

**CITY OF MODESTO
TRANSPORTATION DEVELOPMENT ACT FUNDS**

**FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITORS' REPORT**

**FOR THE YEAR ENDED
JUNE 30, 2020**

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INDEPENDENT AUDITORS' REPORT

To the 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 (the City), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Transportation Development Act Funds basic 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.

Auditors' 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, 2020, 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 Matter

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, 2020, 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, 2019, from which such summarized information was derived. We have previously audited the 2019 financial statements, and we expressed an unmodified audit opinion on the financial statements in our report dated November 26, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019, 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 basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic 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, schedule of the Bus Fund's contributions, schedule of changes in the net OPEB liability and related ratios, and schedule of contributions – OPEB plan on pages 26-29 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic 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 basic 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, 2020, 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.

HUDSON HENDERSON & COMPANY, INC.

Hudson Henderson & Company, Inc.

Fresno, California
November 13, 2020

CITY OF MODESTO
TRANSPORTATION DEVELOPMENT ACT FUNDS
BALANCE SHEET - LOCAL TRANSPORTATION SPECIAL REVENUE FUNDS
JUNE 30, 2020
(with comparative totals as of June 30, 2019)

	Non- Motorized	Streets and Roads	Totals	
			2020	2019
ASSETS				
Cash and investments	\$ 1,324,076	\$ 427,374	\$ 1,751,450	\$ 1,653,593
Interest receivable	4,482	-	4,482	4,820
Total Assets	<u>\$ 1,328,558</u>	<u>\$ 427,374</u>	<u>\$ 1,755,932</u>	<u>\$ 1,658,413</u>
LIABILITIES				
Unearned revenue	\$ 1,326,784	\$ 427,374	\$ 1,754,158	\$ 1,656,639
FUND BALANCES				
Restricted	<u>1,774</u>	<u>-</u>	<u>1,774</u>	<u>1,774</u>
Total Liabilities and Fund Balances	<u>\$ 1,328,558</u>	<u>\$ 427,374</u>	<u>\$ 1,755,932</u>	<u>\$ 1,658,413</u>

The accompanying notes are an integral part of 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, 2020
(with comparative totals for the year ended June 30, 2019)

	Non-Motorized	Streets and Roads	Totals	
			2020	2019
REVENUES				
Intergovernmental:				
Local Transportation Funds	\$ 101,826	\$ 1,574	\$ 103,400	\$ 271,668
Interest	5,029	-	5,029	18,754
Change in fair value of investments	23,446	-	23,446	8,659
	<u>130,301</u>	<u>1,574</u>	<u>131,875</u>	<u>299,081</u>
Total Revenues				
EXPENDITURES				
Capital outlay:				
Street rehabilitation	-	-	-	935
	<u>-</u>	<u>-</u>	<u>-</u>	<u>935</u>
Total Expenditures				
	<u>-</u>	<u>-</u>	<u>-</u>	<u>935</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>130,301</u>	<u>1,574</u>	<u>131,875</u>	<u>298,146</u>
OTHER FINANCING SOURCES (USES)				
Transfers:				
In from other funds of the City	-	-	-	9,077
Out to other funds of the City	(130,301)	(1,574)	(131,875)	(308,309)
	<u>(130,301)</u>	<u>(1,574)</u>	<u>(131,875)</u>	<u>(299,232)</u>
Total Other Financing Sources (Uses)				
	<u>(130,301)</u>	<u>(1,574)</u>	<u>(131,875)</u>	<u>(299,232)</u>
Changes in fund balances	-	-	-	(1,086)
Fund balances, beginning of year	1,774	-	1,774	222,057
Prior period adjustment	-	-	-	(219,197)
	<u>-</u>	<u>-</u>	<u>-</u>	<u>(219,197)</u>
Fund Balances, End of Year	<u>\$ 1,774</u>	<u>\$ -</u>	<u>\$ 1,774</u>	<u>\$ 1,774</u>

The accompanying notes are an integral part of the financial statements.

CITY OF MODESTO
TRANSPORTATION DEVELOPMENT ACT FUNDS
STATEMENT OF NET POSITION – BUS ENTERPRISE FUND
JUNE 30, 2020
(with comparative totals as of June 30, 2019)

	2020	2019
ASSETS		
Current Assets		
Cash and investments	\$ 13,505,464	\$ 7,573,175
Accounts receivable	107,419	56,410
Interest receivable	39,206	24,618
Prepaid expenses	104,492	262,807
Due from other governments	2,573,108	8,267,079
	<u>16,329,689</u>	<u>16,184,089</u>
Total Current Assets		
Noncurrent Assets:		
Capital assets:		
Land and construction in progress	4,912,255	4,716,461
Other capital assets, net	33,977,417	36,937,359
	<u>38,889,672</u>	<u>41,653,820</u>
Total Noncurrent Assets		
Total Assets	<u>55,219,361</u>	<u>57,837,909</u>
DEFERRED OUTFLOWS		
Deferred OPEB	53,337	46,867
Deferred pensions	538,873	641,270
	<u>592,210</u>	<u>688,137</u>
Total Deferred Outflows		
LIABILITIES		
Current Liabilities:		
Accounts payable	2,261,012	1,647,973
Accrued salaries and benefits	52,308	36,354
Unearned revenue other	6,757	-
Unearned revenue PTMISEA	26,690	182,038
Unearned revenue CALEMA	237,607	561,601
Unearned revenue state of good repair	38,136	61,746
Unearned revenue capital transit	9,874,665	7,592,492
Unearned revenue LTF/LCTOP	1,862,729	4,402,222
	<u>14,359,904</u>	<u>14,484,426</u>
Total Current Liabilities		
Noncurrent Liabilities		
Net pension liability	3,423,069	3,177,325
Net OPEB liability	411,717	418,877
	<u>3,834,786</u>	<u>3,596,202</u>
Total Noncurrent Liabilities		
Total Liabilities	<u>18,194,690</u>	<u>18,080,628</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred OPEB	32,234	40,371
Deferred pensions	61,833	48,028
	<u>94,067</u>	<u>88,399</u>
Total Deferred Inflows		
NET POSITION		
Net investment in capital assets	38,889,672	41,653,820
Unrestricted	(1,366,858)	(1,296,801)
	<u>\$ 37,522,814</u>	<u>\$ 40,357,019</u>
Total Net Position		

