

**CITY OF VISALIA
TRANSPORTATION DEVELOPMENT ACT FUNDS AND
MEASURE R TRANSPORTATION FUNDS**

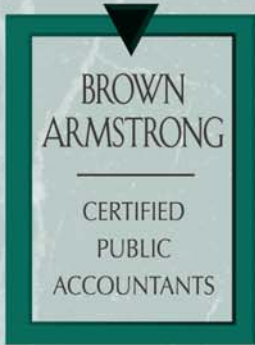
FINANCIAL STATEMENTS

**FOR THE FISCAL YEAR ENDED
JUNE 30, 2019**

**CITY OF VISALIA
TRANSPORTATION DEVELOPMENT ACT FUNDS AND
MEASURE R TRANSPORTATION FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor’s Report	1
 <u>Fund Financial Statements</u>	
Balance Sheet – Local Transportation Special Revenue Fund	3
Statement of Revenues, Expenditures, and Changes in Fund Balance – Local Transportation Special Revenue Fund	4
Balance Sheet – Measure R Special Revenue Fund	5
Statement of Revenues, Expenditures, and Changes in Fund Balance – Measure R Special Revenue Fund	6
Statement of Net Position – Transit Enterprise Fund	7
Statement of Revenues, Expenses, and Changes in Net Position – Transit Enterprise Fund.....	8
Statement of Cash Flows – Transit Enterprise Fund	9
Notes to the Fund Financial Statements	11
 <u>Other Report</u>	
Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing</i> <i>Standards</i> , the Transportation Development Act, and Measure R.....	22
Status of Prior Year and Current Year Findings and Recommendations	25



BROWN ARMSTRONG

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Tulare County Association of Governments
Visalia, California

To the City Council
City of Visalia
Visalia, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Measure R Special Revenue Fund and the Local Transportation Special Revenue Fund and Transit Enterprise Fund (collectively, the Transportation Development Act (TDA) Funds) of the City of Visalia (the City), as of and for the fiscal year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the City's Measure R Fund's and TDA Funds' basic financial statements as listed in the table of contents. The June 30, 2018 summarized comparative information has been derived from the 2018 financial statements and is included for additional analysis only.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of

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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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Measure R Fund and TDA Funds of the City, as of June 30, 2019, and the respective changes in financial position, and, where applicable, cash flows thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, these financial statements present only the Measure R Fund and TDA Funds and do not purport to, and do not, present fairly the financial position of the City as of June 30, 2019, or the changes in its financial position for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted Management's Discussion and Analysis, Budgetary Comparison Schedules, Schedule of the City Transit Enterprise Fund's Proportionate Share of the City's Net Pension Liability, and the Schedule of Contributions that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 30, 2020, on our consideration of the City's internal control over financial reporting relating to the Measure R Fund and TDA 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 relating to the Measure R Fund and TDA Funds and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance relating to the Measure R Fund and TDA Funds. 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 relating to the Measure R Fund and TDA Funds.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
March 30, 2020

**CITY OF VISALIA
LOCAL TRANSPORTATION SPECIAL REVENUE FUND
BALANCE SHEET
JUNE 30, 2019
WITH COMPARATIVE TOTALS**

	2019	2018
ASSETS		
Cash and cash equivalents	\$ 1,669,411	\$ 2,523,291
Due from other governments	962,692	498,699
	TOTAL ASSETS	\$ 3,021,990
	\$ 2,632,103	\$ 3,021,990
LIABILITIES AND FUND BALANCE		
LIABILITIES		
Accounts payable	\$ 257,954	\$ 42,030
	TOTAL LIABILITIES	42,030
	257,954	42,030
FUND BALANCE		
Restricted by:		
Laws and regulations of other governments	2,374,149	2,979,960
	FUND BALANCE	2,979,960
	2,374,149	2,979,960
TOTAL LIABILITIES AND FUND BALANCE	\$ 2,632,103	\$ 3,021,990

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

**CITY OF VISALIA
LOCAL TRANSPORTATION SPECIAL REVENUE FUND
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE
FOR THE FISCAL YEAR ENDED JUNE 30, 2019
WITH COMPARATIVE TOTALS**

	2019	2018
REVENUES		
Local transportation funds	\$ 275,000	\$ 275,000
Other grants	1,762,311	1,924,589
Other revenues	-	55,536
Interest	87,223	17,568
	<u>2,124,534</u>	<u>2,272,693</u>
EXPENDITURES		
Construction and maintenance	2,203,199	1,929,810
Administration	831	1,167
	<u>2,204,030</u>	<u>1,930,977</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(79,496)</u>	<u>341,716</u>
OTHER FINANCING (USES)		
Transfer out to other City funds	(526,315)	-
	<u>(526,315)</u>	<u>-</u>
Excess (deficiency) of revenues over expenditures and other financing sources (uses)	<u>(605,811)</u>	<u>341,716</u>
Fund balance, beginning	2,979,960	2,638,244
Fund balance, beginning,	<u>2,979,960</u>	<u>2,638,244</u>
Fund balance, ending	<u>\$ 2,374,149</u>	<u>\$ 2,979,960</u>

