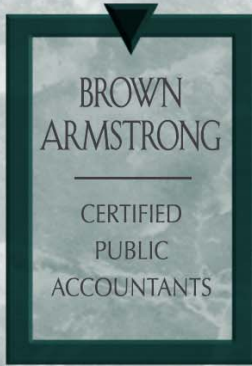


CITY OF VISALIA
MEASURE R TRANSPORTATION FUND
AUDITED FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED
JUNE 30, 2014

**CITY OF VISALIA
MEASURE R TRANSPORTATION FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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BROWN ARMSTRONG

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

City Council
City of Visalia
Visalia, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Measure R Transportation Fund of the City of Visalia, California (the City), as of and for the fiscal year ended June 30, 2014, and the related notes to the financial statements, as listed in the table of contents. The financial statements of the Measure R Fund as of June 30, 2013, were audited by other auditors whose report dated March 12, 2014, expressed an unmodified opinion on those statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Measure R Transportation Fund of the City as of June 30, 2014, 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

As discussed in Note 1, these financial statements present only the Measure R Transportation Fund and do not purport to, and do not, present fairly the financial position of the City as of June 30, 2014, and the changes in 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 the matter.

As discussed in Note 1 to the financial statements, during the year ended June 30, 2014, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*, Statement No. 66, *Technical Corrections 2012*, Statement No. 67, *Financial Reporting for Pension Plans*, and Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which modified the current financial reporting of those elements. Our opinion is not modified with respect to the matter.

Other Matters

Required Supplementary Information

Management has omitted the management discussion and analysis (MD&A) and respective budgetary comparison schedule that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the GASB, 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 27, 2015, on our consideration of the City's internal control over financial reporting as it relates to the Measure R Transportation Fund and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance as it relates to the Measure R Transportation Fund.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
March 27, 2015

**CITY OF VISALIA
 MEASURE R TRANSPORTATION FUND
 BALANCE SHEET
 JUNE 30, 2014, WITH COMPARATIVE TOTALS**

	2014	2013
ASSETS		
Cash and investments	\$ 3,987,787	\$ 3,123,202
Due from other city funds	9,048	9,048
Due from other governmental agencies	1,273,745	6,501,404
 TOTAL ASSETS	 \$ 5,270,580	 \$ 9,633,654
 LIABILITIES AND FUND BALANCE		
LIABILITIES		
Accounts payable	\$ 494,547	\$ 1,138,036
Grant advances	-	32,868
Due to other city funds	2,309,319	5,167,915
 TOTAL LIABILITIES	 2,803,866	 6,338,819
 FUND BALANCE		
Restricted for:		
Laws and regulations of other governments	2,466,714	3,294,835
 FUND BALANCE	 2,466,714	 3,294,835
 TOTAL LIABILITIES AND FUND BALANCE	 \$ 5,270,580	 \$ 9,633,654

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

**CITY OF VISALIA
MEASURE R TRANSPORTATION FUND
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE
FOR THE FISCAL YEAR ENDED JUNE 30, 2014, WITH COMPARATIVE TOTALS**

	<u>2014</u>	<u>2013</u>
REVENUES		
Measure R transportation funds	\$ 2,077,153	\$ 2,263,318
Measure R trailway funds	416,169	2,256,154
Measure R special project funds	-	316,756
Intergovernmental grants	2,997,298	9,362,067
Other revenue	33,865	5,300
Interest	<u>39,207</u>	<u>12,184</u>
 Total revenues	 <u>5,563,692</u>	 <u>14,215,779</u>
 EXPENDITURES		
Local program expenditures	1,052,330	1,001,320
Trailway expenditures	1,866,018	2,207,539
Special project expenditures	<u>3,473,465</u>	<u>8,216,650</u>
 Total expenditures	 <u>6,391,813</u>	 <u>11,425,509</u>
 Excess of revenues over expenditures	 <u>(828,121)</u>	 <u>2,790,270</u>
 OTHER FINANCING USES		
Operating transfer out	<u>-</u>	<u>(45,618)</u>
 Excess of revenue over expenditures and other financing uses	 (828,121)	 2,744,652
 Fund balance, beginning of year	 <u>3,294,835</u>	 <u>550,183</u>
 Fund balance, end of year	 <u>\$ 2,466,714</u>	 <u>\$ 3,294,835</u>

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

**CITY OF VISALIA
MEASURE R TRANSPORTATION FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Measure R

The Tulare County Transportation Authority (the Authority), a component unit of the Tulare County Association of Governments, California, was established on August 7, 2006. The primary purpose of the Authority is to impose within the incorporated and unincorporated territory of Tulare County, a retail transaction and use tax for transportation purposes in accordance with the provisions as provided in Division 19 (commencing with section 180000) of the California Public Utilities Code and Part 1.6 (commencing with section 7251) of Division 2 of the California Revenue and Taxation Code.

