

CITY OF VISALIA

Transportation and Transit Funds

Audited Financial Statements
Years Ended June 30, 2013 and 2012

CITY OF VISALIA
Transportation and Transit Funds
Years Ended June 30, 2013 and 2012

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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 Transportation and Transit Funds 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Transportation and Transit Funds 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 Transportation and Transit Funds 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 Transportation and Transit Funds 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

March 12, 2014

CITY OF VISALIA
Local Transportation Fund

Balance Sheets
June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
<u>Assets</u>		
Cash and investments	\$ 713,481	\$ 517,231
Taxes receivable	-	-
Due from other funds	952,363	952,363
Due from other governmental agencies	<u>3,139,002</u>	<u>1,170,019</u>
Total Assets	<u>\$ 4,804,846</u>	<u>\$ 2,639,613</u>
 <u>Liabilities and Fund Balance</u>		
Liabilities		
Accounts payable	\$ 542,516	\$ 404,852
Advances	2,819,713	2,234,761
Due to other funds	<u>-</u>	<u>-</u>
Total Liabilities	3,362,229	2,639,613
Fund Balance		
Restricted for:		
Laws and regulations of other governments	<u>1,442,617</u>	<u>-</u>
Total Liabilities and Fund Balance	<u>\$ 4,804,846</u>	<u>\$ 2,639,613</u>

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

CITY OF VISALIA
Local 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		
Local Transportation Funds	\$ 200,000	\$ 50,000
Other grants	6,110,331	2,088,669
Other revenues	405,764	13
Interest	<u>3,353</u>	<u>4,071</u>
Total Revenues	6,719,448	2,142,753
Expenditures		
Construction and maintenance	5,293,338	3,922,472
Administration	<u>-</u>	<u>2,912</u>
Total Expenditures	<u>5,293,338</u>	<u>3,925,384</u>
Revenues (Under) Expenditures	<u>1,426,110</u>	<u>(1,782,631)</u>
Other Sources and (Uses)		
Transfers out	-	(79,813)
Transfers in	<u>16,507</u>	<u>915,387</u>
Total Other Sources and Uses	<u>16,507</u>	<u>835,574</u>
Net Change in Fund Balances	1,442,617	(947,057)
Fund Balance, July 1	<u>-</u>	<u>947,057</u>
Fund Balance, June 30	<u><u>\$ 1,442,617</u></u>	<u><u>\$ -</u></u>

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

CITY OF VISALIA
Transit Fund

Statements of Net Position
June 30, 2013 and 2012

	2013	2012
<u>Assets</u>		
Current Assets		
Cash and investments	\$ 7,767,684	\$ 4,732,268
Accounts receivable	108,036	84,094
Prepaid expenses	2,626	3,939
Due from other funds	-	-
Due from other governmental agencies	6,532,531	7,604,317
Total Current Assets	14,410,877	12,424,618
Capital Assets		
Non-depreciable	3,980,275	15,357,325
Depreciable	47,338,920	33,590,635
Accumulated depreciation	(13,080,244)	(10,840,558)
Total Capital Assets, net	38,238,951	38,107,402
Total Assets	52,649,828	50,532,020
<u>Liabilities</u>		
Current Liabilities		
Accounts payable	382,178	404,633
Due to other funds	-	-
Unearned revenue	812,362	1,343,047
Compensated absences	-	-
Total Current Liabilities	1,194,540	1,747,680
Noncurrent Liabilities:		
Compensated absences	40,023	37,381
Total Liabilities	1,234,563	1,785,061
Net Position		
Net investment in capital assets	38,238,951	38,107,402
Unrestricted	13,176,314	10,639,557
Total Net Position	\$ 51,415,265	\$ 48,746,959

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

CITY OF VISALIA
Transit Fund

Statements of Revenues, Expenses, and Changes in Net Position
For the Years Ended June 30, 2013 and 2012

	2013	2012
Operating Revenues		
Fares	\$ 2,708,470	\$ 2,157,816
Other operating revenue	-	-
	2,708,470	2,157,816
Operating Expenses		
Maintenance and operations	6,685,090	6,938,319
Salaries and employee benefits	587,300	569,602
General and administrative	848,993	715,276
Depreciation	2,269,646	1,855,790
Total Operating Expenses	10,391,029	10,078,987
Operating (Loss)	(7,682,559)	(7,921,171)
Non-Operating Revenues (expenses)		
Interest	50,169	49,276
Local Transportation Funds	3,425,897	3,755,333
State Transit Assistance Funds	538,029	54,450
Measure R	718,200	718,200
Proposition 1B PTMISEA Funds	-	3,738,861
Other grants	5,979,775	9,332,658
Other expenses	(616,080)	(332,162)
Rental of facilities	229,081	67,829
Other income	25,794	349,032
Total Non-Operating Revenues	10,350,865	17,733,477
Change in Net Position	2,668,306	9,812,306
Total Net Position - Beginning of Year	48,746,959	38,934,653
Total Net Position - End of Year	\$ 51,415,265	\$ 48,746,959