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

**CITY OF VISALIA
 MEASURE R SPECIAL REVENUE FUND
 BALANCE SHEET
 JUNE 30, 2019
 WITH COMPARATIVE TOTALS**

	2019	2018
ASSETS		
Cash and cash equivalents	\$ 4,177,321	\$ 6,026,248
Accounts receivable	-	427
Due from other governments	2,656,067	107,850
TOTAL ASSETS	\$ 6,833,388	\$ 6,134,525
LIABILITIES AND FUND BALANCE		
LIABILITIES		
Accounts payable	\$ 164,853	\$ 179,514
Due to other City funds	2,259,449	1,105,462
TOTAL LIABILITIES	2,424,302	1,284,976
FUND BALANCE		
Restricted by:		
Laws and regulations of other governments	4,409,086	4,849,549
FUND BALANCE	4,409,086	4,849,549
TOTAL LIABILITIES AND FUND BALANCE	\$ 6,833,388	\$ 6,134,525

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

**CITY OF VISALIA
MEASURE R SPECIAL REVENUE FUND
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE
FOR THE FISCAL YEAR ENDED JUNE 30, 2019
WITH COMPARATIVE TOTALS**

	<u>2019</u>	<u>2018</u>
REVENUES		
Measure R transportation funds	\$ 2,732,189	\$ 2,295,472
Measure R trailway funds	2,433,998	1,432,768
Other revenue	518	99,971
Interest	153,315	40,855
	<u>5,320,020</u>	<u>3,869,066</u>
EXPENDITURES		
Local program	4,336,986	990,472
Trailway	693,428	1,783,056
Special projects	1,332,953	681,929
Other expenditures	83	-
	<u>6,363,450</u>	<u>3,455,457</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,043,430)</u>	<u>413,609</u>
OTHER FINANCING SOURCES (USES)		
Transfer in from other City funds	526,359	12,754
Transfer out to other City funds	<u>(23,348)</u>	<u>-</u>
Total other financing sources (uses)	<u>503,011</u>	<u>12,754</u>
Excess (deficiency) of revenues over (under) expenditures and other financing sources (uses)	<u>(540,419)</u>	<u>426,363</u>
Fund balance, beginning	4,849,549	4,435,940
Prior period adjustment	<u>99,956</u>	<u>(12,754)</u>
Net position, beginning, as restated	<u>4,949,505</u>	<u>4,423,186</u>
Fund balance, ending	<u>\$ 4,409,086</u>	<u>\$ 4,849,549</u>

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

**CITY OF VISALIA
TRANSIT ENTERPRISE FUND
STATEMENT OF NET POSITION
JUNE 30, 2019
WITH COMPARATIVE TOTALS**

	<u>2019</u>	<u>2018</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 17,029,474	\$ 12,849,035
Accounts receivable	388,437	822,708
Due from other governments	13,419,699	22,218,032
	<u>30,837,610</u>	<u>35,889,775</u>
Total current assets		
Capital assets		
Non-depreciable	4,576,641	5,113,949
Depreciable	57,792,397	52,587,179
Accumulated depreciation	<u>(25,790,370)</u>	<u>(22,849,487)</u>
Total capital assets, net	<u>36,578,668</u>	<u>34,851,641</u>
TOTAL ASSETS	<u>67,416,278</u>	<u>70,741,416</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred pension	<u>362,412</u>	<u>495,977</u>
LIABILITIES		
Current liabilities		
Accounts payable	1,584,011	598,918
Grant advances	4,887,088	5,322,627
Note payable	17,227	17,056
	<u>6,488,326</u>	<u>5,938,601</u>
Total current liabilities		
Noncurrent liabilities		
Compensated absences	44,251	56,858
Note payable	-	17,227
Net pension liability	<u>2,043,918</u>	<u>2,042,162</u>
Total noncurrent liabilities	<u>2,088,169</u>	<u>2,116,247</u>
TOTAL LIABILITIES	<u>8,576,495</u>	<u>8,054,848</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred pension	<u>77,916</u>	<u>76,210</u>
NET POSITION		
Net investment in capital assets	36,561,441	34,817,358
Restricted	<u>22,562,838</u>	<u>28,288,977</u>
TOTAL NET POSITION	<u>\$ 59,124,279</u>	<u>\$ 63,106,335</u>

