CITY OF VISALIA, CALIFORNIA

TRANSPORTATION AND TRANSIT FUNDS

FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED
JUNE 30, 2015 AND 2014

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CITY OF VISALIA
TRANSPORTATION AND TRANSIT FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015 AND 2014

Table of Contents

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INDEPENDENT AUDITOR'S REPORT

To the 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 Transportation and Transit Funds of the City of Visalia, California (City), as of and for the year ended June 30, 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Transportation and Transit Funds as of June 30, 2015, and the change in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

Management adopted the provisions of the following Governmental Accounting Standards Board (GASB) Statements, which became effective during the year ended June 30, 2015 that required prior period adjustments to the financial statements, as discussed in Note 5C to the financial statements:

- *Statement No. 68, Accounting and Financial Reporting for Pensions— an amendment of GASB Statement No. 27.*

- *Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date— an amendment of GASB Statement No. 68.*

As discussed in Note 1J, management restated beginning fund balance by $951,435.

The emphasis of these matters does not constitute a modification to our opinion.

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 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 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 Transportation and Transit Funds.

Report on Summarized Comparative Information

The Transportation and Transit Funds financial statements for fiscal year 2014 were audited by other auditors, and an unmodified audit opinion was expressed on those audited financial statements in the predecessor auditor's report dated March 27, 2015. The summarized comparative information presented herein as of and for the year ended June 30, 2014 is consistent, in all material respects, with the audited financial statements from which it has been derived other than for the prior period adjustments discussed in Notes 1J and 5C.

Maze & Associates

Pleasant Hill, California
February 23, 2016

CITY OF VISALIA
LOCAL TRANSPORTATION FUND
BALANCE SHEET
JUNE 30, 2015 AND 2014

	2015	2014
ASSETS		
Cash and investments	$1,299,952	$720,183
Due from other City funds		927
Due from other governmental agencies	842,913	1,370,848
TOTAL ASSETS	$2,142,865	$2,091,958
LIABILITIES		
Accounts payable	$111,528	$157,249
Due to other City funds	1,988	447,157
TOTAL LIABILITIES	113,516	604,406
FUND BALANCE		
Restricted for:		
Laws and regulations of other governments	2,029,349	1,487,552
FUND BALANCE	2,029,349	1,487,552
TOTAL LIABILITIES AND FUND BALANCE	$2,142,865	$2,091,958

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

CITY OF VISALIA
LOCAL TRANSPORTATION FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

	2015	2014
REVENUES		
Local Transportation Funds	$200,000	$200,000
Other grants	2,130,511	4,043,162
Other revenues	21,255	223
Interest	5,029	6,803
TOTAL REVENUES	2,356,795	4,250,188
EXPENDITURES		
Construction and maintenance	1,812,842	3,251,590
Administration	2,156	2,228
TOTAL EXPENDITURES	1,814,998	3,253,818
Net change in fund balance	541,797	996,370
Fund balance, beginning of year (As restated Notes 1I and 5C)	1,487,552	1,442,617
Prior period adjustment (Note 1I)		(951,435)
Fund balance, end of year	$2,029,349	$1,487,552

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

CITY OF VISALIA
TRANSIT FUND
STATEMENT OF NET POSITION
JUNE 30, 2015 AND 2014

	2015	2014
ASSETS		
Current assets		
Cash and investments	$10,309,117	$8,590,736
Accounts receivable	54,438	250,683
Prepaid expenses	8	1,313
Due from other governmental agencies	9,783,803	9,746,961
Total current assets	20,147,366	18,589,693
Capital assets		
Non-depreciable	4,241,382	4,070,524
Depreciable	45,510,173	47,647,151
Accumulated depreciation	(16,182,653)	(15,571,713)
Total capital assets, net	33,568,902	36,145,962
Total Assets	53,716,268	54,735,655
DEFERRED OUTFLOWS OF RESOURCES		
Related to pensions	114,389	
LIABILITIES		
Current liabilities		
Accounts payable	1,041,929	517,749
Due to other governmental agencies		2,814,925
Grant advances	1,772,616	806,068
Compensated absences	3,683	3,572
Notes payable	15,783	
Total current liabilities	2,834,011	4,142,314
Noncurrent liabilities		
Compensated absences	35,412	34,926
Notes payable	67,890	
Net pension liability	1,216,608	
Total noncurrent liabilities	1,319,910	34,926
Total liabilities	4,153,921	4,177,240
DEFERRED INFLOWS OF RESOURCES		
Related to pensions	253,844	
NET POSITION		
Net investment in capital assets	33,485,230	36,145,962
Restricted	15,937,662	14,412,453
Total net position	$49,422,892	$50,558,415

