

CITY OF VISALIA, CALIFORNIA
MEASURE R TRANSPORTATION FUND
FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED
JUNE 30, 2016 AND 2015

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**CITY OF VISALIA
MEASURE R TRANSPORTATION FUND
FOR THE FISCAL YEARS ENDED JUNE 30, 2016 AND 2015**

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INDEPENDENT AUDITOR'S REPORT

To Honorable Mayor and Members of the City Council
of the City of Visalia
Visalia, California

Report on the Financial Statements

We have audited the accompanying financial statements of the City of Visalia Measure R Transportation Fund of the City of Visalia, California (City), as of and for the years ended June 30, 2016 and 2015, 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 the 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 audits. We conducted our audits 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 audits 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 Measure R Transportation Fund'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 Measure R Transportation Fund'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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Measure R Transportation Fund as of June 30, 2016 and 2015, and the changes in financial positions for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Measure R Transportation Fund and do not purport to, and do not present fairly the financial positions of the City as of June 30, 2016 and 2015, or the changes in its financial positions, 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report 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.

Pleasant Hill, California
January 5, 2017

CITY OF VISALIA
 MEASURE R TRANSPORTATION FUND
 BALANCE SHEETS
 JUNE 30, 2016 AND 2015

	2016	2015
ASSETS		
Cash and investments	\$5,362,591	\$5,902,794
Accounts receivable		2,750
Due from other governmental agencies	265,210	1,276,898
TOTAL ASSETS	\$5,627,801	\$7,182,442
LIABILITIES		
Accounts payable	\$339,518	\$635,499
Due to other City funds		934,963
TOTAL LIABILITIES	339,518	1,570,462
FUND BALANCE		
Restricted for:		
Laws and regulations of other governments	5,288,283	5,611,980
FUND BALANCE	5,288,283	5,611,980
TOTAL LIABILITIES AND FUND BALANCE	\$5,627,801	\$7,182,442

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 BALANCES
 FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
REVENUES		
Measure R transportation funds	\$2,554,976	\$2,388,209
Measure R trailway funds	1,077,891	2,445,535
Intergovernmental grants	150,398	821,220
Other revenue	9	184,106
Interest	36,799	21,491
TOTAL REVENUES	3,820,073	5,860,561
 EXPENDITURES		
Local program	2,707,696	1,161,652
Trailway	1,083,280	1,079,999
Special projects	352,794	415,459
TOTAL EXPENDITURES	4,143,770	2,657,110
 Excess (deficiency) of revenues over expenditures	(323,697)	3,203,451
 OTHER FINANCING SOURCES (USES)		
Transfers (out)		(41,801)
Total other financing sources (uses)		(41,801)
 Net changes in fund balance	(323,697)	3,161,650
 Fund balances, beginning of year	5,611,980	2,450,330
 Fund balances, end of year	\$5,288,283	\$5,611,980

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

**CITY OF VISALIA
MEASURE R TRANSPORTATION FUND
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015**

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 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.

CITY OF VISALIA
MEASURE R TRANSPORTATION FUND
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

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, deferred outflows, liabilities, deferred inflows, 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.

**CITY OF VISALIA
MEASURE R TRANSPORTATION FUND
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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* - amounts that cannot be spent because they are either (a) not spendable in form or (b) legally or contractually required 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 provisions or enabling legislation.
- *Committed* - 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* - 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* - 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.

**CITY OF VISALIA
MEASURE R TRANSPORTATION FUND
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015**

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.

**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**

The Honorable Mayor and Members of the City Council
of the 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 (the City), as of and for the year ended June 30, 2016, and the related notes to the financial statements, and have issued our report. Our report included an emphasis of a matter paragraph disclosing the implementation of new accounting principles.

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) 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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 may exist that were not identified. However, we identified certain deficiencies that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies listed on the Schedule of Material Weaknesses included as part of our separately issued Memorandum on Internal Control dated December 29, 2016, which is an integral part of our audit and should be read in conjunction with this report, to be material weaknesses.

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. We consider the deficiencies listed on the Schedule of Significant Deficiencies included as part of our separately issued Memorandum on Internal Control dated December 29, 2016 which is an integral part of our audit and should be read in conjunction with this report, to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's Measure R Transportation Fund financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. 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 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*.

We have also issued a separate Memorandum on Internal Control dated December 29, 2016 which is an integral part of our audit and should be read in conjunction with this report.

City's Response to Findings

The City's response to the findings identified in our audit are described in our separately issued Memorandum on Internal Control dated December 29, 2016 which is an integral part of our audits and should be read in conjunction with this report. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance relevant to the Measure R Fund and the result of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance relevant to the Measure R 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 Fund. Accordingly, this communication is not suitable for any other purpose.

Pleasant Hill, California
January 5, 2017