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

**CITY OF VISALIA
TRANSIT ENTERPRISE FUND
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2019
WITH COMPARATIVE TOTALS**

	<u>2019</u>	<u>2018</u>
OPERATING REVENUES		
Fares	\$ 1,687,614	\$ 1,577,728
Other operating revenues	<u>2,113,360</u>	<u>2,536,912</u>
Total operating revenues	3,800,974	4,114,640
OPERATING EXPENSES		
Maintenance and operations	13,470,968	10,993,687
Salaries and employee benefits	1,044,901	1,107,261
Grants provided	2,698,330	3,248,641
Depreciation	<u>2,940,883</u>	<u>2,879,070</u>
Total operating expenses	<u>20,155,082</u>	<u>18,228,659</u>
Operating loss	<u>(16,354,108)</u>	<u>(14,114,019)</u>
NONOPERATING REVENUES (EXPENSES)		
State Transit Assistance	2,324,158	676,473
Measure R	783,200	783,200
Federal Transit Assistance	6,545,053	12,144,645
Other grants	1,783,650	517,548
Rental of facilities	240,885	264,532
Interest income	651,985	122,658
Other income	1,040,111	655,653
Other expenses	<u>(280,533)</u>	<u>(104,862)</u>
Total nonoperating revenues (expenses)	<u>13,088,509</u>	<u>15,059,847</u>
CAPITAL REVENUES		
Local transportation funds	<u>6,274,754</u>	<u>7,487,649</u>
Income before transfers	<u>3,009,155</u>	<u>8,433,477</u>
OTHER FINANCING (USES)		
Transfer out to other City funds	<u>-</u>	<u>(300)</u>
Total other financing (uses)	<u>-</u>	<u>(300)</u>
Change in net position	<u>3,009,155</u>	<u>8,433,177</u>
Net position, beginning	63,106,335	54,673,158
Prior period adjustment	<u>(6,991,211)</u>	<u>-</u>
Net position, beginning, as restated	<u>56,115,124</u>	<u>54,673,158</u>
Net position, ending	<u>\$ 59,124,279</u>	<u>\$ 63,106,335</u>

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

**CITY OF VISALIA
TRANSIT ENTERPRISE FUND
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019
WITH COMPARATIVE TOTALS**

	2019	2018
Cash flows from operating activities		
Cash receipts from customers	\$ 5,606,828	\$ 3,597,032
Cash disbursements to suppliers for goods and services	(15,184,205)	(18,536,054)
Cash disbursements to employees for services	(920,481)	(842,188)
Net cash used by operating activities	(10,497,858)	(15,781,210)
Cash flows from noncapital financing activities		
State Transit Assistance funds	2,324,158	676,473
Measure R	783,200	783,200
Other grants	5,976,916	8,297,662
Other income	1,000,463	815,323
Transfers out	-	(300)
Net cash provided by noncapital financing activities	10,084,737	10,572,358
Cash flows from capital and related financing activities		
Local transportation funds	6,274,754	7,487,649
Capital grants	2,351,787	4,364,531
Capital payments	(4,667,910)	(2,136,152)
Repayments of debt	(17,056)	(16,888)
Net cash provided by capital and related financing activities	3,941,575	9,699,140
Cash flows from investing activities		
Interest income	651,985	131,808
Net increase in cash and cash equivalents	4,180,439	4,622,096
Cash and cash equivalents, beginning of the year	12,849,035	8,226,939
Cash and cash equivalents, end of the year	\$ 17,029,474	\$ 12,849,035

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

**CITY OF VISALIA
TRANSIT ENTERPRISE FUND
STATEMENT OF CASH FLOWS (Continued)
FOR THE FISCAL YEAR ENDED JUNE 30, 2019
WITH COMPARATIVE TOTALS**

	2019	2018
Reconciliation of operating loss to net cash used by operating activities		
Operating loss	\$ (16,354,108)	\$ (14,114,019)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation	2,940,883	2,879,070
Changes in assets and liabilities:		
(Increase) Decrease in accounts receivable	434,271	(680,191)
(Increase) Decrease in due from other governments	1,789,392	(1,552,273)
(Increase) Decrease in deferred outflows pension	133,565	(17,149)
Increase (Decrease) in deferred inflows pension	1,706	(96,377)
Increase (Decrease) in accounts payable	985,093	(87,464)
(Decrease) in grant advances	(417,809)	(2,491,406)
Increase (Decrease) in compensated absences	(12,607)	23,844
Increase in net pension liability	1,756	354,755
Net cash used by operating activities	\$ (10,497,858)	\$ (15,781,210)

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

**CITY OF VISALIA
TRANSPORTATION DEVELOPMENT ACT FUNDS AND
MEASURE R TRANSPORTATION FUNDS
NOTES TO THE FUND FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019
WITH COMPARATIVE TOTALS**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Measure R Special Revenue Fund and the Local Transportation Special Revenue Fund and Transit Enterprise Fund (collectively, the Transportation Development Act (TDA) 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.