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

CITY OF VISALIA
TRANSIT FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE FISCAL YEARS ENDED JUNE 30, 2015 AND 2014

	2015	2014
OPERATING REVENUES		
Fares	$2,854,673	$2,460,851
Other operating revenues	614,402	168,388
Total operating revenues	3,469,075	2,629,239
OPERATING EXPENSES		
Maintenance and operations	10,665,246	9,192,928
Salaries and employee benefits	737,764	598,235
General and administrative		1,076,600
Depreciation	2,671,941	2,740,329
Total operating expenses	14,074,951	13,608,092
Operating loss	(10,605,876)	(10,978,853)
NONOPERATING REVENUES (EXPENSES)		
Interest	51,121	60,920
Local Transportation Funds	3,640,053	3,506,826
State Transit Assistance Funds	1,901,573	1,157,461
Measure R	725,892	783,200
Federal Transit Assistance Funds	4,230,329	4,234,743
Other expenses		(198,107)
Rental of facilities	264,115	234,374
Other income	47,685	361,363
Total nonoperating revenues (expenses)	10,860,768	10,140,780
Change in net position	254,892	(838,073)
Net position, beginning (As restated Notes 1J and 5C)	50,558,415	51,415,265
Prior period adjustment (Note 1J)	(1,390,415)	(18,777)
Net position, ending	$49,422,892	$50,558,415

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

CITY OF VISALIA
TRANSIT FUND
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEARS ENDED JUNE 30, 2015 AND 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	$814,858	$2,069,623
Cash payments to suppliers for goods and services	(10,057,393)	(10,141,776)
Cash payments to employees for services	(752,741)	(598,235)
Net cash provided by operating activities	(9,995,276)	(8,670,388)
CASH FLOWS FROM NONCAPITAL FINANCIAL ACTIVITIES		
Local Transportation Funds	3,640,053	3,506,826
State Transit Assistance Funds	1,901,573	1,157,461
Measure R	725,892	783,200
Other grants	4,230,329	4,234,743
Other income (expense)	311,800	397,630
Net cash provided by noncapital financing activities	10,809,647	10,079,860
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital grants	966,548	
Purchases of capital assets	(170,858)	
Retirements of capital assets	75,976	
Proceeds of capital assets		(647,340)
Net cash used in capital and related financing activities	871,666	(647,340)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income	51,121	60,920
Net increase (decrease) in cash and cash equivalents	1,737,158	823,052
Cash and cash equivalents, beginning of the year	8,571,959	7,748,907
Cash and cash equivalents, end of the year	$10,309,117	$8,571,959
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES		
Operating income (loss)	($10,605,876)	($10,978,853)
Adjustments to reconcile operating income (loss) to net cash used in operating activities		
Depreciation	2,671,941	2,740,329
Change in assets and liabilities:		
(Increase)/Decrease in accounts receivable	196,245	(142,647)
(Increase)/Decrease in prepaid expenses	1,305	1,313
(Increase)/Decrease in due from other governments	(36,842)	(3,233,207)
(Increase)/Decrease in accounts payable	524,180	129,277
(Increase)/Decrease in due to other governments	(2,814,925)	2,814,925
(Increase)/Decrease in notes payable	83,673	
(Increase)/Decrease in compensated absences	597	(1,525)
(Increase)/Decrease in retirement system	(15,574)	
Net cash provided (used by) operating activities	($9,995,276)	($8,670,388)

The accompanying notes are an integral part of these financial statements

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The financial statements of the Transportation and Transit Funds 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 Governmental Accounting Standards Board (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 Transportation Development Act (TDA) funds allocated for non-transit and transit purposes to the Transportation Fund and the Transit Fund of the City with the laws, rules and regulations of the TDA, 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, in conformity with accounting principles generally accepted in the United States of America.

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 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 l eases 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.

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.

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. 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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. 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.

H. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position or balance sheets report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position or fund balance that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. In addition to liabilities, the statement of financial position or balance sheet will report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of not position or fund balance that applies to a future period(s) and so will not be recognized as inflow of resources (revenue) until that time.

