

**CITY OF ESCALON  
TRANSPORTATION DEVELOPMENT ACT  
AND MEASURE K FUNDS  
NON-TRANSIT PURPOSES  
AND TRANSIT ENTERPRISE FUND**

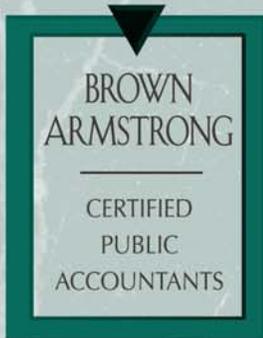
**INDEPENDENT AUDITOR'S REPORTS,  
FUND FINANCIAL STATEMENTS,  
REQUIRED SUPPLEMENTARY INFORMATION,  
AND COMPLIANCE REPORT**

**FOR THE FISCAL YEAR ENDED  
JUNE 30, 2018**

**CITY OF ESCALON  
TRANSPORTATION DEVELOPMENT ACT AND MEASURE K FUNDS  
NON-TRANSIT PURPOSES  
AND TRANSIT ENTERPRISE FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

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# BROWN ARMSTRONG

*Certified Public Accountants*

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
San Joaquin Council of Governments  
Stockton, California

To the City Council  
City of Escalon  
Escalon, California

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### Report on the Financial Statements

We have audited the accompanying financial statements of the Transportation Development Act (TDA) and Measure K Funds, allocated for non-transit purposes, and the Transit Enterprise Fund (collectively, the Funds) of the City of Escalon, California (City), as of and for the fiscal year ended June 30, 2018, and the related notes to the financial statements, as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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.

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Funds of the City as of June 30, 2018, 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**

### *Basis of Presentation*

As discussed in Note 2, these financial statements present only the Funds and do not purport to, and do not, present fairly the financial position of the City as of June 30, 2018, 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*

Accounting principles generally accepted in the United States of America require that the budgetary comparison schedules on pages 15 and 16 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board (GASB), who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted management's discussion and analysis (MD&A) 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 GASB 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.

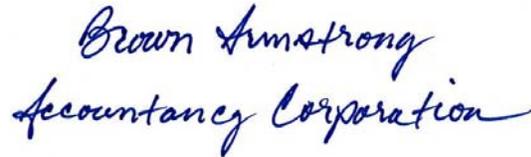
### *Report on Summarized Comparative Information*

We have previously audited the financial statements of the Funds of the City as of and for the fiscal year ended June 30, 2017, and our report dated December 22, 2017, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the fiscal year ended June 30, 2017, is consistent in all material respects, with the audited financial statements from which it has been derived.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 30, 2019, on our consideration of the City's internal control over financial reporting as it relates to the 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 solely 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 the effectiveness of the City's internal control over financial reporting or on compliance as it relates to the 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 as it relates to the Funds.

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 firm.

Bakersfield, California  
March 30, 2019

**CITY OF ESCALON  
TRANSPORTATION DEVELOPMENT ACT AND MEASURE K FUNDS  
NON-TRANSIT PURPOSES  
BALANCE SHEETS  
JUNE 30, 2018, WITH COMPARATIVE TOTALS**

	Transportation Development Act Fund	Measure K Fund	Totals	
			2018	2017
<b>ASSETS</b>				
Cash and cash equivalents	\$ 1,578,625	\$ 1,211,587	\$ 2,790,212	\$ 2,345,048
Loans receivable	-	-	-	88,219
Interest receivable	4,303	3,478	7,781	2,899
Taxes receivable	34,618	75,000	109,618	112,984
<b>TOTAL ASSETS</b>	<b>\$ 1,617,546</b>	<b>\$ 1,290,065</b>	<b>\$ 2,907,611</b>	<b>\$ 2,549,150</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>CURRENT LIABILITIES</b>				
Accounts payable	\$ 2,250	\$ 3,650	\$ 5,900	\$ 5,438
<b>TOTAL LIABILITIES</b>	<b>2,250</b>	<b>3,650</b>	<b>5,900</b>	<b>5,438</b>
<b>FUND BALANCES</b>				
Restricted	1,615,296	1,286,415	2,901,711	2,543,712
<b>TOTAL FUND BALANCES</b>	<b>1,615,296</b>	<b>1,286,415</b>	<b>2,901,711</b>	<b>2,543,712</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 1,617,546</b>	<b>\$ 1,290,065</b>	<b>\$ 2,907,611</b>	<b>\$ 2,549,150</b>

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

**CITY OF ESCALON  
TRANSPORTATION DEVELOPMENT ACT AND MEASURE K FUNDS  
NON-TRANSIT PURPOSES  
STATEMENTS OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018, WITH COMPARATIVE TOTALS**