Measure R

The Tulare County Transportation Authority (the Authority), a component unit of the Tulare County Association of Governments, California, was established on August 7, 2006. The primary purpose of the Authority is to impose within the incorporated and unincorporated territory of Tulare County a retail transaction and use tax for transportation purposes in accordance with the provisions as provided in Division 19 (commencing with Section 180000) of the California Public Utilities Code and Part 1.6 (commencing with Section 7251) of Division 2 of the California Revenue and Taxation Code.

The tax rate shall be one-half of one percent (0.5%) per dollar for a period of thirty (30) years commencing on the operative date of this ordinance (Measure R). This tax shall be in addition to any other taxes authorized by law, including any existing or future state or local sales tax or transactions and use taxes.

The revenue derived from the tax shall be used for transportation purposes only and may include, but is not limited to, the administration of the Measure R Expenditure Plan. These purposes include expenditures for planning, environmental review, engineering and design costs, related special and expert consulting costs, and related right-of-way acquisition and associated administrative and legal costs.

A. Reporting Entity

The financial statements are intended to reflect the financial position, results of operation, and compliance of the Measure R Fund and TDA Funds allocated for non-transit and transit purposes of the City with the laws, rules, and regulations of the TDA, Measure R, 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.

B. Fund Accounting

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity or net position, revenues, and expenditures or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the financial statements in this report, into two generic fund types and two broad fund categories as follows:

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Fund Accounting (Continued)

Governmental Fund Types

Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditures for specified purposes. The Local Transportation Fund and Measure R Fund are Special Revenue Funds.

Proprietary Funds

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

C. Measurement Focus and 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 the accrual basis of 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.

The proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

D. Cash and Cash Equivalents

The City 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 value.

E. 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 accounting principles generally accepted in the United States of America. 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 – reflect unadjusted quoted prices in active markets for identical assets.

Level 2 – reflect inputs that are based on a similar observable asset either directly or indirectly.

Level 3 – reflect unobservable inputs.

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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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/expenses 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 net position or balance sheet will 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 an inflow of resources (revenue) until that time.

I. Compensated Absences

Compensated absences comprise unused vacation leave, vested sick pay, and certain compensated time off, which are accrued as earned. The amount recorded in accordance with GASB Statement No. 16 at June 30, 2019 and 2018, for the City's Transit Enterprise Fund was \$44,251 and \$56,858, respectively.

J. Net Position/Fund Balance

The financial statements for the enterprise fund utilize a net position presentation. Net position is categorized as follows:

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

Restricted net position – This category represents 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.

Unrestricted net position – This category represents net position of the fund, not restricted for any project or other purpose.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Net Position/Fund Balance (Continued)

The City adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. Accordingly, governmental funds report fund balance as nonspendable, restricted, committed, assigned, or unassigned based primarily on the extent to which the City is bound to honor constraints on how specific amounts can be spent.

Nonspendable fund balance – amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Restricted fund balance – amounts with constraints placed on the use of the resource that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed fund balance – amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the City's highest level of decision making authority (the City Council).

Assigned fund balance – amounts that are constrained by the City's intent to be used for specific purposes, but are neither restricted nor committed. Intent can be either expressed by the City Council or by a body or an official designated by the City Council.

Unassigned fund balance – the residual classification for the City's General Fund that includes amounts not contained in the other classifications. In other funds, the unassigned classification is used only if expenditures incurred for specific purposes exceed the amounts restricted, committed, or assigned to those purposes.

The City Council establishes, modifies, or rescinds fund balance commitments and assignments by passage of an ordinance or resolution. This is done through adoption of the budget and subsequent budget amendments that occur throughout the year.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, followed by the unrestricted committed, assigned, and unassigned resources as they are needed. The City does not have a fund balance policy that would dictate the level of financial resources required to be in the funds at year-end. The City also does not have a formal fiscal stabilization policy.

K. Implemented GASB Statements

GASB Statement No. 83 – *Certain Asset Retirement Obligations*. The requirements of this statement are effective for reporting periods beginning after June 15, 2018. There was no effect on the Measure R Fund's and TDA Funds' accounting or financial reporting as a result of implementation.

GASB Statement No. 88 – *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. The requirements of this statement are effective for reporting periods beginning after June 15, 2018. There was no effect on the Measure R Fund's and TDA Funds' accounting or financial reporting as a result of implementation.