The tax rate shall be one-half of one percent (0.5%) per dollar for a period of thirty (30) years commencing on the operative date of this ordinance. This tax shall be in addition to any other taxes authorized by law, including any existing or future state or local sales tax or transactions and use taxes.

The revenue derived from the tax shall be used for transportation purposes only and may include, but is not limited to, the administration of the Measure R Expenditure Plan. These purposes include expenditures for planning, environmental review, engineering and design costs, related special and expert consulting costs, and related right-of-way acquisition and associated administrative and legal costs.

The City of Visalia's Measure R Transportation Fund's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is responsible for establishing accounting principles generally accepted in the United States of America for state and local governments through its pronouncements (Statements and Interpretations). The more significant accounting policies established by accounting principles generally accepted in the United States of America and used by the City of Visalia's Measure R Transportation Fund are discussed below.

A. Basis of Presentation

The financial statements of the Measure R Transportation Fund of the City of Visalia (the City) have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. The GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Significant accounting policies of the City are described below.

B. Reporting Entity

The financial statements are intended to reflect the financial position, results of operation and compliance of the Measure R funds allocated for non-transit purposes to the Measure R Transportation Fund of the City with the laws, rules and regulations of Measure R and the Tulare County Association of Governments. They do not present fairly the financial position and results of operations of the City, in conformity with accounting principles generally accepted in the United States of America.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Fund Accounting

The accounts of the City are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity or net position, revenues and expenditures or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The fund presented in the financial statements in this report consists of one generic fund type and one broad fund category as follows:

Governmental Fund Types

Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditures for specified purposes. The Measure R Transportation Fund is a Special Revenue Fund.

D. Basis of Accounting

Governmental fund financial statements 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 within 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 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences are recorded only when payment is due. Capital asset acquisitions are reported as *expenditures* in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as *other financing sources*.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

E. Cash and Cash Equivalents

The City pools cash from all sources and all funds except Cash with Fiscal Agents so that it can be invested at the maximum yield, consistent with safety and liquidity, while individual funds can make expenditures at any time. Investments are carried at fair market value.

F. Use of Management 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 that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Accordingly, actual results could differ from those estimates.

G. Fund Balance

The City adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. Accordingly, 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 fund balance* – amounts that cannot be spent because they are either (a) not spendable in form or (b) legally or contractually required to be maintained intact.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Fund Balance (Continued)

- *Restricted fund balance* – 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 provisions or enabling legislation.
- *Committed fund balance* – amounts that can only be used for specific purposes determined by formal action of the City’s highest level of decision-making authority (City Council) and that remain binding unless removed in the same manner. Committed fund balance does not lapse at year-end. The formal action must occur prior to the end of the reporting period. However, the amount which will be subject to the constraint may be determined in the subsequent period. The formal action required to commit fund balance shall be by City Council resolution.
- *Assigned fund balance* – amounts that are constrained by the City’s *intent* to be used for specific purposes. The intent can be established at either the highest level of decision-making, or by a body or an official designated for that purpose.
- *Unassigned fund balance* – the residual classification for the City’s General Fund that includes amounts not contained in the other classifications. In other funds, the unassigned classification is used only if expenditures incurred for specific purposes exceed the amounts restricted, committed, or assigned to those purposes.

The accounting policies of the City consider restricted fund balance to have been spent first when an expenditure is incurred if both restricted and unrestricted fund balance are available. Similarly, when an expenditure is incurred for purposes for which amounts in any of the unrestricted classifications of fund balance could be used, the City considers committed amounts to be reduced first, followed by assigned amounts and then unassigned amounts.

H. New Accounting Pronouncements – Implemented

GASB Statement No. 65 – *Items Previously Reported as Assets and Liabilities* establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2012. The City fully implemented this statement for the year ended June 30, 2014.

GASB Statement No. 66 – *Technical Corrections 2012 – An Amendment of GASB Statements No. 10 and No. 62* improves accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This statement is effective for periods beginning after December 15, 2012, although earlier application is encouraged. The City fully implemented this statement for the year ended June 30, 2014.