The accompanying notes are an integral part of 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, 2020
(with comparative totals for the year ended June 30, 2019)

	2020	2019
OPERATING REVENUES		
Charges for services	\$ 2,017,339	\$ 2,678,586
Miscellaneous	320,720	322,990
Total Operating Revenues	<u>2,338,059</u>	<u>3,001,576</u>
OPERATING EXPENSES		
Contractual services	13,137,802	14,135,632
Depreciation	3,538,597	3,355,145
Maintenance and supplies	3,087,697	2,097,115
Salaries and wages	1,667,940	1,553,366
Administrative services	1,715,645	1,468,963
Employee benefits	745,949	685,433
Allocated indirect administrative costs	348,309	370,776
Utilities	208,392	185,476
Insurance	40,618	27,647
Other	131,579	151,631
Total Operating Expenses	<u>24,622,528</u>	<u>24,031,184</u>
Operating Loss	<u>(22,284,469)</u>	<u>(21,029,608)</u>
NONOPERATING REVENUES (EXPENSES)		
Intergovernmental:		
Local transportation funds	6,561,031	7,757,278
State transit assistance	6,417,706	4,025,584
Federal transit administration	3,694,503	5,496,247
Proposition 1B	157,968	56,231
CMAQ grants	34,050	93,496
Low carbon transit operations program	872,582	-
Other	426,461	4,021,457
Gain on disposition of capital assets	3,088	6,175
Interest income (loss)	(3,675)	(6,342)
Rental income	141,781	143,784
Change in fair value of investments	201,475	113,231
Total Nonoperating Revenues (Expenses)	<u>18,506,970</u>	<u>21,707,141</u>
Income (Loss) Before Capital Contributions and Transfers	(3,777,499)	677,533
Capital contributions:		
Local transportation funds	254,425	394,813
Federal transit administration	258,985	604,305
Proposition 1B	-	493,848
Low carbon transit operations program	76	21,550
Transfers in from other funds of the City	1,153,727	1,038,789
Transfers out to other funds of the City	<u>(723,919)</u>	<u>(865,499)</u>
Change in Net Position	(2,834,205)	2,365,339
Net Position, Beginning of Year	<u>40,357,019</u>	<u>37,991,680</u>
Net Position, End of Year	<u>\$ 37,522,814</u>	<u>\$ 40,357,019</u>

The accompanying notes are an integral part of the financial statements.

CITY OF MODESTO
TRANSPORTATION DEVELOPMENT ACT FUNDS
STATEMENT OF CASH FLOWS – BUS ENTERPRISE FUND
FOR THE YEAR ENDED JUNE 30, 2020
(with comparative totals for the year ended June 30, 2019)

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers and users	\$ 2,287,050	\$ 2,995,091
Payments to suppliers	(18,644,637)	(19,183,767)
Payments to employees	<u>(1,311,807)</u>	<u>(1,394,088)</u>
Net Cash Used in Operating Activities	<u>(17,669,394)</u>	<u>(17,582,764)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Cash receipts/(payments) from grants:		
Local transportation funds	4,021,538	8,548,632
State transit assistance	6,417,706	3,706,886
Federal transit administration	5,976,676	5,496,247
CMAQ grant for rideshare program	34,050	93,496
Low carbon transit operations program	872,582	-
Other	5,782,205	3,555,907
Transfers in from other funds of the City	1,153,727	1,038,789
Transfers out to other funds of the City	<u>(723,919)</u>	<u>(865,499)</u>
Net Cash Provided by Noncapital Financing Activities	<u>23,534,565</u>	<u>21,574,458</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(777,536)	(5,748,141)
Proceeds from the sale of property and equipment	6,175	6,175
Capital contributions:		
Local transportation funds	254,425	394,813
Federal transit administration	258,985	604,305
Proposition 1B	-	493,848
Low carbon transit operations program	<u>76</u>	<u>21,550</u>
Net Cash Provided by (Used in) Capital and Related Financing Activities	<u>(257,875)</u>	<u>(4,227,450)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment earnings (loss)	183,212	101,942
Rental income received	<u>141,781</u>	<u>143,784</u>
Net Cash Provided by Investing Activities	<u>324,993</u>	<u>245,726</u>
Change in cash and investments	5,932,289	9,970
Cash and investments, beginning of year	<u>7,573,175</u>	<u>7,563,205</u>
Cash and investments, end of year	<u>\$ 13,505,464</u>	<u>\$ 7,573,175</u>

The accompanying notes are an integral part of the financial statements.

CITY OF MODESTO
TRANSPORTATION DEVELOPMENT ACT FUNDS
STATEMENT OF CASH FLOWS – BUS ENTERPRISE FUND (continued)
FOR THE YEAR ENDED JUNE 30, 2020
(with comparative totals for the year ended June 30, 2019)

	2020	2019
RECONCILIATION OF OPERATING LOSS TO NET		
CASH USED IN OPERATING ACTIVITIES:		
Operating loss	\$ (22,284,469)	\$ (21,029,608)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	3,538,597	3,355,145
Changes in assets and liabilities:		
Accounts receivable	(51,009)	(6,485)
Prepaid expenses	158,315	14,436
Accounts payable	613,039	(75,530)
Accrued salaries and benefits	15,954	1,368
Net OPEB liability and related deferred outflows/inflows	(14,607)	14,636
Net pension liability and related deferred outflows/inflows	354,786	143,274
	354,786	143,274
Net cash used in operating activities	\$ (17,669,394)	\$ (17,582,764)

The accompanying notes are an integral part of the financial statements.

CITY OF MODESTO
TRANSPORTATION DEVELOPMENT ACT FUNDS
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Reporting Entity: The City of Modesto, California (the 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.

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, 2019, 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 to be spent under Article 8, Section 99400(a) of the TDA.

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.

CITY OF MODESTO
TRANSPORTATION DEVELOPMENT ACT FUNDS
NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

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.

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.

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.

CITY OF MODESTO
TRANSPORTATION DEVELOPMENT ACT FUNDS
NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fund Equity (continued): 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.

In circumstances where an expenditure is incurred for which restricted, committed, assigned, or unassigned funds 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.

