

CITY OF VISALIA, CALIFORNIA
TRANSPORTATION AND TRANSIT FUNDS
FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED
JUNE 30, 2016 AND 2015

This Page Left Intentionally Blank

**CITY OF VISALIA
TRANSPORTATION AND TRANSIT FUNDS
FOR THE FISCAL YEARS ENDED JUNE 30, 2016 AND 2015**

Table of Contents

	<u>Page</u>
Independent Auditor’s Report	1
Financial Statements:	
Local Transportation Fund – Special Revenue Fund	
Balance Sheets	3
Statements of Revenues, Expenditures, and Changes in Fund Balances.....	4
Transit Fund – Enterprise Fund	
Statements of Net Position	5
Statements of Revenues, Expenditures, and Changes in Net Position.....	6
Statements of Cash Flows	7
Notes to Financial Statements	9
Required Supplementary Information:	
Schedule of Changes in the Net Pension Liability and Related Ratios	25
Schedule of Contributions	26
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	
	27
Schedule of Current Year Findings	29

This Page Left Intentionally Blank

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 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 City'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 City'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.

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, 2016 and 2015, and the changes in financial position for the years 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 Governmental Accounting Standards Board Statement No. 72 – *Fair Value Measurement and Application*, which became effective during the year ended June 30, 2016 that required modifications on the notes to the financial statements as discussed in Note 1L to the financial statements.

In addition, management restated beginning fund balance by \$4,304,270 as discussed in Note 1K.

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

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.

Pleasant Hill, California

DATE

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

	2016	2015
ASSETS		
Cash and investments	\$1,172,533	\$1,299,952
Due from other governmental agencies	874,203	842,913
TOTAL ASSETS	\$2,046,736	\$2,142,865
LIABILITIES		
Accounts payable	\$828,446	\$111,528
Due to other City funds		1,988
TOTAL LIABILITIES	828,446	113,516
FUND BALANCE		
Restricted for:		
Laws and regulations of other governments	1,218,290	2,029,349
FUND BALANCE	1,218,290	2,029,349
TOTAL LIABILITIES AND FUND BALANCE	\$2,046,736	\$2,142,865

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 BALANCES
 FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
REVENUES		
Other grants	\$2,309,244	\$2,130,511
Local Transportation Funds	200,000	200,000
Other revenues	296,747	21,255
Interest	10,122	5,029
 TOTAL REVENUES	 2,816,113	 2,356,795
 EXPENDITURES		
Construction and maintenance	3,626,687	1,812,842
Administration	280	2,156
 TOTAL EXPENDITURES	 3,626,967	 1,814,998
 Excess (deficiency) of revenues over expenditures	 (810,854)	 541,797
 OTHER FINANCING SOURCES (USES)		
Transfers in from other City funds	2,012	
Transfers (out)	(2,217)	
 Total other financing sources (uses)	 (205)	
 Net changes in fund balances	 (811,059)	 541,797
 Fund balances, beginning of year	 2,029,349	 1,487,552
 Fund balances, end of year	 \$1,218,290	 \$2,029,349

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

CITY OF VISALIA
TRANSIT FUND
STATEMENTS OF NET POSITION
JUNE 30, 2016 AND 2015

	2016	2015
ASSETS		
Current assets		
Cash and investments	\$12,454,304	\$10,309,117
Accounts receivable	105,865	54,438
Prepaid expenses	8	8
Due from other governmental agencies	13,393,802	9,783,803
Total current assets	25,953,979	20,147,366
Capital assets:		
Non-depreciable	4,383,262	4,241,382
Depreciable	47,003,856	45,510,173
Accumulated depreciation	(18,901,695)	(16,182,653)
Total capital assets, net	32,485,423	33,568,902
Total Assets	58,439,402	53,716,268
DEFERRED OUTFLOWS OF RESOURCES		
Related to pensions	298,074	114,389
LIABILITIES		
Current liabilities		
Accounts payable	1,845,900	1,041,929
Grant advances	10,456,972	1,772,616
Compensated absences	2,595	3,683
Notes payable	16,720	15,783
Total current liabilities	12,322,187	2,834,011
Noncurrent liabilities		
Compensated absences	35,860	35,412
Notes payable	51,171	67,890
Net pension liability	1,436,171	1,216,608
Total noncurrent liabilities	1,523,202	1,319,910
Total liabilities	13,845,389	4,153,921
DEFERRED INFLOWS OF RESOURCES		
Related to pensions	278,342	253,844
NET POSITION		
Net investment in capital assets	32,417,532	33,485,230
Restricted	12,196,213	15,937,662
Total net position	\$44,613,745	\$49,422,892