L. Future GASB Statements

GASB Statement No. 84 – *Fiduciary Activities*. The requirements of this statement are effective for reporting periods beginning after December 15, 2018. The City has not fully judged the impact of implementation of GASB Statement No. 84 on the financial statements.

GASB Statement No. 87 – *Leases*. The requirements of this statement are effective for reporting periods beginning after December 15, 2019. The City has not fully judged the impact of implementation of GASB Statement No. 87 on the financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Future GASB Statements (Continued)

GASB Statement No. 89 – *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The requirements of this statement are effective for reporting periods beginning after December 15, 2019. The City has not fully judged the impact of implementation of GASB Statement No. 89 on the financial statements.

GASB Statement No. 90 – *Majority Equity Interest – an Amendment of GASB Statements No. 14 and No. 61*. The requirements of this statement are effective for reporting periods beginning after December 15, 2018. The City has not fully judged the impact of implementation of GASB Statement No. 90 on the financial statements.

GASB Statement No. 91 – *Conduit Debt Obligations*. The requirements of this statement are effective for periods beginning after December 15, 2020. The City has not fully judged the impact of implementation of GASB Statement No. 91 on the financial statements.

M. Grants

Grant revenues and receivables are recorded when earned (when eligible costs are incurred) on grants, which have been approved and funded by the grantor. Grant sources include the Federal Transit Administration (FTA), State Transit Assistance (STA), and Local Transportation Fund (LTF). The LTF and STA were created by the State Legislature under the TDA.

N. Operating Revenues

Operating revenues in the proprietary fund are those revenues that are generated from the primary operations of the fund. All other revenues are reported as nonoperating revenues.

O. Comparative Data

Comparative totals for the prior year have been presented in the accompanying financial statements in order to provide an understanding of changes in financial position and operations of the City's Measure R Fund and TDA Funds.

P. Reclassifications

Certain amounts in the prior year financial statements have been reclassified for comparative purposes to conform to the presentation in the current year financial statements.

Q. Contingencies

The City receives funding for specific purposes that are subject to review and audit by the granting agencies funding source. Such audits could result in a request for reimbursement for expenditures disallowed under terms and conditions of the contracts. Management is of the opinion that no material liabilities will result from such potential audits.

The City is party to claims and lawsuits arising in the ordinary course of business. The City's management and legal counsel are of the opinion that the ultimate liability, if any, arising from these claims will not have a material adverse impact on the financial position of the City's Measure R Fund and TDA Funds.

NOTE 2 – CASH AND CASH EQUIVALENTS

Cash balances of the City's Measure R Fund and TDA Funds are pooled with those of other funds and invested by the City to maximize investment opportunities and yields. Investment income resulting from this pooling is allocated among the funds based upon each respective fund's average cash balance in relation to the aggregate investment balance, except that project funds are excluded from this allocation due to the fact that most cash balances in project funds are advanced from the City's General Fund. Further information regarding the City's cash and cash equivalents pool may be found in the City's financial statements.

NOTE 3 – CAPITAL ASSETS

The changes in capital assets and the related accumulated depreciation for the fiscal years ended June 30, 2019 and 2018, are as follows:

	<u>June 30, 2018</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2019</u>
Nondepreciable assets:				
Land	\$ 4,361,902	\$ -	\$ -	\$ 4,361,902
Construction in progress	<u>752,047</u>	<u>214,739</u>	<u>(752,047)</u>	<u>214,739</u>
Total nondepreciable assets	<u>5,113,949</u>	<u>214,739</u>	<u>(752,047)</u>	<u>4,576,641</u>
Depreciable assets:				
Buildings	19,589,783	-	-	19,589,783
Vehicles and equipment	30,395,020	5,205,218	-	35,600,238
Improvements	<u>2,602,376</u>	<u>-</u>	<u>-</u>	<u>2,602,376</u>
Total depreciable assets	<u>52,587,179</u>	<u>5,205,218</u>	<u>-</u>	<u>57,792,397</u>
Less accumulated depreciation	<u>(22,849,487)</u>	<u>(2,940,883)</u>	<u>-</u>	<u>(25,790,370)</u>
Total depreciable assets, net	<u>29,737,692</u>	<u>2,264,335</u>	<u>-</u>	<u>32,002,027</u>
Total capital assets	<u>\$ 34,851,641</u>	<u>\$ 2,479,074</u>	<u>\$ (752,047)</u>	<u>\$ 36,578,668</u>
	<u>June 30, 2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2018</u>
Nondepreciable assets:				
Land	\$ 4,361,902	\$ -	\$ -	\$ 4,361,902
Construction in progress	<u>1,002,833</u>	<u>738,542</u>	<u>(989,328)</u>	<u>752,047</u>
Total nondepreciable assets	<u>5,364,735</u>	<u>738,542</u>	<u>(989,328)</u>	<u>5,113,949</u>
Depreciable assets:				
Buildings	19,589,783	-	-	19,589,783
Vehicles and equipment	29,770,314	3,095,783	(2,471,077)	30,395,020
Improvements	<u>2,602,376</u>	<u>-</u>	<u>-</u>	<u>2,602,376</u>
Total depreciable assets	<u>51,962,473</u>	<u>3,095,783</u>	<u>(2,471,077)</u>	<u>52,587,179</u>
Less accumulated depreciation	<u>(21,732,649)</u>	<u>(2,879,070)</u>	<u>1,762,232</u>	<u>(22,849,487)</u>
Total depreciable assets, net	<u>30,229,824</u>	<u>216,713</u>	<u>(708,845)</u>	<u>29,737,692</u>
Total capital assets	<u>\$ 35,594,559</u>	<u>\$ 955,255</u>	<u>\$ (1,698,173)</u>	<u>\$ 34,851,641</u>