I. 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.

Restricted Fund Balance - amounts that have externally enforceable limitation on use that are either imposed by law or constrained by granters, 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 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

J. Prior Period Adjustments

During fiscal year ended June 30, 2015, the City analyzed its amounts due to the City as of June 30, 2014 and due to timing differences, recorded prior period adjustments in the amounts of $951,435 and $18,777, respectively, for the Transportation Grants Special Revenue Fund and the Transit Proprietary Fund.

The City also recorded a prior period adjustment in the amount of $1,390,415 in the Transit Proprietary Fund for its share of the City's net pension liability due to the implementation of GASB 68 and 71. The amounts were not restated back to fiscal year ended June 30, 2014, as necessary information was not available for that period. See Note 5 for further details.

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.

NOTE 3 - CAPITAL ASSETS

The changes in capital assets and the related accumulated depreciation for the years ended June 30, 2015 and 2014, are as follows:

	July 1, 2014	Additions	Deletions	June 30, 2015
Nondepreciable assets:				
Land	$3,961,902			$3,961,902
Construction in progress	108,622	$170,858		279,480
Total nondepreciable assets	4,070,524	170,858		4,241,382
Depreciable assets:				
Buildings	17,590,543			17,590,543
Vehicles and equipment	27,454,232		($2,136,978)	25,317,254
Improvements	2,602,376			2,602,376
Total depreciable assets	47,647,151		(2,136,978)	45,510,173
Less accumulated depreciation	(15,571,713)	(2,671,942)	2,061,002	(16,182,653)
Total depreciable assets, net	32,075,438	(2,671,942)	(75,976)	29,327,520
Total capital assets	$36,145,962	($2,501,084)	($75,976)	$33,568,902

	July 1, 2013	Additions	Deletions	June 30, 2014
Nondepreciable assets:				
Land	$3,961,902			$3,961,902
Construction in progress	18,373	$90,249		108,622
Total nondepreciable assets	3,980,275	90,249		4,070,524
Depreciable assets:				
Buildings	17,590,543			17,590,543
Vehicles and equipment	27,146,001	767,967	(459,736)	27,454,232
Improvements	2,602,376			2,602,376
Total depreciable assets	47,338,920	767,967	(459,736)	47,647,151
Less accumulated depreciation	(13,080,244)	(2,746,478)	255,009	(15,571,713)
Total depreciable assets, net	34,258,676	(1,978,511)	(204,727)	32,075,438
Total capital assets	$38,238,951	($1,888,262)	($204,727)	$36,145,962

NOTE 4 - FARE REVENUE RATIO

The City is required under the TOA to maintain 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, 20 15 and 2014. The calculation of the fare revenue ratios for the fiscal years ended June 30, 2015 and 2014, is as follows:

	2015	2014
Total fare revenue	$2,854,675	$2,460,851
Operating expense	14,074,952	13,608,092
Less: depreciation	(2,671,942)	(2,740,329)
Net operating expenses	$11,403,010	$10,867,763
Ratio	25.03%	22.64%

NOTE 5 – EMPLOYEE BENEFITS

A. General Information about the Pension Plans

Plan Descriptions – All qualified permanent and probationary employees are eligible to participate in the City of Visalia separate Safety (police and fire) and Miscellaneous (all other) Plans, agent multiple-employer defined benefit pension plans administered by the California Public Employees' Retirement System (CalPERS), which acts as a common investment and administrative agent for its participating member employers. Benefit provisions under the Plans are established by State statute and City of Visalia resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

Benefits Provided – CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

NOTE 5 – EMPLOYEE BENEFITS (Continued)

The Plans' provisions and benefits in effect at June 30, 2015, are summarized as follows:

	Miscellaneous			
Hire date	Prior to May 9, 2008	On or after May 10, 2008 through May 20, 2011	On or after May 21, 2011 through December 31, 2012	On or after January 1, 2013 through current
Benefit formula	3% @ 60	2.5% @ 55	2% @ 60	2% @ 62
Benefit vesting schedule	5 years service	5 years service	5 years service	5 years service
Benefit payments	monthly for life	monthly for life	monthly for life	monthly for life
Retirement age	50	52	50	52
Monthly benefits, as a % of eligible compensation	2.0%-3.0%	2.0%-2.5%	1.09%-2.42%	1.0%-2.5%
Required employee contribution rates	8%	8%	7%	6.75%
Required employer contribution rates	19.979%	19.979%	19.979%	13.30%

Contributions – Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for both Plans are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The City of Visalia is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

For the year ended June 30, 2015, the contributions recognized as part of pension expense for each Plan were as follows:

	Miscellaneous
Contributions - employer	$61,443

NOTE 5 – EMPLOYEE BENEFITS (Continued)

B. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions

As of June 30, 2015, the Transportation and Transit Funds (the Funds) reported a collective net pension liability for its proportionate share of the net pension liability of the Plan of $1,216,608.