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

CITY OF VISALIA
TRANSIT FUND
STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN NET POSITION
FOR THE FISCAL YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
OPERATING REVENUES		
Fares	\$2,779,021	\$2,854,673
Other operating revenues	2,346,846	614,402
Total operating revenues	5,125,867	3,469,075
OPERATING EXPENSES		
Maintenance and operations	10,412,531	10,665,246
Salaries and employee benefits	816,294	737,764
Depreciation	2,719,042	2,671,941
Total operating expenses	13,947,867	14,074,951
Operating losses	(8,822,000)	(10,605,876)
NONOPERATING REVENUES (EXPENSES)		
Interest	94,935	51,121
Transfers in form other city funds	1,913,069	3,640,053
State Transit Assistance Funds	1,372,975	1,901,573
Measure R	783,200	725,892
Federal Transit Assistance Funds	1,036,308	4,230,329
Other expenses	(845,665)	
Rental of facilities	197,434	264,115
Other income	687,851	47,685
Total nonoperating revenues (expenses)	5,240,107	10,860,768
CAPITAL REVENUES		
Local Transportation Funds	2,349,313	
Proposition 1B	725,400	
Contributions	86	
TRANSFER IN	2,217	
Change in net position	(504,877)	254,892
Net position, beginning, as restated	49,422,892	50,558,415
Restatement (Note 1K)	(4,304,270)	(1,390,415)
Net position, ending	\$44,613,745	\$49,422,892

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

CITY OF VISALIA
TRANSIT FUND
STATEMENTS OF CASH FLOWS
FOR THE FISCAL YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$1,464,441	\$3,629,783
Cash payments to suppliers for goods and services	(9,608,560)	(10,141,066)
Cash payments to employees for services	(756,558)	(752,741)
Net cash provided (used) by operating activities	(8,900,677)	(7,264,024)
CASH FLOWS FROM NONCAPITAL FINANCIAL ACTIVITIES		
Local Transportation Funds	1,913,069	3,640,053
State Transit Assistance Funds	1,372,975	1,901,573
Measure R	783,200	725,892
Other grants	1,036,308	4,230,329
Other income (expense)	39,620	311,800
Transfers in	2,217	
Intergovernmental payments		(2,814,925)
Net cash provided by noncapital financing activities	5,147,389	7,994,722
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Local Transportation Funds	2,349,313	
Proposition 1B	725,400	
Capital grants	4,380,086	966,548
Purchases of capital assets	(1,635,563)	(170,858)
Proceeds of capital assets		75,979
Contributions	86	
Proceeds (repayments) of debt	(15,782)	83,673
Net cash provided by (used in) capital and related financing activities	5,803,540	955,342
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income	94,935	51,118
Net increase in cash and cash equivalents	2,145,187	1,737,158
Cash and cash equivalents, beginning of the year	10,309,117	8,571,959
Cash and cash equivalents, end of the year	\$12,454,304	\$10,309,117
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES		
Operating loss	(\$8,822,000)	(\$10,605,876)
Adjustments to reconcile operating loss to net cash used in operating activities		
Depreciation	2,719,042	2,671,941
Change in assets and liabilities:		
(Increase)/Decrease in accounts receivable	(51,427)	196,245
(Increase)/Decrease in prepaid expenses		1,305
(Increase)/Decrease in due from other governments	(3,609,999)	(36,842)
(Increase)/Decrease in accounts payable	803,971	524,180
(Increase)/Decrease in compensated absences	(640)	597
(Increase)/Decrease in retirement system	60,376	(15,574)
Net cash provided (used by) operating activities	(\$8,900,677)	(\$7,264,024)

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

This Page Left Intentionally Blank

**CITY OF VISALIA
TRANSPORTATION AND TRANSIT FUNDS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015**

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.