	Transportation	Measure K	Totals	
	Development Act Fund		Fund	2018
<b>REVENUES</b>				
Local transportation fund				
Streets and roads	\$ 221,734	\$ -	\$ 221,734	\$ 155,232
Pedestrian and bicycle	5,932	-	5,932	5,479
Measure K fund				
Local street repair	-	319,624	319,624	300,000
Investment earnings	11,378	12,999	24,377	14,485
<b>TOTAL REVENUES</b>	<u>239,044</u>	<u>332,623</u>	<u>571,667</u>	<u>475,196</u>
<b>EXPENDITURES</b>				
Local street repair	211,396	76,653	288,049	470,904
<b>TOTAL EXPENDITURES</b>	<u>211,396</u>	<u>76,653</u>	<u>288,049</u>	<u>470,904</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>27,648</u>	<u>255,970</u>	<u>283,618</u>	<u>4,292</u>
<b>OTHER FINANCING USES</b>				
Operating transfer out	-	74,381	74,381	(21,750)
<b>TOTAL OTHER FINANCING USES</b>	<u>-</u>	<u>74,381</u>	<u>74,381</u>	<u>(21,750)</u>
<b>EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES</b>	27,648	330,351	357,999	(17,458)
<b>FUND BALANCES, BEGINNING OF YEAR</b>	<u>1,587,648</u>	<u>956,064</u>	<u>2,543,712</u>	<u>2,561,170</u>
<b>FUND BALANCES, END OF YEAR</b>	<u>\$ 1,615,296</u>	<u>\$ 1,286,415</u>	<u>\$ 2,901,711</u>	<u>\$ 2,543,712</u>

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

**CITY OF ESCALON  
TRANSIT ENTERPRISE FUND  
STATEMENTS OF NET POSITION  
JUNE 30, 2018, WITH COMPARATIVE TOTALS**

	<u>2018</u>	<u>2017</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 114,290	\$ 72,105
Accounts receivable	893	347
Due from other agencies	<u>46,740</u>	<u>81,054</u>
TOTAL CURRENT ASSETS	161,923	153,506
CAPITAL ASSETS, NET	<u>61,491</u>	<u>169,725</u>
TOTAL ASSETS	<u>\$ 223,414</u>	<u>\$ 323,231</u>
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Accounts payable	<u>\$ 39,530</u>	<u>\$ 53,374</u>
TOTAL CURRENT LIABILITIES	<u>39,530</u>	<u>53,374</u>
NET POSITION		
Net investment in capital assets	61,491	169,725
Unrestricted	<u>122,393</u>	<u>100,132</u>
TOTAL NET POSITION	<u>183,884</u>	<u>269,857</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 223,414</u>	<u>\$ 323,231</u>

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

**CITY OF ESCALON  
TRANSIT ENTERPRISE FUND  
STATEMENTS OF REVENUES, EXPENSES, AND  
CHANGES IN NET POSITION  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018, WITH COMPARATIVE TOTALS**

	<u>2018</u>	<u>2017</u>
OPERATING REVENUES		
Fares	\$ 3,957	\$ 3,020
OPERATING EXPENSES		
Operations	123,911	120,270
Administration	6,119	5,560
Depreciation expense	<u>108,234</u>	<u>62,305</u>
TOTAL OPERATING EXPENSES	<u>238,264</u>	<u>188,135</u>
OPERATING LOSS	(234,307)	(185,115)
NONOPERATING REVENUES		
Local transportation fund	56,952	77,273
Federal Transit Administration funds - operating	40,377	35,280
State Transit Assistance	1,111	5,000
Proposition 1B (PTMISEA)	690	67,338
Measure K	44,835	42,832
Other revenues	<u>4,369</u>	<u>9,091</u>
TOTAL NONOPERATING REVENUES	<u>148,334</u>	<u>236,814</u>
CHANGES IN NET POSITION	(85,973)	51,699
NET POSITION BEGINNING OF YEAR	<u>269,857</u>	<u>218,158</u>
NET POSITION END OF YEAR	<u>\$ 183,884</u>	<u>\$ 269,857</u>

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

**CITY OF ESCALON  
TRANSIT ENTERPRISE FUND  
STATEMENTS OF CASH FLOWS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018, WITH COMPARATIVE TOTALS**

	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from customers	\$ 3,957	\$ 3,020
Cash payments to suppliers for goods and services	(143,874)	(94,824)
<b>NET CASH USED BY OPERATING ACTIVITIES</b>	<b>(139,917)</b>	<b>(91,804)</b>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>		
Local transportation fund	56,952	77,273
Federal Transit Administration funds	75,657	-
State Transit Assistance	1,700	5,000
Proposition 1B (PTMISEA)	476	66,861
Measure K	42,832	23,043
Other revenues	4,485	9,081
<b>NET CASH PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES</b>	<b>182,102</b>	<b>181,258</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisition of capital assets	-	(66,345)
<b>NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<b>-</b>	<b>(66,345)</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	42,185	23,109
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	72,105	48,996
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>\$ 114,290</b>	<b>\$ 72,105</b>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES</b>		
Operating loss	\$ (234,307)	\$ (185,115)
Adjustment to reconcile operating loss to net cash used by operating activities:		
Depreciation	108,234	62,305
Change in assets and liabilities		
Increase (Decrease) in accounts payable and other liabilities	(13,844)	31,006
<b>NET CASH USED BY OPERATING ACTIVITIES</b>	<b>\$ (139,917)</b>	<b>\$ (91,804)</b>