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

CITY OF VISALIA
Transit Fund

Statements of Cash Flow -
For the Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Cash Flows from Operating Activities		
Cash received from customers	\$ 2,684,528	\$ 2,145,234
Cash payments to suppliers for goods and services	(7,555,225)	(7,641,979)
Cash payments to employees for services	<u>(584,658)</u>	<u>(561,178)</u>
Net Cash Used in Operating Activities	<u>(5,455,355)</u>	<u>(6,057,923)</u>
Cash Flows from Non-Capital Financing Activities		
Local Transportation Funds	3,425,897	3,755,333
State Transit Assistance Funds	538,029	54,450
Loans from (to) other funds	-	(50,000)
Measure R	718,200	718,200
Other grants	3,944,533	2,503,259
Other income/expense	<u>(361,205)</u>	<u>84,699</u>
Net Cash Provided from Non-Capital Financing Activities	<u>8,265,454</u>	<u>7,065,941</u>
Cash Flows from Capital and related Financing Activities		
Proposition 1B PTMISEA Funds	-	3,738,861
Acquisition of capital assets - Proposition 1B PTMISEA Funds	-	(3,740,436)
Capital grants	2,878,814	-
Acquisition of capital assets	<u>(2,703,666)</u>	<u>(884,923)</u>
Net Cash (Used) in Capital and Related Financing Activities	<u>175,148</u>	<u>(886,498)</u>
Cash Flows from Investing Activities		
Interest income	<u>50,169</u>	<u>49,276</u>
Net Increase in Cash and Cash Equivalents	3,035,416	170,796
Cash - Beginning of Year	<u>4,732,268</u>	<u>4,561,472</u>
Cash - End of Year	<u>\$ 7,767,684</u>	<u>\$ 4,732,268</u>
Reconcile of Operating Loss to Net Cash Used in Operating Activities		
Operating loss	\$(7,682,559)	\$(7,921,171)
Adjustment to reconcile operating loss to net cash used in operating activities:		
Depreciation	2,269,646	1,855,790
Change in assets and liabilities		
(Increase) decrease in accounts receivable	(23,942)	(12,582)
(Increase) decrease in prepaid expenses	1,313	1,313
Increase (decrease) in accounts payable	(22,455)	10,303
Increase (decrease) in compensated absences	2,642	8,424
Net Cash Used in Operating Activities	<u>\$(5,455,355)</u>	<u>\$(6,057,923)</u>

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

CITY OF VISALIA
Transportation and Transit Funds

Notes to Financial Statements
June 30, 2013 and 2012

Note 1: Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements are intended to reflect the financial position, results of operation and compliance of the Transportation Development Act (TDA), Public Transportation Modernization Improvement and Service Enhancement Account (PTMISEA) and Measure R funds allocated for non-transit and transit purposes to the Transportation Fund and the Transit Fund of the City of Visalia (City) with the laws, rules and regulations of the Transportation Development Act, certain bond act requirements 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 assets, 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 various funds are grouped, in the financial statements in this report, into two generic fund types and two broad fund categories 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 Transportation Fund is a Special Revenue Fund.

Proprietary Funds

Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through use charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accounting ability, or other purposes. The Transit Fund is an Enterprise 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*.

CITY OF VISALIA
Transportation and Transit Funds

Notes to Financial Statements
June 30, 2013 and 2012

Note 1: Summary of Significant Accounting Policies (continued)

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.

The proprietary fund financial statements are 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.

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. Capital Assets

Capital Assets are defined as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year.

As the City acquires additional capital assets, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs, which are amounts essentially spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimates. In the case of donations, capital assets are valued at their estimated fair value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follows:

Buildings	25 to 50 years
Improvements other than buildings	10 to 20 years
Machinery, equipment and vehicles	3 to 10 years

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

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.