Net Position: Net position represents the residual interest in the City's assets after liabilities are deducted. In accordance with GASB Statement No. 63, the fund equity section on the Statement of Net Position was combined to report total net position and present it in three broad components:

- *Net investment in capital assets* – Amount consists of capital assets, including infrastructure, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets.
- *Restricted* – Amount consists of net position restricted by external creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabled legislature.
- *Unrestricted* – Amount consists of all net position that does not meet the definition "net investment in capital assets" or "restricted" net position.

When both restricted and unrestricted net position are available, restricted resources are depleted first before unrestricted resources are used.

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, 2018
Measurement Date: June 30, 2019
Measurement Period: July 1, 2018 to June 30, 2019

Other Postemployment Benefits (OPEB): For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the net position of the City's plan (OPEB Plan) and additions to/deductions from the OPEB Plan's net position have been determined on the same measurement basis. For this purpose, benefit payments 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. 75 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, 2018
Measurement Date: June 30, 2019
Measurement Period: July 1, 2018 to June 30, 2019

CITY OF MODESTO
TRANSPORTATION DEVELOPMENT ACT FUNDS
NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Governmental Accounting Standards Update: During the year ending June 30, 2020, the City implemented the following standards:

GASB Statement No. 95 – *Postponement of the Effective Dates of Certain Authoritative Guidance*. The requirements of this statement are effective as of May 2020.

Released GASB Statements to be implemented in future financial statements are as follows:

GASB Statement No. 84 – *Fiduciary Activities*. The requirements of this statement are effective for reporting periods beginning after December 15, 2018. Subsequent to issuance, GASB Statement No. 95 postponed the requirements of this statement to reporting periods beginning after December 15, 2019.

GASB Statement No. 87 – *Leases*. The requirements of this statement are effective for reporting periods beginning after December 15, 2019. Subsequent to issuance, GASB Statement No. 95 postponed the requirements of this statement to reporting periods beginning after June 15, 2021.

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GASB Statement No. 96 – *Subscription-Based Information Technology Arrangements*. The requirements of this statement are effective for reporting periods beginning after June 15, 2022.

GASB Statement No. 97 – *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. The requirements of this statement are effective for reporting periods beginning after June 15, 2021.

**CITY OF MODESTO
TRANSPORTATION DEVELOPMENT ACT FUNDS
NOTES TO THE FINANCIAL STATEMENTS (continued)**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Subsequent Events: In compliance with accounting standards, management has evaluated events that have occurred after year-end to determine if these events are required to be disclosed in the financial statements. Management has determined that no events require disclosure in accordance with accounting standards. These subsequent events have been evaluated through November 13, 2020, which is the date the financial statements were available to be issued.

NOTE 2 – CASH AND INVESTMENTS

Cash and investments of the Transportation Development Act Funds are pooled with other City of Modesto funds. Interest earned on pooled cash and investments is credited to each participant in the pool based on each participant’s average monthly cash balance. Credit quality ratings are not available for the Transportation Development Act Funds’ investments as all cash is invested as part of the common cash and investment pool of the City of Modesto. Cash in the City Pool is considered unclassified as to credit risk because it is not evidenced by securities that exist in physical or book entry form. The Transportation Development Act Funds do not have any deposits with financial institutions as of June 30, 2020.

Cash and investments as of June 30, 2020 are classified in the accompanying financial statements as follows:

Balance Sheet- Local Transportation Special Revenue Funds	
Cash and investments	\$ 1,751,450
Statement of Net Position- Bus Enterprise Fund:	
Cash and investments	13,505,464
Total cash and investments	\$ 15,256,914

Summary of Deposits: Cash and investments as of June 30, 2020 consist of the following:

Deposits with City of Modesto	
Cash and Investment Pool	\$ 15,256,914
Total cash and cash investments	\$ 15,256,914

Detailed information concerning the City of Modesto’s pooled cash and investments, including information regarding the fair value of investments, may be found in the City of Modesto’s Comprehensive Annual Financial Report. As of June 30, 2020, the fair value of the TDA Funds position in the pool is the same as the value of its pool shares.

CITY OF MODESTO
TRANSPORTATION DEVELOPMENT ACT FUNDS
NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 3 – CAPITAL ASSETS

Capital asset activity for the Bus Enterprise Fund for the year ended June 30, 2020, was as follows:

	Beginning Balance	Additions/ Transfers In	Deletions/ Transfers Out	Ending Balance
Capital Assets, Not Being Depreciated:				
Land	\$ 4,060,454	\$ -	\$ -	\$ 4,060,454
Construction in Progress	656,007	263,888	(68,094)	851,801
Total Capital Assets, Not Being Depreciated	4,716,461	263,888	(68,094)	4,912,255
Capital Assets, Being Depreciated:				
Buildings	23,803,489	-	-	23,803,489
Improvements	3,868,607	108,995	-	3,977,602
Furnishings and equipment	2,696,134	104,750	-	2,800,884
Vehicles	203,242	20,300	(25,988)	197,554
Buses and fareboxes	33,945,636	344,610	-	34,290,246
Total Capital Assets, Being Depreciated	64,517,108	578,655	(25,988)	65,069,775
Less Accumulated Depreciation for:				
Buildings	(8,567,276)	(778,927)	-	(9,346,203)
Improvements	(2,165,728)	(159,878)	-	(2,325,606)
Furnishings and equipment	(1,122,877)	(264,241)	-	(1,387,118)
Vehicles	(188,386)	(7,025)	25,988	(169,423)
Buses and fareboxes	(15,535,482)	(2,328,526)	-	(17,864,008)
Total Accumulated Depreciation	(27,579,749)	(3,538,597)	25,988	(31,092,358)
Total Capital Assets, Being Depreciated, Net	36,937,359	(2,959,942)	-	33,977,417
Total Capital Assets, Net	\$ 41,653,820	\$ (2,696,054)	\$ (68,094)	\$ 38,889,672

Depreciation expense for the year ended June 30, 2020 was \$3,538,597.

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 2020 to show compliance with the required farebox recovery ratios.