The Funds collective net pension liability for its Plan is measured as the proportionate share of the net pension liability. The net pension liability of their Plan is measured as of June 30, 2014, and the total pension liability for its Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2013 rolled forward to June 30, 2014 using standard update procedures. The Funds' proportion of the net pension liability was based on a projection of the Funds' long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined. The Funds' proportionate share of the net pension liability for its Plan as of June 30, 2013 and 2014 was as follows:

	Miscellaneous
Proportion - June 30, 2013	1.4%
Proportion - June 30, 2014	1.4%
Change - Increase (Decrease)	0.0%

For the year ended June 30, 2015, the Funds recognized pension expense of $137,242. At June 30, 2015, the Funds reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$114,389	
Net differences between projected and actual earnings on plan investments		$253,844
Total	$114,389	$253,844

$81,201 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ending June 30	
2016	$63,461
2017	63,461
2018	63,461
2019	63,461

NOTE 5 – EMPLOYEE BENEFITS (Continued)

Actuarial Assumptions – The total pension liabilities in the June 30, 2013 actuarial valuations were determined using the following actuarial assumptions:

Valuation Date	June 30, 2013
Measurement Date	June 30, 2014
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.5%
Inflation	2.75%
Payroll Growth	3.0%
Projected Salary Increase	3.3% - 14.2% (1)
Investment Rate of Return	7.5% (2)
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchase Power applies, 2.75% thereafter
Mortality	Derived using CalPers Membership Data for all Funds (3)

(1) Depending on age, service and type of employment
(2) Net of pension plan investment expenses, including inflation
(3) The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the CalPERS 2014 experience study report available on CalPERS' website.

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2013 valuation were based on the results of a January 2014 actuarial experience study for the period 1997 to 2011. Further details of the Experience Study can found on the CalPERS website.

Discount Rate – The discount rate used to measure the total pension liability was 7.50% for each Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.50 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.50 percent will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50 percent investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65 percent. Using this lower discount rate has resulted in a slightly higher Total Pension Liability and Net Pension Liability. CalPERS checked the materiality threshold for the difference in calculation and did not find it to be a material difference.

NOTE 5 – EMPLOYEE BENEFITS (Continued)

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as we have changed our methodology.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

Asset Class	New Strategic Allocation	Real Return Years 1 - 10 (a)	Real Return Years 11+ (b)
Global Equity	47.0%	5.25%	5.71%
Global Fixed Income	19.0%	0.99%	2.43%
Inflation Sensitive	6.0%	0.45%	3.36%
Private Equity	12.0%	6.83%	6.95%
Real Estate	11.0%	4.50%	5.13%
Infrastructure and Forestland	3.0%	4.50%	5.09%
Liquidity	2.0%	-0.55%	-1.05%
Total	100%		

(a) An expected inflation of 2.5% was used for this period.
(b) An expected inflation of 3.0% was used for this period.

NOTE 5 – EMPLOYEE BENEFITS (Continued)

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the Alliance's proportionate share of the net pension liability for each Plan, calculated using the discount rate for each Plan, as well as what the Alliance's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	Miscellaneous
1% Decrease	6.50%
Net Pension Liability	$1,914,178
Current Discount Rate	7.50%
Net Pension Liability	$1,216,608
1% Increase	8.50%
Net Pension Liability	$706,119

Pension Plan Fiduciary Net Position – Detailed information about each pension plan's fiduciary net position is available in the separately issued CalPERS financial reports.

C. Governmental Accounting Standards Board (GASB) Statements No. 68 and 71 Prior Period Adjustment

During the fiscal year ended June 30, 2015, the Funds implemented the provisions of GASB No. 68 and 71 – *Accounting and Financial Reporting for Pensions.* Accordingly, beginning net position was reduced by $1,371,638. The reduction reflects the recording of the Fund's net pension liability as well as deferred inflows of resources and deferred outflows of resources as required under the new GASBs.