Depreciation expense for the fiscal years ended June 30, 2019 and 2018, was \$2,940,883 and \$2,879,070, respectively.

NOTE 4 – GRANT ADVANCES

The LTF and STA Fund are administered by the Tulare County Association of Governments, which allocates funds to the City to fund its TDA operations. The TDA requires that any funds not used be returned to their source. Allocations are considered earned when they are properly spent for eligible projects. Allocations received but not earned are recorded as grant advances. Changes in grant advances for the Transit Enterprise Fund for the fiscal year ended June 30, 2019, are summarized as follows:

	Operating Assistance	Capital Assistance	Capital Proposition 1B	Total
Capital and Operating Assistance				
Excess funds at June 30, 2018	\$ -	\$ 4,579,497	\$ 743,130	\$ 5,322,627
Allocations received	535,547	-	-	535,547
Funds available	535,547	4,579,497	743,130	5,858,174
Less: eligible costs	-	(227,956)	(743,130)	(971,086)
Excess funds at June 30, 2019	<u>\$ 535,547</u>	<u>\$ 4,351,541</u>	<u>\$ -</u>	<u>\$ 4,887,088</u>

Transit Enterprise Fund:

In November 2006, California voters passed a bond measure enacting the Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006. Of the \$19.925 billion of State general obligation bonds authorized, \$4 billion was set aside by the State as instructed by statute as the Public Transportation Modernization, Improvement, and Service Enhancement Account (PTMISEA). These funds are available to the California Department of Transportation for intercity rail projects and to transit operations in California for rehabilitation, safety, or modernization improvements; capital service enhancements or expansions; new capital projects; bus rapid transit improvements; or for rolling stock procurement, rehabilitation, or replacement.

During the fiscal year ended June 30, 2019, the City received interest of \$0 on deposits of PTMISEA funds. During the fiscal year ended June 30, 2019, \$743,130 was disbursed on capital purchases.

Schedule of PTMISEA Proposition 1B Funds For the Fiscal Year Ended June 30, 2019	
Description	Amount
Balance - beginning of year	\$ 743,130
Receipts:	
Interest accrued 7/1/18 through 6/30/19	-
Allocations received	-
Expenses:	
Capital purchases	743,130
Balance - end of year	<u>\$ -</u>

NOTE 5 – NOTE PAYABLE AND OTHER LIABILITIES

California Energy Conservation Assistance Act Loan

On May 31, 2013, the City entered into a loan agreement with the California Energy Resources Conservation and Development Commission for the acquisition and installation of various energy savings equipment. The City did not request nor receive funds for this agreement until fiscal year 2014-15. The interest rate on the loan is fixed at 1.00% with the term of the loan being 5 years. Principal and interest payments are due in December and June of each year with the first payment beginning December 2015.

	Beginning Balance June 30, 2018	Additions	Deletions	Ending Balance June 30, 2019	Due Within One Year
Note payable	\$ 34,283	\$ -	\$ 17,056	\$ 17,227	\$ 17,227
Compensated absences	56,858	-	12,607	44,251	-
	<u>\$ 91,141</u>	<u>\$ -</u>	<u>\$ 29,663</u>	<u>\$ 61,478</u>	<u>\$ 17,227</u>

Annual debt service requirements to maturity are shown below for the note payable:

Fiscal Year Ending June 30,	Principal	Interest	Total
2020	\$ 17,227	\$ 130	\$ 17,357
2021	-	-	-
Total	<u>\$ 17,227</u>	<u>\$ 130</u>	<u>\$ 17,357</u>

NOTE 6 – FARE REVENUE RATIO/COMPLIANCE REQUIREMENTS OF LOCAL TRANSPORTATION FUNDS

The TDA is defined in Chapter 4 of the California Public Utilities Code commencing with Section 99200. Funds received pursuant to Section 99260 of the TDA (Article 4) may only be used for specific purposes, including the support of public transportation purposes. Article 4 funds are the primary funding source for the City's Transit Enterprise Fund. TDA funds are apportioned, allocated, and paid in accordance with allocation instructions from the Tulare County Association of Governments for specific transportation purposes.