**CITY OF MODESTO
TRANSPORTATION DEVELOPMENT ACT FUNDS
NOTES TO THE FINANCIAL STATEMENTS (continued)**

NOTE 4 – COMPLIANCE REQUIREMENTS OF LOCAL TRANSPORTATION FUNDS (continued)

The Bus Enterprise Fund’s fare ratio of operating revenues to operating expenses for the year ended June 30, 2020, as calculated below, indicates the City is in compliance with the provisions of the TDA:

	<u>Fixed Route</u>	<u>Demand Response</u>
Charges for services	\$ 1,824,054	\$ 193,285
Local funds supplementation	1,291,899	78,000
Advertising revenue	<u>187,024</u>	<u>-</u>
 Fare revenues	 <u>\$ 3,302,977</u>	 <u>\$ 271,285</u>
 Operating expenses	 \$ 21,912,066	 \$ 2,959,149
Less expenses not related to fare generated activities:		
Depreciation	(3,538,597)	-
Transfer in from other City funds	(4,195)	-
Capital activities	-	(248,687)
Grant and rent-funded activities	(158,624)	-
Adjustments	<u>(2,294,204)</u>	<u>-</u>
 Applicable operating expenses	 <u>\$ 15,916,446</u>	 <u>\$ 2,710,462</u>
 Fare ratio	 <u>20.75%</u>	 <u>10.01%</u>

NOTE 5 – STATE TRANSIT ASSISTANCE PROGRAM ALLOCATIONS

The City receives State Transit Assistance Program allocations from the County of Stanislaus State Transit Assistance Fund. State Transit Assistance funds are to be used for transit operations. Funds shall not be allocated for operating purposes pursuant to Sections 99313 and 99314 to an operator unless the operator meets efficiency standards as described in Section 99314.6. The City’s current operating cost per service hour is less than the prior year’s cost per hour taking into account the Consumer Price Index (CPI), thus the City is in compliance with Section 99314.6.

	<u>2019/20</u>	<u>2018/19</u>	<u>CPI</u>	<u>2018/19 ADJ</u>
			1.560%	
Total Operating Cost	\$ 18,626,908	\$ 17,576,031		
Total Vehicle Service Hours	<u>187,048</u>	<u>168,311</u>		
 Operating Cost per Vehicle Service Hour	 <u>\$ 99.58</u>	 <u>\$ 104.43</u>		 <u>\$ 106.05</u>

The City’s average total operating cost per vehicle service hour in the three years preceding the current 2020 fiscal year multiplied by the CPI for the same period is lower as calculated and therefore in compliance, as shown below:

	<u>2019/20</u>	<u>2018/19</u>	<u>2017/18</u>	<u>2016/17</u>	<u>CPI</u>	<u>3 Year Average</u>	<u>Preceding 3 Year Average Adjusted by CPI</u>
					1.960%		
Total Operating Cost	\$ 18,626,908	\$ 17,576,031	\$ 16,157,380	\$ 15,850,285		\$ 17,453,440	\$ 16,527,899
Total Vehicle Service Hours	<u>187,048</u>	<u>168,311</u>	<u>161,231</u>	<u>156,258</u>		<u>172,197</u>	<u>161,933</u>
 Operating Cost per Vehicle Service Hour	 <u>\$ 99.58</u>	 <u>\$ 104.43</u>	 <u>\$ 100.21</u>	 <u>\$ 101.44</u>		 <u>\$ 101.36</u>	 <u>\$ 104.07</u>

**CITY OF MODESTO
TRANSPORTATION DEVELOPMENT ACT FUNDS
NOTES TO THE FINANCIAL STATEMENTS (continued)**

NOTE 6 – 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.

In fiscal year 2020, the City didn't receive any additional funding from the State of California Department of Transportation passed through StanCOG. The City spent \$157,969 in various projects during the year and earned an additional \$2,621 in interest, leaving \$26,690 of unspent PTMISEA funds as of June 30, 2020.

Project Name	Beginning Unearned Revenue	Interest	New Receipts	Expended	Ending Unearned Revenue
Security	\$ 58,891	\$ 1,136	\$ -	\$ (33,337)	\$ 26,690
Fareboxes	123,147	1,485	-	(124,632)	-
Total	\$ 182,038	\$ 2,621	\$ -	\$ (157,969)	\$ 26,690

NOTE 7 – CALIFORNIA OFFICE OF EMERGENCY SERVICES GRANT (CALEMA)

Unearned revenue for the CALEMA Funds for the year ended June 30, 2020, was as follows:

Project Name	Beginning Unearned Revenue	Interest	New Receipts	Expended	Ending Unearned Revenue
On Board Security Enhancements	\$ 448,424	\$ 8,674	\$ -	\$(335,221)	\$ 121,877
Transit Center Video Surveillance System	113,177	2,553	-	-	115,730
Total	\$ 561,601	\$ 11,227	\$ -	\$(335,221)	\$ 237,607

CITY OF MODESTO
TRANSPORTATION DEVELOPMENT ACT FUNDS
STATEMENT OF CASH FLOWS – BUS ENTERPRISE FUND (continued)
FOR THE YEAR ENDED JUNE 30, 2020
(with comparative totals for the year ended June 30, 2019)

	2020	2019
RECONCILIATION OF OPERATING LOSS TO NET		
CASH USED IN OPERATING ACTIVITIES:		
Operating loss	\$ (22,284,469)	\$ (21,029,608)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	3,538,597	3,355,145
Changes in assets and liabilities:		
Accounts receivable	(51,009)	(6,485)
Prepaid expenses	158,315	14,436
Accounts payable	613,039	(75,530)
Accrued salaries and benefits	15,954	1,368
Net OPEB liability and related deferred outflows/inflows	(14,607)	14,636
Net pension liability and related deferred outflows/inflows	354,786	143,274
	354,786	143,274
Net cash used in operating activities	\$ (17,669,394)	\$ (17,582,764)

The accompanying notes are an integral part of the financial statements.

CITY OF MODESTO
TRANSPORTATION DEVELOPMENT ACT FUNDS
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Reporting Entity: The City of Modesto, California (the 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.

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, 2019, 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 to be spent under Article 8, Section 99400(a) of the TDA.

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.

CITY OF MODESTO
TRANSPORTATION DEVELOPMENT ACT FUNDS
NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

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.

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.

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.

CITY OF MODESTO
TRANSPORTATION DEVELOPMENT ACT FUNDS
NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fund Equity (continued): 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.

In circumstances where an expenditure is incurred for which restricted, committed, assigned, or unassigned funds 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.

Net Position: Net position represents the residual interest in the City’s assets after liabilities are deducted. In accordance with GASB Statement No. 63, the fund equity section on the Statement of Net Position was combined to report total net position and present it in three broad components:

- *Net investment in capital assets* – Amount consists of capital assets, including infrastructure, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets.
- *Restricted* – Amount consists of net position restricted by external creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabled legislature.
- *Unrestricted* – Amount consists of all net position that does not meet the definition “net investment in capital assets” or “restricted” net position.