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REQUIRED SUPPLEMENTARY INFORMATION

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COST-SHARING EMPLOYER DEFINED PENSION PLAN:

SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

This schedule reports the proportion (percentage) of the collective net pension liability, the proportionate share (amount) of the collective net pension liability, the employer's covered employee payroll, the proportionate share (amount of the collective net pension liability as a percentage of the employer's covered employee payroll and the pension plan's fiduciary net position as a percentage of the total pension liability.

SCHEDULE OF CONTRIBUTIONS

This schedule reports the cost sharing employer's contributions to the plan which are actuarially determined, the employer's actual contributions, the difference between the actual and actuarially determined contributions, and a ratio of the actual contributions divided by covered employee payroll.

CITY OF VISALIA
TRANSPORTATION AND TRANSIT FUNDS
REQUIRED SUPPLEMENTARY INFORMATION

Cost-Sharing Multiple-Employer Defined Pension Plan
Last Two Fiscal Years

SCHEDULE OF THE PLAN'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY AND RELATED RATIO AS OF THE MEASUREMENT DATE

	Miscellaneous Plan	
	6/30/2014	**6/30/2015**
Plan's Proportion of the Net Pension Liability/Asset	1.6%	1.6%
Plan's Proportionate Share of the Net Pension Liability/(Asset)	$1,356,063	$1,216,608
Plan's Covered-Employee Payroll	$400,190	$501,124
Plan's Proportionate Share of the Net Pension Liability/(Asset) as a Percentage of it's Covered-Employee Payroll	1.6%	1.6%
Plan's Proportionate Share of the Net Pension Liability/(Asset) as a Percentage of the Plan's Total Pension Liability	1.6%	1.6%
Plan's Proportionate Share of Aggregate Employer Contributions	$61,443	$81,201

CITY OF VISALIA
TRANSPORTATION AND TRANSIT FUNDS
REQUIRED SUPPLEMENTARY INFORMATION

Cost-Sharing Multiple-Employer Defined Pension Plan
Last Two Years
SCHEDULE OF CONTRIBUTIONS

	MISCELLANEOUS	
	2014	**2015**
Actuarially determined contribution	$61,443	$81,201
Contributions in relation to the actuarially determined contributions	(61,443)	(81,201)
Contribution deficiency (excess)	$0	$0
Covered-employee payroll	$400,190	$501,124
Contributions as a percentage of covered-employee payroll	15.35%	16.20%

Notes to Schedule

Valuation date: 6/30/2013

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	30 years
Asset valuation method	5-year smoothed market
Inflation	2.75%
Salary increases	Varies by Entry Age and Service
Investment rate of return	expense, including inflation
Retirement age	59 years old
Mortality	The mortality table used was

* Fiscal year 2015 was the 1st year of implementation, therefore only one year is shown.

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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; 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 *Governmental Auditing Standards* issued by the Comptroller General of the United Sates, the financial statements of the Transportation and Transit Funds of the City of Visalia (the City) as of and for the year ended June 30, 2015, and the related notes to the financial statements and have issued our report. Our audit was further made to determine that Transportation Development Act funds allocated to and received by the City were expended in conformance with the applicable statutes, rules, and regulations of the Transportation Development Act, including Section 6666 and 6667 of Title 21, Chapter 3 of the California Code of Regulations, and the allocation instructions and resolutions of the Tulare County Association of Governments. Our report included an emphasis of a matter paragraph disclosing the implementation of new accounting principles and a restatement of beginning balances.

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 January 26, 2016, which is an integral part of our audit and should be read in conjunction with this report, to be material weaknesses.

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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 January 26, 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 Transportation and Transit Funds 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 procedures included the applicable audit procedures contained in §6667 of Title 21 of California Code of Regulations and tests of compliance with the applicable provisions of the Transportation Development Act and the allocation instructions and resolutions of the 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 January 26, 2016 which is an integral part of our audit and should be read in conjunction with this report.

City's Response to Findings

City's response to the findings identified in our audit are described in our separately issued Memorandum on Internal Control dated January 26, 2016 which is an integral part of our audits and should be read in conjunction with this report. 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 and the result of that testing, and not to provide an opinion on the effectiveness of the City'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 City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Maze & Associates

Pleasant Hill, California
February 23, 2016