H. 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 Transportation Fund and the Transit Fund on a monthly basis, based on weighted average cash balances in each 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
Transportation and Transit Funds

Notes to Financial Statements
June 30, 2013 and 2012

Note 3: Capital Assets

The changes in Capital Assets and the related accumulated depreciation for the years ended June 30, 2013 and 2012 are as follows:

	Balance July 1, 2012	Additions	Deletions	Balance June 30, 2013
Capital Assets:				
Non-depreciable assets:				
Land	\$ 3,961,902	\$ -	\$ -	\$ 3,961,902
Construction in Progress	11,395,423	21,231	11,398,281	18,373
Total non- depreciable assets	15,357,325	21,231	11,398,281	3,980,275
Depreciable assets:				
Buildings	6,494,733	11,095,810	-	17,590,543
Machinery and equipment	24,493,526	2,685,763	33,288	27,146,001
Improvements	2,602,376	-	-	2,602,376
Total depreciable assets	33,590,635	13,781,573	33,288	47,338,920
Less: accumulated depreciation	10,840,558	2,269,646	29,960	13,080,244
Capital Assets, net	\$ 38,107,402	\$ 11,533,158	\$ 11,401,609	\$ 38,238,951
	Balance July 1, 2011	Additions	Deletions	Balance June 30, 2012
Capital Assets:				
Non-depreciable assets:				
Land	\$ 2,839,871	\$ 1,122,031	\$ -	\$ 3,961,902
Construction in Progress	13,170,026	255,124	2,029,727	11,395,423
Total non- depreciable assets	16,009,897	1,377,155	2,029,727	15,357,325
Depreciable assets:				
Buildings	6,494,733	-	-	6,494,733
Machinery and equipment	21,383,629	4,054,994	945,097	24,493,526
Improvements	434,342	2,168,034	-	2,602,376
Total depreciable assets	28,312,704	6,223,028	945,097	33,590,635
Less: accumulated depreciation	9,837,591	1,855,790	852,823	10,840,558
Capital Assets, net	\$ 34,485,010	\$ 5,744,393	\$ 2,122,001	\$ 38,107,402

Note 4: Fare Revenue Ratio

The City is required under the Transportation Development Act to maintain a fare revenue to operating expense ratio of 20%. The City met the fare revenue to operating expense ratio goal of 20% for the fiscal years ended June 30, 2013 and 2012. The calculation of the fare revenue ratios for the fiscal years ended June 30, 2013 and 2012 is as follows:

CITY OF VISALIA
Transportation and Transit Funds

Notes to Financial Statements
June 30, 2013 and 2012

Note 4: Fare Revenue Ratio (continued)

	2013	2012
Fares	\$ 2,708,470	\$ 2,157,816
Measure R fares supplement	120,000	120,000
Total Fare Revenue	\$ 2,828,470	\$ 2,277,816
Operating Expenses	\$ 10,391,029	\$ 10,078,987
Less: Depreciation	(2,269,646)	(1,855,790)
Net Operating Expenses	\$ 8,121,383	\$ 8,223,197
Ratio	34.83%	27.70%

The City met its fare revenue to operating expense ratio objective of 20% for the fiscal years ended June 30, 2013 and 2012.

Note 5: 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 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.

During the fiscal year ended June 30, 2013, the City did not receive any proceeds from the State's PTMISEA account. During the fiscal year 2012, the City applied for, received and expended proceeds of \$3,738,861 from the State's PTMISEA account for transit facility expansion. Qualifying expenditures must be encumbered within three years from the date of the allocation and expended within three years from the date of the encumbrance. As of June 30, 2013, PTMISEA funds received and expended were verified in the course of our audit as follows:

	2013	2012
Unexpended proceeds at July 1:	\$ -	\$ -
PTMISEA Revenues	-	3,738,861
Interest earned on PTMISEA Funds	-	1,485
Total available	-	3,740,346
Qualifying expenditures incurred	-	(3,740,346)
Unexpended proceeds at June 30:	\$ -	\$ -

Note 6: 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.

CITY OF VISALIA
Transportation and Transit Funds

Notes to Financial Statements
June 30, 2013 and 2012

Note 7: 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, 1989 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*,
TRANSPORTATION DEVELOPMENT ACT, PUBLIC TRANSPORTATION MODERNIZATION IMPROVEMENT AND SERVICE ENHANCEMENT ACCOUNT (PTMISEA) AND MEASURE R**

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 Transportation and Transit Funds of the City of Visalia, California (City), for the year ended June 30, 2013 and 2012, and the related notes to the financial statements, 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 Transportation and Transit Funds 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 Transportation and Transit 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 TDA, and Measure R funds allocated to and received by the City were expended in conformance with applicable statutes, rules and regulations of the TDA, Measure R Ordinance and allocation instructions and resolutions of Tulare County Association of Governments and Tulare County Transportation Authority as required by Section 6667 of Title 21 of the California Code of Regulations. Our audit was expanded to include verification of receipt and appropriated expenditures of PTMISEA bond funds in accordance with Government Code 8879.55(f). 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*, the TDA, Measure R and PTMISEA.

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