**CITY OF VISALIA
TRANSPORTATION AND TRANSIT FUNDS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015**

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 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.

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. Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value into three levels based on the extent to which inputs used in measuring fair value are observable in the market.

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 inputs are inputs – other than quoted prices included within level 1 – that are observable for an asset or liability, either directly or indirectly.

Level 3 inputs are unobservable inputs for an asset or liability.

If the fair value of an asset or liability is measured using inputs from more than one level of the fair value hierarchy, the measurement is considered to be based on the lowest priority level input that is significant to the entire measurement.

**CITY OF VISALIA
TRANSPORTATION AND TRANSIT FUNDS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. 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

H. 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.

I. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net 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 net 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 net 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.

**CITY OF VISALIA
TRANSPORTATION AND TRANSIT FUNDS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Fund Balance and Net Position

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 - amounts that are inherently nonspendable such as inventory or long-term receivables.

Restricted - 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 - 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 - 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 - 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.

The government-wide and business type activities utilize a net position presentation. These classifications are described below.

Net investment in capital assets describes the portion of net position which is represented by the current net book value (net of depreciation) of the City's capital assets, less the outstanding balance of any debt issued to finance these assets.

**CITY OF VISALIA
TRANSPORTATION AND TRANSIT FUNDS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Restricted describes the portion of net position which is restricted as to use by the terms and conditions of agreements with outside parties, governmental regulations, laws, enabling legislation, or other restrictions which the City cannot unilaterally alter. These principally include developer fees received for use on capital projects, debt service requirements, and assets restricted to low-and-moderate-income housing purposes.

Unrestricted describes the portion of net position which is not restricted to use.

When expenses are incurred for purposes for which both restricted and unrestricted net position is available, it is the City's policy to first apply restricted fund balance.

K. Restatement

The City recorded a restatement in the amount of \$4,304,270 in the Transit Enterprise Fund to adjust for prior year's unearned revenue related to grant revenue that was collected by the City.

L. New GASB Pronouncement

Management adopted the provisions of the following Governmental Accounting Standards Board (GASB) Statement, which became effective during the year ended June 30, 2016:

GASB Statement No. 72 – *Fair Value Measurement and Application*. The intent of this Statement is to enhance the comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. It also enhances fair value application guidance and related disclosures.

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
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015**

NOTE 3 - CAPITAL ASSETS

The changes in capital assets and the related accumulated depreciation for the years ended June 30, 2016 and 2015 are as follows:

	<u>July 1, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2016</u>
Nondepreciable assets:				
Land	\$3,961,902			\$3,961,902
Construction in progress	279,480	\$141,880		421,360
Total nondepreciable assets	<u>4,241,382</u>	<u>141,880</u>		<u>4,383,262</u>
Depreciable assets:				
Buildings	17,590,543			17,590,543
Vehicles and equipment	25,317,254	1,493,683		26,810,937
Improvements	2,602,376			2,602,376
Total depreciable assets	<u>45,510,173</u>	<u>1,493,683</u>		<u>47,003,856</u>
Less accumulated depreciation	<u>(16,182,653)</u>	<u>(2,719,042)</u>		<u>(18,901,695)</u>
Total depreciable assets, net	<u>29,327,520</u>	<u>(1,225,359)</u>		<u>28,102,161</u>
Total capital assets	<u>\$33,568,902</u>	<u>(\$1,083,479)</u>		<u>\$32,485,423</u>
	<u>July 1, 2014</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2015</u>
Nondepreciable assets:				
Land	\$3,961,902			\$3,961,902
Construction in progress	108,622	\$170,858		279,480
Total nondepreciable assets	<u>4,070,524</u>	<u>170,858</u>		<u>4,241,382</u>
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	<u>47,647,151</u>		<u>(2,136,978)</u>	<u>45,510,173</u>
Less accumulated depreciation	<u>(15,571,713)</u>	<u>(2,671,942)</u>	2,061,002	<u>(16,182,653)</u>
Total depreciable assets, net	<u>32,075,438</u>	<u>(2,671,942)</u>	<u>(75,976)</u>	<u>29,327,520</u>
Total capital assets	<u>\$36,145,962</u>	<u>(\$2,501,084)</u>	<u>(\$75,976)</u>	<u>\$33,568,902</u>

