

CITY OF VISALIA

Measure R Transportation Fund

Audited Financial Statements
Years Ended June 30, 2013 and 2012

CITY OF VISALIA
Measure R Transportation Fund
Years Ended June 30, 2013 and 2012

Table of Contents

	<u>Page</u>
Independent Auditor's Report _____	1
<u>Financial Statements</u>	
Measure R Transportation Fund – Special Revenue Fund	
Balance Sheets _____	3
Statements of Revenues, Expenditures, and Changes in Fund Balance _____	4
Notes to Financial Statements _____	5
<u>Other Reports</u>	
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 <i>Government Auditing Standards</i> and Measure R _____	9

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 (City), as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statement referred to above present fairly, in all material respects, the financial position of the Measure R Transportation Fund of the City as of June 30, 2013 and 2012, and the changes in financial position and, where applicable, cash flows thereof for the fiscal years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1A, the 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, 2013 and 2012, the changes in its financial position, or, where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in Note 6 to the financial statements. During the year ended June 30, 2013, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which modified the current financial reporting of those elements. Our opinion is not modified with respect to the matter.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 12, 2014, 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 of 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.

Pressley & Associates, Inc.

Accountancy Corporation

Arroyo Grande, California

March 12, 2014

CITY OF VISALIA
Measure R Transportation Fund

Balance Sheets
June 30, 2013 and 2012

	2013	2012
<u>Assets</u>		
Cash and investments	\$ 3,123,202	\$ -
Due from other governmental agencies	9,048	-
Due from other governmental agencies	6,501,404	1,727,667
Total Assets	\$ 9,633,654	\$ 1,727,667
 <u>Liabilities and Fund Balance</u>		
Liabilities		
Accounts payable	\$ 1,138,036	\$ 817,309
Deferred revenue	32,868	-
Due to other funds	5,167,915	360,175
Total Liabilities	6,338,819	1,177,484
Fund Balance		
Restricted for:		
Laws and regulations of other governments	3,294,835	550,183
Total Liabilities and Fund Balance	\$ 9,633,654	\$ 1,727,667

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

CITY OF VISALIA
Measure R Transportation Fund

Statements of Revenues, Expenditures, and Changes in Fund Balance
For the Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Revenues		
Measure R transportation funds	\$ 2,263,318	\$ 2,121,877
Measure R trailway funds	2,256,154	916,788
Measure R special project funds	316,756	-
Intergovernmental grants	9,362,067	1,539,479
Other revenue	5,300	-
Interest	<u>12,184</u>	<u>6,125</u>
Total Revenues	14,215,779	4,584,269
Expenditures		
Local program expenditures	1,001,320	2,364,811
Trailway expenditures	2,207,539	542,891
Special project expenditures	<u>8,216,650</u>	<u>2,622,730</u>
Total Expenditures	<u>11,425,509</u>	<u>5,530,432</u>
Revenues Over (Under) Expenditures	2,790,270	(946,163)
Other Financing Sources (Uses)		
Operating transfer in	<u>(45,618)</u>	<u>531,938</u>
Revenue Over (Under) Expenditures and Other Financing Sources (Uses)	2,744,652	(414,225)
Fund Balance - Beginning of Year	<u>550,183</u>	<u>964,408</u>
Fund Balance - End of Year	<u><u>\$ 3,294,835</u></u>	<u><u>\$ 550,183</u></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, 2013 and 2012

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 are 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 generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by the City of Visalia's Measure R Transportation Fund are discussed below.

A. 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 of Visalia (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 of Visalia, in conformity with generally accepted accounting principles.

B. 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:

CITY OF VISALIA
Measure R Transportation Fund

Notes to Financial Statements
June 30, 2013 and 2012

Note 1: Summary of Significant Accounting Policies (continued)

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.

C. 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.

D. Cash and Cash Equivalents

The City of Visalia 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.

E. 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.

F. Fund Balance

In the fund financial statements, governmental funds report fund balance as nonspendable, restricted, committed, assigned or unassigned. These components of fund balance are classified 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 are inherently nonspendable such as inventory or long-term receivables.