When both restricted and unrestricted net position are available, restricted resources are depleted first before unrestricted resources are used.

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, 2018
Measurement Date: June 30, 2019
Measurement Period: July 1, 2018 to June 30, 2019

Other Postemployment Benefits (OPEB): For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the net position of the City’s plan (OPEB Plan) and additions to/deductions from the OPEB Plan’s net position have been determined on the same measurement basis. For this purpose, benefit payments 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. 75 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, 2018
Measurement Date: June 30, 2019
Measurement Period: July 1, 2018 to June 30, 2019

CITY OF MODESTO
TRANSPORTATION DEVELOPMENT ACT FUNDS
NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Governmental Accounting Standards Update: During the year ending June 30, 2020, the City implemented the following standards:

GASB Statement No. 95 – *Postponement of the Effective Dates of Certain Authoritative Guidance*. The requirements of this statement are effective as of May 2020.

Released GASB Statements to be implemented in future financial statements are as follows:

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**CITY OF MODESTO
TRANSPORTATION DEVELOPMENT ACT FUNDS
NOTES TO THE FINANCIAL STATEMENTS (continued)**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Subsequent Events: In compliance with accounting standards, management has evaluated events that have occurred after year-end to determine if these events are required to be disclosed in the financial statements. Management has determined that no events require disclosure in accordance with accounting standards. These subsequent events have been evaluated through November 13, 2020, which is the date the financial statements were available to be issued.

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Cash and investments of the Transportation Development Act Funds are pooled with other City of Modesto funds. Interest earned on pooled cash and investments is credited to each participant in the pool based on each participant's average monthly cash balance. Credit quality ratings are not available for the Transportation Development Act Funds' investments as all cash is invested as part of the common cash and investment pool of the City of Modesto. Cash in the City Pool is considered unclassified as to credit risk because it is not evidenced by securities that exist in physical or book entry form. The Transportation Development Act Funds do not have any deposits with financial institutions as of June 30, 2020.

Cash and investments as of June 30, 2020 are classified in the accompanying financial statements as follows:

Balance Sheet- Local Transportation
Special Revenue Funds

Cash and investments	<u>\$</u>	1,751,450
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Statement of Net Position- Bus Enterprise Fund:

Cash and investments		<u>13,505,464</u>
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Total cash and investments	<u>\$</u>	<u>15,256,914</u>
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Summary of Deposits: Cash and investments as of June 30, 2020 consist of the following:

Deposits with City of Modesto
Cash and Investment Pool

	<u>\$</u>	15,256,914
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Total cash and cash investments	<u>\$</u>	<u>15,256,914</u>
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Detailed information concerning the City of Modesto's pooled cash and investments, including information regarding the fair value of investments, may be found in the City of Modesto's Comprehensive Annual Financial Report. As of June 30, 2020, the fair value of the TDA Funds position in the pool is the same as the value of its pool shares.

CITY OF MODESTO
TRANSPORTATION DEVELOPMENT ACT FUNDS
NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 3 – CAPITAL ASSETS

Capital asset activity for the Bus Enterprise Fund for the year ended June 30, 2020, was as follows:

	Beginning Balance	Additions/ Transfers In	Deletions/ Transfers Out	Ending Balance
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Land	\$ 4,060,454	\$ -	\$ -	\$ 4,060,454
Construction in Progress	656,007	263,888	(68,094)	851,801
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Less Accumulated Depreciation for:				
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Vehicles	(188,386)	(7,025)	25,988	(169,423)
Buses and fareboxes	(15,535,482)	(2,328,526)	-	(17,864,008)
Total Accumulated Depreciation	(27,579,749)	(3,538,597)	25,988	(31,092,358)
Total Capital Assets, Being Depreciated, Net	36,937,359	(2,959,942)	-	33,977,417
Total Capital Assets, Net	\$ 41,653,820	\$ (2,696,054)	\$ (68,094)	\$ 38,889,672

Depreciation expense for the year ended June 30, 2020 was \$3,538,597.

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 2020 to show compliance with the required farebox recovery ratios.

CITY OF MODESTO
TRANSPORTATION DEVELOPMENT ACT FUNDS
NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 4 – COMPLIANCE REQUIREMENTS OF LOCAL TRANSPORTATION FUNDS (continued)

The Bus Enterprise Fund’s fare ratio of operating revenues to operating expenses for the year ended June 30, 2020, as calculated below, indicates the City is in compliance with the provisions of the TDA:

	<u>Fixed Route</u>	<u>Demand Response</u>
Charges for services	\$ 1,824,054	\$ 193,285
Local funds supplementation	1,291,899	78,000
Advertising revenue	<u>187,024</u>	<u>-</u>
Fare revenues	<u>\$ 3,302,977</u>	<u>\$ 271,285</u>
Operating expenses	\$ 21,912,066	\$ 2,959,149
Less expenses not related to fare generated activities:		
Depreciation	(3,538,597)	-
Transfer in from other City funds	(4,195)	-
Capital activities	-	(248,687)
Grant and rent-funded activities	(158,624)	-
Adjustments	<u>(2,294,204)</u>	<u>-</u>
Applicable operating expenses	<u>\$ 15,916,446</u>	<u>\$ 2,710,462</u>
Fare ratio	<u>20.75%</u>	<u>10.01%</u>

NOTE 5 – STATE TRANSIT ASSISTANCE PROGRAM ALLOCATIONS

The City receives State Transit Assistance Program allocations from the County of Stanislaus State Transit Assistance Fund. State Transit Assistance funds are to be used for transit operations. Funds shall not be allocated for operating purposes pursuant to Sections 99313 and 99314 to an operator unless the operator meets efficiency standards as described in Section 99314.6. The City’s current operating cost per service hour is less than the prior year’s cost per hour taking into account the Consumer Price Index (CPI), thus the City is in compliance with Section 99314.6.