**CITY OF VISALIA
TRANSPORTATION AND TRANSIT FUNDS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015**

NOTE 4 - FARE REVENUE RATIO

The City is required under the TDA to maintain a fare revenue to operating expense ratio of 20%. The City did not meet the fare revenue to operating expense ratio goal of 20% for fiscal year ended June 30, 2016. The calculation of the ratios for the fiscal years ended June 30, 2016 and 2015, is as follows:

	2016	2015
Total fare revenue	\$1,761,703	\$2,854,673
Operating expense	\$12,434,539	\$14,074,951
Less: depreciation	(2,719,042)	(2,671,941)
Net operating expenses	\$9,715,497	\$11,403,010
Ratio	18.13%	25.03%

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.

**CITY OF VISALIA
TRANSPORTATION AND TRANSIT FUNDS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015**

NOTE 5 – EMPLOYEE BENEFITS (Continued)

The Plans' provisions and benefits in effect at June 30, 2016, are summarized as follows:

	Miscellaneous			
	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
Hire date				
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	50	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	21.124%	21.124%	21.124%	21.124%

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 is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

Net Pension Liability – The City's net pension liability for the Miscellaneous Plan is measured as the total pension liability, less the pension plan's fiduciary net position. The net pension liability of the Plan is measured as of June 30, 2015, using an annual actuarial valuation as of June 30, 2014 and rolled forward to June 30, 2015 using standard update procedures. As of June 30, 2016 and 2015, the City allocated \$1,436,171 and \$1,216,608, respectively, of its net pension liability to the Transportation and Transit Funds (the Funds).

**CITY OF VISALIA
TRANSPORTATION AND TRANSIT FUNDS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015**

NOTE 5 – EMPLOYEE BENEFITS (Continued)

Changes in the Net Pension Liability – The changes in the Net Pension Liability for the Miscellaneous Plan is as follows:

Miscellaneous Plan:

	Total Pension Liability	Miscellaneous Plan Fiduciary Net Position	Net Pension Liability/(Asset)
City of Visalia Balance at June 30, 2014	<u>\$186,909,842</u>	<u>\$140,683,484</u>	<u>\$46,226,358</u>
Changes in the year:			
Service cost	3,692,092		3,692,092
Interest on the total pension liability	13,839,466		13,839,466
Changes in benefit terms			
Changes in assumptions	(3,447,570)		(3,447,570)
Differences between actual and expected experience	(307,086)		(307,086)
Plan to plan resource movement			
Contribution - employer		4,077,411	(4,077,411)
Contribution - employee		1,747,629	(1,747,629)
Net investment income		3,174,848	(3,174,848)
Benefit payments, including refunds of employee contributions	(8,186,347)	(8,186,347)	
Administrative expense		(159,136)	159,136
Net changes	<u>5,590,555</u>	<u>654,405</u>	<u>4,936,150</u>
City of Visalia Balance at June 30, 2015	<u>\$192,500,397</u>	<u>\$141,337,889</u>	<u>\$51,162,508</u>
Portion allocated to the Transportation and Transit Fund at June 30, 2015			<u>\$1,436,171</u>

Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pension – Gains and losses related to changes in total pension liability and fiduciary net position are recognized in pension expense systematically over time.

The first amortized amounts are recognized in pension expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to pensions and are to be recognized in future pension expense.