The Transit Enterprise Fund is subject to the provisions of Section 6633.2 of Title 21, Chapter 3, Subchapter 2 of the California Code of Regulations requiring the calculation and adherence of fare and local support ratios for TDA transit funding. Accordingly, the City's Transit Enterprise Fund must maintain a ratio equaling or exceeding 20%.

NOTE 6 – FARE REVENUE RATIO/COMPLIANCE REQUIREMENTS OF LOCAL TRANSPORTATION FUNDS (Continued)

The ratio is determined by comparing the fund’s operating revenues to operating expenses as defined by the TDA. In accordance with the TDA, depreciation of capital assets is excluded from operating expenses for purposes of this ratio. During the fiscal years ended June 30, 2019 and 2018, the City’s TDA farebox ratio of operating revenues to operating expenses, as calculated below, indicates compliance with the provisions of the TDA:

	<u>2019</u>	<u>2018</u>
Fares	\$ 1,687,614	\$ 1,577,728
Auxiliary transportation revenues	405,947	449,184
	<u>\$ 2,093,561</u>	<u>\$ 2,026,912</u>
Operating expenses	\$ 15,778,632	\$ 18,333,518
Less allowable TDA adjustments:		
Grants to other cities	-	(3,248,641)
Depreciation	(2,940,883)	(2,879,070)
New service exemption	(1,744,211)	(1,130,388)
Amounts paid by other agencies	(1,426,103)	(834,577)
Charter service costs	<u>(228,007)</u>	<u>(234,074)</u>
Net operating expenses	<u>\$ 9,439,428</u>	<u>\$ 10,006,768</u>
Fare revenue ratio	<u>22.18%</u>	<u>20.26%</u>

NOTE 7 – EMPLOYEE BENEFITS

A. General Information about the Pension Plans

Plan Descriptions – All qualified permanent and probationary employees are eligible to participate in the City’s 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 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.

See the City’s audited comprehensive annual financial report (CAFR) for details on the plans’ provisions and benefits in effect at June 30, 2019.

NOTE 7 – EMPLOYEE BENEFITS (Continued)

B. Net Pension Liability

The City's net pension liability for each plan is measured as the total pension liability, less the pension plan's fiduciary net position. The net pension liability of each of the plans is measured as of June 30, 2018, using an annual actuarial valuation as of June 30, 2017, rolled forward to June 30, 2018, using standard update procedures. A summary of principal assumptions and methods used to determine the net pension liability can be found at the City's audited CAFR. The City's Transit Enterprise Fund had a net pension liability of \$2,043,918.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate – The following presents the City's Transit Enterprise Fund's proportionate share of the City's net pension liability, calculated using the discount rate for the plan, as well as what the Transit Enterprise Fund's 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:

	1% Decrease 6.15%	Current Rate 7.15%	1% Increase 8.15%
Transit Enterprise Fund's Proportionate Share of the City's Net Pension Liability	\$ 2,977,961	\$ 2,043,918	\$ 1,273,225

C. Pension Expense and Deferred Outflows/Inflows of Resources Related to Pensions

For the fiscal year ended June 30, 2019, the City's Transit Enterprise Fund recognized pension expense of \$137,027. At June 30, 2019, the City's Transit Enterprise Fund 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	\$ 186,988	\$ -
Difference between actual and expected experience	1,852	43,466
Changes in assumptions	163,425	34,450
Net difference between projected and actual earnings on retirement plan investments	10,147	-
	<u>\$ 362,412</u>	<u>\$ 77,916</u>

The \$186,988 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, 2020. 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 Ended June 30,	
2020	\$ 127,810
2021	39,138
2022	(56,420)
2023	(13,020)
Total	<u>\$ 97,508</u>

See the City's audited CAFR for full pension note disclosures.