	<u>2019/20</u>	<u>2018/19</u>	<u>CPI</u>	<u>2018/19 ADJ</u>
			1.560%	
Total Operating Cost	\$ 18,626,908	\$ 17,576,031		
Total Vehicle Service Hours	<u>187,048</u>	<u>168,311</u>		
Operating Cost per Vehicle Service Hour	<u>\$ 99.58</u>	<u>\$ 104.43</u>		<u>\$ 106.05</u>

The City’s average total operating cost per vehicle service hour in the three years preceding the current 2020 fiscal year multiplied by the CPI for the same period is lower as calculated and therefore in compliance, as shown below:

	<u>2019/20</u>	<u>2018/19</u>	<u>2017/18</u>	<u>2016/17</u>	<u>CPI</u>	<u>3 Year Average</u>	<u>Preceding 3 Year Average Adjusted by CPI</u>
					1.960%		
Total Operating Cost	\$ 18,626,908	\$ 17,576,031	\$ 16,157,380	\$ 15,850,285		\$ 17,453,440	\$ 16,527,899
Total Vehicle Service Hours	<u>187,048</u>	<u>168,311</u>	<u>161,231</u>	<u>156,258</u>		<u>172,197</u>	<u>161,933</u>
Operating Cost per Vehicle Service Hour	<u>\$ 99.58</u>	<u>\$ 104.43</u>	<u>\$ 100.21</u>	<u>\$ 101.44</u>		<u>\$ 101.36</u>	<u>\$ 104.07</u>

**CITY OF MODESTO
TRANSPORTATION DEVELOPMENT ACT FUNDS
NOTES TO THE FINANCIAL STATEMENTS (continued)**

NOTE 6 – 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.

In fiscal year 2020, the City didn't receive any additional funding from the State of California Department of Transportation passed through StanCOG. The City spent \$157,969 in various projects during the year and earned an additional \$2,621 in interest, leaving \$26,690 of unspent PTMISEA funds as of June 30, 2020.

Project Name	Beginning Unearned Revenue	Interest	New Receipts	Expended	Ending Unearned Revenue
Security	\$ 58,891	\$ 1,136	\$ -	\$ (33,337)	\$ 26,690
Fareboxes	123,147	1,485	-	(124,632)	-
Total	\$ 182,038	\$ 2,621	\$ -	\$ (157,969)	\$ 26,690

NOTE 7 – CALIFORNIA OFFICE OF EMERGENCY SERVICES GRANT (CALEMA)

Unearned revenue for the CALEMA Funds for the year ended June 30, 2020, was as follows:

Project Name	Beginning Unearned Revenue	Interest	New Receipts	Expended	Ending Unearned Revenue
On Board Security Enhancements	\$ 448,424	\$ 8,674	\$ -	\$(335,221)	\$ 121,877
Transit Center Video Surveillance System	113,177	2,553	-	-	115,730
Total	\$ 561,601	\$ 11,227	\$ -	\$(335,221)	\$ 237,607

CITY OF MODESTO
TRANSPORTATION DEVELOPMENT ACT FUNDS
NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 8 – CAPITAL TRANSIT AND LOCAL TRANSPORTATION FUNDS

Unearned revenue for the TDA Funds for the year ended June 30, 2020, was as follows:

	Local Transportation Special Revenue Funds		
	Non-Motorized	Streets and Roads	Total
Unearned revenue, beginning of year	\$ 1,227,691	\$ 428,948	\$ 1,656,639
TDA funds allocated	229,394	-	229,394
TDA funds earned	(130,301)	(1,574)	(131,875)
Unearned revenue, end of year	<u>\$ 1,326,784</u>	<u>\$ 427,374</u>	<u>\$ 1,754,158</u>

	Bus Enterprise Fund		
	LTF/LCTOP	Capital Transit	Total
Unearned revenue, beginning of year	\$ 4,402,222	\$ 7,654,238	\$ 12,056,460
TDA funds allocated	4,350,261	3,113,782	7,464,043
TDA funds earned	(6,889,754)	(855,219)	(7,744,973)
Unearned revenue, end of year	<u>\$ 1,862,729</u>	<u>\$ 9,912,801</u>	<u>\$ 11,775,530</u>

NOTE 9 – 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.

**CITY OF MODESTO
TRANSPORTATION DEVELOPMENT ACT FUNDS
NOTES TO THE FINANCIAL STATEMENTS (continued)**

NOTE 9 – PENSION PLAN (continued)

Benefits Provided (continued): The Plan’s provisions and benefits in effect at June 30, 2020 are summarized as follows:

	<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 service	5 years service	5 years 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%	1.0 to 2.5%

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, 2019 (the measurement date) for the Plan, the average active employee contribution rate was 6.717% of annual pay and the employer’s contribution rate was 8.691% 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, 2020, the employer contributions recognized as a deferred outflow of resources was \$313,888.

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

As of June 30, 2020, the Bus Fund reported a liability of \$3,423,069 for its proportionate share of the net pension liability. The net pension liability at June 30, 2020, was measured as of June 30, 2019, using an annual actuarial valuation as of June 30, 2018, rolled forward to June 30, 2019 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, 2020, the Bus Fund’s proportion was 2.6475%.

CITY OF MODESTO
TRANSPORTATION DEVELOPMENT ACT FUNDS
NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 9 – PENSION PLAN (continued)

For the year ended June 30, 2020, the Bus Fund recognized pension expense of \$651,189. At June 30, 2020, the Bus Fund reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

June 30, 2020	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contribution subsequent to measurement date	\$ 313,888	\$ -
Changes of assumptions	119,078	(1,135)
Differences between expected and actual experiences	105,907	(5,693)
Net difference between projected and actual earnings on pension plan investments	-	(55,005)
Totals	\$ 538,873	\$ (61,833)

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, 2021. 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	
2021	\$ 225,997
2022	(76,422)
2023	1,072
2024	12,504
Total	\$ 163,152

Actuarial Assumptions: The total pension liabilities in the June 30, 2018 actuarial valuations, which were rolled forward to June 30, 2019, were determined using the following actuarial method and assumptions:

Valuation Date:	June 30, 2018
Measurement Date:	June 30, 2019
Actuarial Cost Method:	Entry Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate-	7.15%
Inflation-	2.50%
Salary Increases-	Varies by entry age and service
Investment Rate of Return-	7.375%
Mortality Rate Table ¹ -	Derived using CalPERS' Membership Data for all Funds
Post Retirement Benefit-	Up to 2.75%

⁽¹⁾ The mortality table used was developed 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 2017 experience study report.

CITY OF MODESTO
TRANSPORTATION DEVELOPMENT ACT FUNDS
NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 9 – PENSION PLAN (continued)

Actuarial Assumptions (continued): All other actuarial assumptions used in the June 30, 2018 valuation were based on the results of an 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 the CalPERS website under Forms and Publications.