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

**CITY OF ESCALON  
TRANSPORTATION DEVELOPMENT ACT AND MEASURE K FUNDS  
NON-TRANSIT PURPOSES  
AND TRANSIT ENTERPRISE FUND  
NOTES TO THE FUND FINANCIAL STATEMENTS  
JUNE 30, 2018**

**NOTE 1 – ORGANIZATION**

The City of Escalon (City) receives funds under the provisions of the Transportation Development Act (TDA) from the San Joaquin County Local Transportation Fund (LTF) under Article 8, Section 99400(c). The City's Article 8 LTF funds are for the support of public transportation systems as defined in the TDA. The City's State Transit Assistance (STA) Bus Fund is used to account for TDA funds received by the City for public transportation, which is reflected in these financial statements of the City Transit Enterprise Fund.

The City receives funds under the provisions of the TDA from the San Joaquin County LTF under Article 8, Section 99400(a) for local streets and roads projects, and Article 3, Section 99234 for pedestrian and bicycle facilities. The funds provided under Article 8 represent amounts available after the determination by the San Joaquin Council of Governments, the transportation planning agency administering TDA funds, of amounts needed for local streets and roads of the City. The funds provided under Article 3, Section 99234 represent amounts set aside to be allocated for pedestrian and bicycle facilities within the jurisdictions of San Joaquin County and represent up to 2% of the available funds countywide. The City's TDA Fund is used to account for these funds received by the City for non-transit purposes, which is reflected in these financial statements of the TDA Fund allocated for non-transit purposes.

The City also receives funds from an ordinance (Measure K) passed by San Joaquin County voters resulting in a sales tax increase of one-half of one percent for transportation improvements. The San Joaquin Council of Governments, acting as the Local Transportation Authority, oversees the collection and distribution of the sales tax in accordance with the twenty-year transportation expenditure plan. The plan calls for street repairs, safety and operational improvements on streets and roads, projects to reduce street and highway congestion, and the promotion of passenger rail and bus services as an alternative to travel by automobile. The City's Measure K Fund is used to account for these funds, which is reflected in these financial statements of the Measure K Fund.

The City contracts with San Joaquin Regional Transit District (RTD), who subcontracts with MV Transportation, Inc. (through April 28, 2018) and National Express Transit Corporation (Effective April 29, 2018), for operation of eTrans, the City's public transit service. The City Transit Enterprise Fund is used to account for these transactions, which is reflected in the financial statements of the Transit Enterprise Fund.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Basis of Presentation**

The financial statements of the TDA and Measure K Funds, allocated for non-transit purposes, and Transit Enterprise Fund (collectively, the Funds) of the City have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

**B. Reporting Entity**

The financial statements are intended to present the financial position, results of operations, and cash flows of only transactions recorded in the Funds of the City and are not intended to present fairly in the financial position of the City and changes in its financial position and its cash flow in accordance with accounting principles generally accepted in the United States of America.

## NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### C. 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, revenues, and expenditures or expenses as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

The TDA and Measure K Funds are governmental funds specifically categorized as special revenue funds. Special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

The Transit Enterprise Fund is a proprietary fund specifically categorized as an enterprise fund. Enterprise funds are used to account for activities similar to those found in the private sector. The City uses an enterprise fund to account for its transit operations because fees are charged to external users for services provided.

### D. Measurement Focus and Basis of Accounting

The TDA Fund and Measure K Fund are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when they become measurable and available and expenditures are recognized when the fund liabilities are incurred. “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The City uses an availability period of 60 days. Revenues that are susceptible to accrual include LTF allocations and interest income.

The Transit Enterprise Fund is classified as an enterprise fund using the flow of economic resources measurement focus and the accrual basis of accounting, whereby revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund’s principal ongoing operations. The principal operating revenues of the Transit Enterprise Fund are passenger fares. Operating expenses include the cost of vehicle maintenance, administrative expenses, and depreciation on capital assets and equipment. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City’s policy to use restricted resources first, and then unrestricted resources as they are needed.

### E. Cash and Cash Equivalents

All City monies are invested in a cash and investments pool, whereby funds can spend cash at any time without prior notice or penalty. Therefore, for purposes of the statements of cash flows, all enterprise fund cash on hand and in the pool are considered cash and cash equivalents.