GASB Statement No. 67 – *Financial Reporting for Pension Plans – An Amendment of GASB Statement No. 25* improves financial reporting by state and local governmental pension plans. This Statement results from a compressive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This statement is effective for periods beginning after June 15, 2013, although earlier application is encouraged. The City fully implemented this statement for the year ended June 30, 2014.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. New Accounting Pronouncements – Implemented (Continued)

GASB Statement No. 70 – *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. This statement specifies the information required to be disclosed by governments that extended nonexchange financial guarantees. In addition, this statement requires new information to be disclosed by governments that receive nonexchange financial guarantees. The provisions of this statement are effective for reporting periods beginning after June 15, 2013. The City fully implemented this statement for the year ended June 30, 2014.

I. Future GASB Statements

GASB Statement No. 68 – *Financial Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27* improves financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This statement is effective for periods beginning after June 15, 2014, although earlier application is encouraged. The City is assessing, but has not yet determined, the effects the implementation of this statement will have on the financial statements.

GASB Statement No. 69 – *Government Combinations and Disposals of Government Operations* provides specific accounting and financial reporting guidance for combinations in the governmental environment. This statement also improves the decision usefulness of financial reporting by requiring that disclosures be made by governments about combination arrangements in which they engage and for disposals of government operations. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2013. The City is assessing, but has not yet determined, the effects the implementation of this statement will have on the financial statements.

GASB Statement No. 71 – *Pension Transition for Contributions Made Subsequent to the Measurement Date* amends paragraph 137 of GASB Statement No. 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. This statement will eliminate the source of a potential significant understatement of restated beginning net position and expense in the first year of implementation of GASB Statement No. 68 in the accrual basis of financial statements of employers and nonemployer contributing entities. The provisions of this statement should be applied simultaneously with the provisions of GASB Statement No. 68 and therefore are effective for financial periods beginning after June 15, 2014.

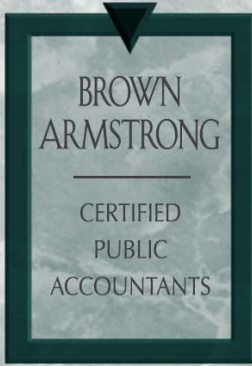
NOTE 2 – CASH AND CASH EQUIVALENTS

Cash is pooled with other City funds to maximize investment opportunities and yields. Investment income resulting from this pooling is allocated to the respective funds, including the Measure R Transportation Fund on a monthly basis, based on weighted average cash balances in the fund. For reporting of cash flows, the City considers all demand deposits and investments maturing within ninety days of their purchase to be cash and cash equivalents. Information regarding categorization of investments can be found in the City's financial statements.

NOTE 3 – SUBSEQUENT EVENTS

Subsequent events have been evaluated through March 27, 2015, the date these financial statements have been made available to be issued. There were no subsequent events identified by management which would require disclosure in the financial statements.

OTHER REPORT



BROWN ARMSTRONG

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS AND MEASURE R

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We have audited, in accordance with the auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, applicable rules and regulations of the Measure R Ordinance, the allocation instructions and resolutions of Tulare County Association of Governments, and the Tulare County Transportation Authority, the financial statements of the Measure R Transportation Fund of the City of Visalia (the City) as of and for the year ended June 30, 2014, and the related notes to the financial statements and have issued our report thereon dated March 27, 2015.

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 (internal control) as it relates to the Measure R Transportation Fund 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 over financial reporting relevant to the Measure R Fund.

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 Measure R Transportation Fund financial statements are free of material misstatement, we performed tests of the City's compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. Our audit was further made to determine that Measure R funds allocated to and received by the City were expended in conformance with applicable rules and regulations of the Measure R Ordinance, and the allocation instructions and resolutions of Tulare County Association of Governments, and the Tulare County Transportation Authority. 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* and Measure R.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance relevant to the Measure R Transportation Fund and the results of that testing, and not to provide an opinion of the effectiveness of the City's internal control or on compliance relevant to the Measure R Transportation Fund. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance relevant to the Measure R Transportation Fund. Accordingly, this report is not suitable for any other purpose.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

A handwritten signature in blue ink that reads "Brown Armstrong Accountancy Corporation". The signature is written in a cursive style.

Bakersfield, California
March 27, 2015