Discount Rate: The discount rate used to measure the total pension liability at June 30, 2020 was 7.15 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 7.15 percent is applied to all plans in the Public Employees Retirement Fund for the June 30, 2019 measurement date. The stress test results are presented in a detailed report called “GASB Crossover Testing Report” that can be obtained at the 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, 2019 measurement date was as follows:

Asset Class	New Strategic Allocation	Real Return Years 1-10*	Real Return Years 11+**
Global Equity	50.00%	4.80%	5.98%
Global Fixed Income	28.00	1.00	2.62
Inflation Sensitive	0.00	0.77	1.81
Private Equity	8.00	6.30	7.23
Real Estate	13.00	3.78	4.93
Liquidity	1.00	0.00	(0.92)
Total	<u>100.00%</u>		

* An expected inflation of 2.0% used for this period

** An expected inflation of 2.92% used for this period

**CITY OF MODESTO
TRANSPORTATION DEVELOPMENT ACT FUNDS
NOTES TO THE FINANCIAL STATEMENTS (continued)**

NOTE 9 – 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, 2019 measurement date, calculated using the discount rate of 7.15 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 (6.15 percent) or 1 percentage-point higher (8.15 percent) than the current rate:

	Discount Rate -1% (6.15)	Current Discount Rate 7.15%	Discount Rate +1% (8.15)
Bus Fund's Proportionate Share of Plan's Net Pension Liability	\$ 5,026,572	\$ 3,423,069	\$ 2,089,565

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.

NOTE 10 – OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Plan Description: In addition to the pension benefits described above in Note 9, the City participates in an agent multiple-employer plan which provides health care benefits to employees who retire from the City based on certain criteria related to their hired and retirement date, under contractual agreements with all employee groups. All full-time employees hired before January 1, 2011, except firefighters who receive a cash payout, are eligible to set aside a percentage of accumulated sick leave upon retirement to be used for payment of future health care premiums to a choice of insurance plans (sick leave conversion). The City has no obligation to pay the health insurance allowance for retirees with no accumulated sick leave. All employees hired on or after January 1, 2011 will not be eligible to participate in the sick leave conversion. If an employee elects to receive a buy-out contribution, they will be removed from the City’s medical plan and will no longer be allowed to return to the City’s medical plan.

Employees Covered: See the City of Modesto Comprehensive Annual Financial Report for more information regarding total employees covered.

Contributions: The OPEB plan and its contribution requirements are established by Memoranda of Understanding with the applicable employee bargaining units and may be amended by the agreements between the City and the bargaining units. The annual contribution is based on the actuarially determined contribution. For the fiscal year ended June 30, 2020, the City’s cash contributions were \$2,941,351 in payments made by the employer and no estimated subsidy was determined.

Net OPEB Liability: The Bus Fund’s net OPEB liability of \$411,717 was measured as of June 30, 2019, and was determined by an actuarial valuation as of July 1, 2018 that rolled forward to determine the June 30, 2020 total OPEB liability, based on the following actuarial methods and assumptions. Standard actuarial update procedures were used to roll forward to the measurement date from the actuarial valuation.

**CITY OF MODESTO
TRANSPORTATION DEVELOPMENT ACT FUNDS
NOTES TO THE FINANCIAL STATEMENTS (continued)**

NOTE 10 – OTHER POSTEMPLOYMENT BENEFITS (OPEB) (continued)

Net OPEB Liability (continued):

Actuarial assumptions and other inputs- The total OPEB liability in the June 30, 2019 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Discount Rate:	3.50% at June 30, 2019. 3.87% for TOL as of June 30, 2018; 3.58% for TOL as of June 30, 2017; 2.85% for TOL as of June 30, 2016
Inflation:	2.75% annually
Salary Increases:	Aggregate – 3% annually. Merit – CalPERS 1997-2015 Experience Study
Trend:	<i>Medical:</i> Graded from 6.5% to ultimate 4.0% in 2076. <i>Non-Medicare:</i> 7.5% for 2020, decreasing to an ultimate rate of 4.0% in 2076
Mortality:	CalPERS 1997-2015 Experience Study
Mortality Improvement:	Post-retirement projected fully generational with Scale MP-2018.

The changes in the Net OPEB liability for the plan year was as follows:

	<u>Net OPEB Liability (Asset)</u>
Balance at June 30, 2019 (Valuation Date: June 30, 2018)	<u>\$ 418,877</u>
Changes in the year:	
Service cost	12,634
Interest on the total OPEB liability	15,776
Changes in assumptions	11,300
Benefit payments, including refunds of employee contributions	<u>(46,870)</u>
Net change	<u>(7,160)</u>
Balance at June 30, 2020 (Valuation Date: June 30, 2019)	<u><u>\$ 411,717</u></u>

Discount Rate- The discount rate used to measure the total OPEB liability was 3.50 percent. The projection of the cash flows used to determine the discount rate assumed that the City contributions will be made at rates equal to the actuarially determined contribution rates. Based on these assumptions, the OPEB City's net position was projected to be available to make all projected OPEB payments for current active and inactive employees and beneficiaries based on the 'pay as you go' annual contributions.

CITY OF MODESTO
TRANSPORTATION DEVELOPMENT ACT FUNDS
NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 10 – OTHER POSTEMPLOYMENT BENEFITS (OPEB) (continued)

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate: The following presents the total OPEB liability of the City, as well as what the City’s total OPEB liability would be if it were calculated using a discount rate that is 1-percent lower (2.50 percent) or 1-percentage point higher (4.50 percent) than the current discount rate:

	Discount Rate - 1% (2.50%)	Current Discount Rate 3.50%	Discount Rate + 1% (4.50%)
Net OPEB Liability	\$ 447,480	\$ 411,717	\$ 381,551

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rate: The following presents the total OPEB liability of the City, as well as what the City’s total OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1-percent lower (5.5 percent) or 1-percentage point higher (7.5 percent) than the current discount rate:

	Trend Rate - 1% (5.50%)	Current Healthcare Trend Rate 6.50%	Trend Rate + 1% (7.50%)
Net OPEB Liability	\$ 388,619	\$ 411,717	\$ 441,660

OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB: For the year ended June 30, 2020, the City recognized OPEB Expense of \$21,823.