The amortization period differs depending on the source of the gain or loss:

Difference between projected and actual earnings on investments – 5 year straight-line amortization

All other amounts – Straight-line amortization over the average expected remaining services lives of all members that are provided with benefits (active, inactive, and retired) as of the beginning of the measurement period

**CITY OF VISALIA
TRANSPORTATION AND TRANSIT FUNDS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015**

NOTE 5 – EMPLOYEE BENEFITS (Continued)

The expected average remaining service lifetime (EARSL) is calculated by dividing the total future service years by the total number of plan participants (active, inactive, and retired). Inactive employees and retirees have remaining service lifetimes equal to 0. Total future service is based on the members' probability of decrementing due to an event other than receiving a cash refund.

For the year ended June 30, 2016, the Funds recognized pension expense of \$60,376. At June 30, 2016, 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	\$130,891	
Differences between actual and expected experience		(\$6,157)
Changes in assumptions		(69,126)
Net differences between projected and actual earnings on plan investments	167,183	(203,059)
Total	\$298,074	(\$278,342)

The \$130,891 reported as deferred outflows of resources 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	
2017	(\$56,004)
2018	(56,004)
2019	(40,947)
2020	41,796
2021	-
Thereafter	-

**CITY OF VISALIA
TRANSPORTATION AND TRANSIT FUNDS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015**

NOTE 5 – EMPLOYEE BENEFITS (Continued)

Actuarial Assumptions – The total pension liabilities in the June 30, 2014 actuarial valuations were determined using the following actuarial assumptions:

Valuation Date	June 30, 2014
Measurement Date	June 30, 2015
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation	2.75%
Payroll Growth	3.0%
Projected Salary Increase	3.2% - 12.2% (1)
Investment Rate of Return	7.65% (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.

Changes of Assumptions – GASB 68, paragraph 68, states that the long-term expected rate of return should be determined net of pension plan investment expense but without reduction for pension plan administrative expense. The discount rate of 7.50% used for the June 30, 2014 measurement date was net of administrative expenses. The discount rate of 7.65% used for the June 30, 2015 measurement date is without reduction of pension plan administrative expense.

Discount Rate – The discount rate used to measure the total pension liability was 7.65% 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 7.65% discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.65% 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.

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.

**CITY OF VISALIA
TRANSPORTATION AND TRANSIT FUNDS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015**

NOTE 5 – EMPLOYEE BENEFITS (Continued)

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	51.0%	5.25%	5.71%
Global Fixed Income	19.0%	0.99%	2.43%
Inflation Sensitive	6.0%	0.45%	3.36%
Private Equity	10.0%	6.83%	6.95%
Real Estate	10.0%	4.50%	5.13%
Infrastructure and Forestland	2.0%	4.50%	5.09%
Liquidity	2.0%	-0.55%	-1.05%
Total	<u>100%</u>		

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

**CITY OF VISALIA
TRANSPORTATION AND TRANSIT FUNDS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015**

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 TDA’s proportionate share of the net pension liability for each Plan, calculated using the discount rate for each Plan, as well as what the TDA’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	6.65%
Net Pension Liability	\$2,174,593
Current Discount Rate	7.65%
Net Pension Liability	\$1,436,171
1% Increase	8.65%
Net Pension Liability	\$827,639

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

This Page Left Intentionally Blank

REQUIRED SUPPLEMENTARY INFORMATION

This Page Left Intentionally Blank

**City of Visalia - Transportation and Transit Funds
Miscellaneous Plan, an Agent Multiple-Employer Defined Pension Plan
As of June 30, 2016
Last 10 Years***

SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS

Measurement Date	6/30/2014	6/30/2015
Total Pension Liability		
Service Cost	\$3,797,356	\$3,692,092
Interest on total pension liability	13,175,275	13,839,466
Changes of assumptions		(3,447,570)
Differences between expected and actual experience		(307,086)
Benefit payments, including refunds of employee contributions	(7,668,885)	(8,186,347)
Net change in total pension liability	9,303,746	5,590,555
Total pension liability - beginning	177,606,096	186,909,842
Total pension liability - ending (a)	\$186,909,842	\$192,500,397
Plan fiduciary net position		
Contributions - employer	\$3,947,176	\$4,077,411
Contributions - employee	1,809,951	1,747,629
Net investment income	21,053,194	3,174,848
Benefit payments, including refunds of employee contributions	(7,668,885)	(8,186,347)
Administrative expense	(159,136)	(159,136)
Net change in plan fiduciary net position	19,141,436	654,405
Plan fiduciary net position - beginning	121,542,048	140,683,484
Plan fiduciary net position - ending (b)	\$140,683,484	\$141,337,889
City of Visalia net pension liability - ending (a)-(b)	\$46,226,358	\$51,162,508
Transportation and Transit Fund Share of net pension liability	\$1,216,608	\$1,436,171
Plan fiduciary net position as a percentage of the total pension liability	75.27%	73.42%
Transportation and Transit Fund Share of Covered payroll	\$501,124	\$621,742
Transportation and Transit Fund Share of net pension liability as percentage of covered payroll	242.78%	230.99%

Notes to Schedule:

Benefit Changes: The figures above do not include any liability impact that may have resulted from plan changes which occurred after the actuarial valuation date. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit (a.k.a. Golden Handshakes).

Changes in assumptions. GASB 68, paragraph 68 states that the long long-term expected rate of return should be determined net of pension plan investment expense, but without reduction for pension plan administrative expense. The discount rate of 7.50% used for the June 30, 2014 measurement date was net of administrative expenses. The discount rate of 7.65% used for the June 30, 2015 measurement date is without reduction of pension plan administrative expense. All other assumptions for the June 30, 2014 measurement date were the same as those used for the June 30, 2015 measurement date.

* Fiscal year 2015 was the 1st year of implementation, therefore only two years are shown.

City of Visalia - Transportation and Transit Funds
Miscellaneous Plan, an Agent Multiple-Employer Defined Pension Plan
As of fiscal year ending June 30, 2016
Last 10 Years*
SCHEDULE OF CONTRIBUTIONS

Fiscal Year Ended June 30	2015	2016
Actuarially determined contribution	\$81,201	\$130,891
Contributions in relation to the actuarially determined contributions	(81,201)	(130,891)
Contribution deficiency (excess)	<u>\$0</u>	<u>\$0</u>
Covered payroll	\$501,124	\$621,742
Contributions as a percentage of covered payroll	16.20%	21.05%
Notes to Schedule		
Valuation date:	6/30/2013	6/30/2014

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll
Remaining amortization period	13 years as of the Valuation Date
Asset valuation method	15-year smoothed market
Inflation	2.75%
Salary increases	3.30% to 14.20% depending on Age, Service, and type of employment
Investment rate of return	7.50%, net of pension plan investment expense, including inflation
Retirement age	The probabilities of Retirement are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007
Mortality	The probabilities of mortality are based on the 2010 CalPERS Experience

* Fiscal year 2015 was the 1st year of implementation, therefore only two years are shown.

**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 TRANSPORTATION DEVELOPMENT ACT**

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 States, 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, 2016, 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 Sections 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 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 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 §6666 and §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 instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and are listed in the Schedule of Current Year Findings.

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 is described in the accompanying Schedule of Current Year Findings in addition 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 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.

Pleasant Hill, California
December 29, 2016

SCHEDULE OF CURRENT YEAR FINDINGS

TDA2016-01 – Minimum TDA Farebox Recovery Ratio Compliance Requirement

Criteria: In order to qualify for funding under Transportation Development Act (TDA), a transit claimant must maintain a ratio of fare revenues to operating costs at least equal to 20% if the claimant is in an urbanized area, in which the City of Visalia is considered.

Condition: During fiscal year 2016, the City recalculated the ratio of fare revenues to operating costs and determined it did not meet the minimum 20% required, but rather 18.13%.

Cause: The City re-examined the allowable revenues included in the fare revenue ratio calculation and determined that specific revenue sources should not be included.

Effect: TDA funding may be withheld due to the noncompliance.

Recommendation: The City should monitor TDA revenues and expenses to ensure their fare revenue ratio is in compliance.

Management's Response: Client to provide

This Page Left Intentionally Blank