NOTE 8 – PRIOR PERIOD ADJUSTMENTS

Prior period adjustments at June 30, 2019, were:

Measure R Special Revenue Fund

Fund balance at June 30, 2018, as previously stated	\$ 4,849,549
Prior period adjustment:	
Correction of a reversed accrual	100,000
Cash reimbursement for project cancellation	<u>(44)</u>
Fund balance at June 30, 2018, as restated	<u>\$ 4,949,505</u>

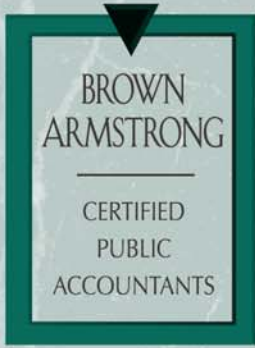
Transit Enterprise Fund

Fund balance at June 30, 2018, as previously stated	\$ 63,106,335
Prior period adjustment:	
Reverse double booked accrual	(6,895,962)
Reclass prior year payments	(112,979)
Adjust accrued interest	<u>17,730</u>
Fund balance at June 30, 2018, as restated	<u>\$ 56,115,124</u>

NOTE 9 – SUBSEQUENT EVENTS

The date to which events occurring after June 30, 2019, have been evaluated for possible adjustments to the financial statements or disclosures is March 30, 2020, which is the date that the financial statements were available to be issued. There were no events brought to our attention that were deemed to be reportable at that time.

OTHER REPORT



BROWN ARMSTRONG

Certified Public Accountants

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, THE TRANSPORTATION DEVELOPMENT ACT, AND MEASURE R

To the Board of Directors
Tulare County Association of Governments
Visalia, California

To the City Council
City of Visalia
Visalia, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the of the Measure R Special Revenue Fund and the Local Transportation Special Revenue Fund and Transit Enterprise Fund (collectively, the Transportation Development Act (TDA) Funds) of the City of Visalia (the City), as of and for the fiscal year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the City's Measure R Fund's and TDA Funds' basic financial statements, and have issued our report thereon dated March 30, 2020.

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) relating to the Measure R Fund and TDA Funds 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 relating to the Measure R Fund and TDA Funds. Accordingly, we do not express an opinion on the effectiveness of the City's internal control relating to the Measure R Fund and TDA Funds.

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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Measure R Fund's and TDA Funds' financial statements are free from material misstatement, we performed tests of the City's compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. Our audit was further made to determine that TDA funds allocated to and received by the City were expended in conformance with applicable statutes, rules, and regulations of the TDA and the allocation instructions and resolutions of Tulare County Association of Governments as required by Sections 6666 and 6667 of Title 21 of the California Code of Regulations. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, the TDA, or Measure R.

As part of the audit, we performed the testing of the following program:

Public Transportation Modernization, Improvement, and Service Enhancement Account (PTMISEA)

In November 2006, California voters passed a bond measure enacting the Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006 (Proposition 1B). Of the \$19.925 billion of state general obligation bonds authorized, \$4 billion was set aside by the state as instructed by statute as the Public Transportation Modernization, Improvement, and Service Enhancement Account (PTMISEA). These funds are available to the California Department of Transportation for intercity rail projects and to transit operators in California for rehabilitation, safety, or modernization improvements; capital service enhancements or expansions; new capital projects; bus rapid transit improvements; or for rolling stock procurement, rehabilitation, or replacement.

During the fiscal year ended June 30, 2019, the City received no additional amounts in PTMISEA funds and received interest of \$0 on deposits of PTMISEA funds. During the fiscal year ended June 30, 2019, \$743,130 was disbursed on capital purchases.

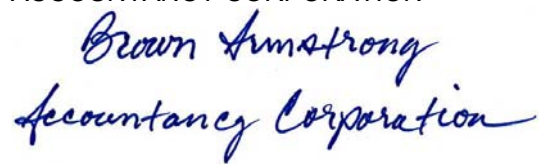
Schedule of PTMISEA Proposition 1B Funds For the Fiscal Year Ended June 30, 2019	
Description	Amount
Balance - beginning of year	\$ 743,130
Receipts:	
Interest accrued 7/1/18 through 6/30/19	-
Allocations received	-
Expenses:	
Capital purchases	743,130
Balance - end of year	<u>\$ -</u>

The results of our tests indicated that, with respect to the items tested, the City complied, in all material respects, with the provisions referred to in the preceding paragraph. With respect to items not tested, nothing came to our attention that caused us to believe that the City had not complied, in all material respects, with those provisions.

Purpose of this Report

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

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

A handwritten signature in blue ink that reads "Brown Armstrong Accountancy Corporation". The signature is written in a cursive style and is positioned below the printed name of the company.

Bakersfield, California
March 30, 2020

**CITY OF VISALIA
TRANSPORTATION DEVELOPMENT ACT FUNDS AND
MEASURE R TRANSPORTATION FUNDS
STATUS OF PRIOR YEAR AND CURRENT YEAR
FINDINGS AND RECOMMENDATIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

Current Year Finding

None noted.

Prior Year Finding

None noted.