CITY OF VISALIA
Transportation and Transit Funds

Notes to Financial Statements
June 30, 2013 and 2012

Note 1: Summary of Significant Accounting Policies (continued)

Restricted Fund Balance – amounts that have externally enforceable limitation on use that are either imposed by law or constrained by grantors, contributors, or laws and regulations of other governments.

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, The City Council. These committed amounts cannot be used for any other purpose unless the City Council removes or changes the specified use through the same type of formal action taken to establish the commitment. The formal action must occur prior to the end of the reporting period; however the amount can be determined subsequently.

Assigned Fund Balance - amounts that are constrained by the City’s intent to be used for specific purposes, but are neither restricted nor committed, should be reported as assigned fund balance. The intent can be expressed by the City Council itself or by an official to which the governing body has delegated the authority.

Unassigned Fund Balance - the residual positive net resources of the general fund in excess of what can properly be classified in one of the other four categories. This amount is reported only in the general fund except in cases of negative fund balance. Negative fund balances in other governmental funds are reported as Unassigned Fund Balance.

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.

G. Implementation of Accounting Pronouncements

The City implemented GASB Statement No. 54, “Fund Balance Reporting and Governmental Fund Type Definitions” effective for the year ended June 30, 2011. This statement enhances the usefulness of fund balance information by providing a clearer fund balance classification that can be more consistently applied, and it clarifies the existing governmental fund type definitions. It establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reporting in governmental funds. These classifications are described in the Fund Balance section of this note. The City implemented GASB No. 54 by adopting a Fund Balance Policy. This policy is in place to provide a measure of protection for the City against unforeseen circumstances and to comply with GASB Statement No. 54. No other policy or procedure supersedes the authority and provisions.

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.

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.

CITY OF VISALIA
Measure R Transportation Fund

Notes to Financial Statements
June 30, 2013 and 2012

Note 3: Subsequent Events

Subsequent events have been evaluated through March 12, 2014, 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.

Note 4: Recent Accounting Pronouncements

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, establishes a new statement of net position format that reports separately all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position (which is the net residual amount of the other elements). The statement is effective for periods beginning after December 15, 2011. GASB Statement No. 63 has no effect on the City's financial statements for the fiscal year June 30, 2013.

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, amends or supercedes the accounting financial reporting guidance for certain items previously required to be reported as assets or liabilities. The objective is to either properly classify certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or recognize certain items were previously reported as assets and liabilities as outflows of resources (expenses) or in flows of resources (revenues). The requirements of this statement are effective for financial statements for periods beginning after December 15, 2012. The City has not determined the effects of the implementation of this statement on its financial statements for the fiscal year June 30, 2013.

GASB Statement No. 66, *Technical Corrections – 2012 – An Amendment of GASB Statement No. 10 and No. 62*, to resolve conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. This statement amends Statement No. 10, *Codification of Accounting and Financial Reporting for Risk Financing and Related Insurance Issues* and Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1089 FASB and AICPA Pronouncements*. The statement will not have an effect on the City's financial statements.

GASB Statement No. 67, *Financial Reporting for Pensions Plans – an amendment of GASB Statement No. 25*. Statement No. 67 relates directly to financial statements of defined benefit pension plans and will have no direct impact on the City's financial statement.

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions Plans – an amendment of GASB Statement No. 27*. Statement No. 68 relates to accounting and financial reporting pension plans and does not apply to how governments approach the funding of their pension plans.

GASB Statement No. 70, *Accounting for Financial Reporting for Nonexchange Financial Guarantees*, this statement specifies the information required to be disclosed by governments that extend nonexchange financial guarantees. Application of Statement No. 70 is effective for the City's fiscal year ending June 30, 2014.

OTHER REPORTS

**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**

Independent Auditor's Report

City Council
City of Visalia
Visalia, 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 Measure R Transportation Fund of the City of Visalia, California (City), for the years ended June 30, 2013 and 2012, and the related notes to the financial statement, and have issued our report thereon dated March 12, 2014.

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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City's internal control. Accordingly, we do not express an opinion on the effectiveness of City's internal control.

A *deficiency in internal control* exists when the design or operation of 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 and therefore, material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in the 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 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, 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 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* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Pressley & Associates, Inc.

Accountancy Corporation
Arroyo Grande, California
March 12, 2014