quarterly reports to the FAA.

Recommendation:

We recommend that the City continue submitting the quarterly reports, as correctly done for the fourth quarter in the current fiscal year in future periods until the PFC is fully spent and the program is formally finalized.

Managements Response:

Procedures will be updated to ensure that interest revenue is reported in accordance with the *Passenger Facility Audit Guide for Public Agencies*, section 158.63.

Staff was unaware that the City was required to report interest earned in the SOAR system even when no expenses had been incurred. Going forward interest earned, regardless of the amount, will be reported before the last day of the calendar month following the end of the quarter.

**CITY OF MODESTO, CALIFORNIA
SCHEDULE OF PRIOR YEAR FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2017**

There were no prior year financial statement findings reported in accordance with *Government Auditing Standards*.