Components of OPEB Expense:	
Service cost	\$ 12,634
Interest on the total OPEB liability	15,776
Expensed portion of current-period changes of assumptions or other inputs	(6,587)
OPEB Expense	\$ 21,823

**CITY OF MODESTO
TRANSPORTATION DEVELOPMENT ACT FUNDS
NOTES TO THE FINANCIAL STATEMENTS (continued)**

NOTE 10 – OTHER POSTEMPLOYMENT BENEFITS (OPEB) (continued)

OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB (continued):

At June 30, 2020, the City reported deferred outflows and inflows of resources related to the OPEB Plan from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
OPEB contributions subsequent to the measurement date	\$ 45,767	\$ -
Difference between actual and expected experiences	-	(4,933)
Changes in assumptions	7,570	(27,301)
Total	\$ 53,337	\$ (32,234)

The OPEB contributions made subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2021. Other amounts reported as deferred outflows and deferred inflows of resources related to the OPEB Plan will be recognized as OPEB expense as follows:

Year Ending June 30,	Amount
2021	\$ (7,473)
2022	(7,473)
2023	(7,473)
2024	(2,866)
2025	621
Total	\$ (24,664)

NOTE 11 – CONTINGENCY

Coronavirus Pandemic: Management has determined the events regarding the novel coronavirus require disclosure in accordance with accounting standards. On March 4, 2020 Governor Newsom issued an emergency proclamation declaring a state of emergency in California due to the novel coronavirus (COVID-19). The COVID-19 outbreak is ongoing, and the ultimate geographic spread of the virus, the duration and severity of the outbreak and the economic and other actions that may be taken by government authorities to contain the outbreak or treat its impact are uncertain. The ultimate impact of COVID-19 on the operations and finances of the City remain unknown.

**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***

	2020	2019	2018	2017	2016	2015
Miscellaneous Plan:						
Bus Fund's proportion of the net pension liability	2.64746%	2.77420%	2.72162%	2.76335%	2.68432%	2.55465%
Bus Fund's proportionate share of the net pension liability	\$ 3,423,069	\$ 3,177,325	\$ 3,151,106	\$ 2,759,942	\$ 2,149,389	\$ 1,899,090
Bus Fund's covered payroll	\$ 1,347,768	\$ 1,381,897	\$ 1,271,958	\$ 1,249,245	\$ 1,115,678	\$ 1,127,265
Plan net pension liability as a percentage of their covered payroll	253.98%	242.74%	257.04%	233.94%	201.29%	168.47%
Plan fiduciary net position as a percentage of the total pension liability	73.18%	73.88%	73.17%	74.26%	79.02%	81.18%

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 and 7.15% in 2018.

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

**CITY OF MODESTO
TRANSPORTATION DEVELOPMENT ACT FUNDS
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
SCHEDULE OF CHANGES IN THE NET OPEB LIABILITY AND RELATED RATIOS
LAST 10 YEARS***

	2020	2019	2018
Total Net OPEB Liability			
Service cost	\$ 12,634	\$ 15,007	\$ 44,570
Interest on the total OPEB liability	15,776	16,169	13,904
Changes in assumptions	11,300	(20,352)	(17,129)
Differences between expected and actual experience	-	(7,290)	-
Benefit Payments, including Refunds of Employee Contributions	(46,870)	(42,574)	(37,857)
Net change in Total OPEB Liability	(7,160)	(39,040)	3,488
Total Net OPEB Liability - Beginning	418,877	457,917	454,429
Total Net OPEB Liability - Ending	<u>\$ 411,717</u>	<u>\$ 418,877</u>	<u>\$ 457,917</u>
Bus Fund's covered-employee payroll- Measurement Period	\$ 791,689	\$ 773,314	\$ 866,613
Net OPEB liability as a percentage of covered-employee payroll	52.00%	54.17%	52.84%

Notes to Schedule:

Changes in assumptions:

The discount rate was changed from 2.85% to 3.58% for the measurement period ended June 30, 2017. It was then changed to 3.87% for the measurement period ended June 30, 2018.

* - GASB Statement No. 75 was implemented in 2018.

**CITY OF MODESTO
TRANSPORTATION DEVELOPMENT ACT FUNDS
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
SCHEDULE OF CONTRIBUTIONS – OPEB PLAN
LAST 10 YEARS***

	2020	2019	2018
Actuarially determined contribution	\$ 55,547	\$ 42,574	\$ 37,857
Contributions in relation to the actuarially determined contribution	<u>(55,547)</u>	<u>(42,574)</u>	<u>(37,857)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Bus Fund's covered-employee payroll- Measurement Period	\$ 791,689	\$ 773,314	\$ 866,613
Contributions as a percentage of covered-employee payroll	7.02%	5.51%	4.37%

Notes to Schedule:

The actuarial methods and assumptions used to set the actuarially determined contributions for Fiscal Year 2018-2020 were as follows for June 30, 2017 through 2019 measurement date actuarial valuations.

Actuarial Cost Method

Entry-Age Normal

Actuarial assumptions:

Discount Rate:	3.5% at June 30, 2019. 3.87% for TOL as of June 30, 2018; 3.58% for TOL as of June 30, 2017; 2.85% for TOL as of June 30, 2016
Asset Valuation Method:	Market Value of Assets
Inflation:	2.75% Annually
Salary Increases:	Aggregate – 3% annually. Merit – CalPERS 1997-2015 Experience Study
Trend:	<i>Medical:</i> Graded from 6.5% to ultimate 4.0% in 2076. <i>Non-Medicare:</i> 7.5% for 2020, decreasing to an ultimate rate of 4.0% in 2076
Mortality:	CalPERS 1997-2015 Experience Study
Mortality Improvement:	Post-retirement projected fully generational with Scale MP-2018.

* - GASB Statement No. 75 was implemented in 2018.



**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 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 (the City), as of and for the year ended June 30, 2020 and the related notes to the financial statements, and have issued our report thereon dated November 13, 2020.

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 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 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.

HUDSON HENDERSON & COMPANY, INC.

Hudson Henderson & Company, Inc.

Fresno, California
November 13, 2020



**INDEPENDENT ACCOUNTANTS' 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 (the 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, 2020. 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, 2020.

HUDSON HENDERSON & COMPANY, INC.

Hudson Henderson & Company, Inc.

Fresno, California
November 13, 2020