### F. Interfund Transactions

During the course of operations, numerous transactions occur between individual funds for funding purposes. These receivables and payables are classified as “due from other funds” or “due to other funds” on the balance sheets.

## NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### G. Capital Assets

All purchased capital assets are valued at cost where historical cost records are available and at an estimated historical cost where no historical records exist.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable.

Depreciation of all capital assets in the Transit Enterprise Fund is computed using the straight-line method over their estimated useful lives. The estimated useful life of equipment (bus) is 5 or 7 years depending on chassis of bus and minivan is 4 years and the estimated useful life of leasehold improvements is 20 years.

### H. Net Position/Fund Balance

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

- *Net Investment in Capital Assets* – This category groups all capital assets into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction, or improvement of these assets reduce the balance in this category.
- *Restricted Net Position* – This category presents amounts with external restrictions imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.
- *Unrestricted Net Position* – This category represents net position of the City, not restricted for any project or other purpose.

The City follows the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. 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 spendable in form or (b) legally or contractually required to be maintained intact.
- *Restricted fund balance* – amounts with constraints placed on their use that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.
- *Committed fund balance* – amounts that can only be used for specific purposes determined by formal action of the City's highest level of decision-making authority (City Council) and that remain binding unless removed in the same manner. Committed fund balance does not lapse at year-end. The formal action must occur prior to the end of the reporting period. However, the amount which will be subject to the constraint may be determined in the subsequent period. The formal action required to commit fund balance shall be a City Council adopted resolution.
- *Assigned fund balance* – amounts that are constrained by the City's *intent* to be used for specific purposes. The intent can be established at either the highest level of decision-making authority, or by a body or an official designated for that purpose. The City Council delegated authority to assign fund balance for a specific purpose to the Manager of Finance.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

H. Net Position/Fund Balance (Continued)

- *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.

Minimum Fund Balance:

The City does not have a minimum fund balance policy.

I. Grants

Grant revenues and receivables are recorded when eligibility requirements, which have been imposed by the provider, have been met. Grant sources include Federal Transit Administration (FTA), STA, and LTF. The LTF and STA were created by the State Legislature under the TDA.

J. Use of 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. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from these estimates.

K. 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 Funds.

L. 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 Funds.

**NOTE 3 – CASH AND CASH EQUIVALENTS**

The cash and cash equivalents balances for the City’s Funds are held in the City’s cash and investment pool. The City maintains a cash and investment pool in order to facilitate the management of cash. Interest is allocated to its various funds based upon average cash balances. Investments held in the City’s cash management pool are available on demand to the City’s Funds and are stated at fair value. Information regarding categorization of investments can be found in the City’s financial statements.

**NOTE 4 – CAPITAL ASSETS**

	Balances July 1, 2017	Transfers and Additions	Transfers and Deletions	Balances June 30, 2018
Capital assets				
Transit vehicles	\$ 205,915	\$ -	\$ -	\$ 205,915
Building	142,346	-	-	142,346
Improvements	10,971	-	-	10,971
Total capital assets	359,232	-	-	359,232
Less: accumulated depreciation	(189,507)	(108,234)	-	(297,741)
Total capital assets	\$ 169,725	\$ (108,234)	\$ -	\$ 61,491

Depreciation expense was \$108,234 for the year ended June 30, 2018.

**NOTE 5 – PERFORMANCE OBJECTIVES**

The City is required by the San Joaquin Council of Governments to maintain three performance objectives as a non-transit operator claimant for the fiscal year ended June 30, 2018: the cost per revenue hour, passenger per revenue hour, and subsidy per passenger. The cost per revenue hour and subsidy per passenger are not to exceed thresholds while the passenger per revenue hour is a minimum threshold. For the fiscal year ended June 30, 2018, the transit system's performance was to meet two of the three criteria of having operating costs less than \$134.77 per hour, more than 1.4 passengers per hour, and less than \$92.28 subsidy per passenger. The City met the operating costs, passengers per revenue hour, and the subsidy per passenger objectives for the fiscal year ended June 30, 2018.

The calculation of the transit system's performance objectives is as follows for the fiscal year ended June 30:

	2018
<b>Factors in Determining Performance Measures:</b>	
Total Operating Costs	\$ 237,575
Less: Depreciation	108,234
Net TDA Operating Costs	\$ 129,341
Revenue Hours	1,682
Passengers	3,262
Fare Revenue	\$ 3,957
Federal Operating Revenue	40,377
Local Operating Revenue (Measure K or General Fund)	49,204
Fare Revenue + Federal Operating Revenue + Measure K Operating Revenue	\$ 93,538
<b>Performance Measures:</b>	
Cost per Revenue Hour <sup>(1)</sup>	\$ 76.90
Passenger per Revenue Hour <sup>(2)</sup>	1.94
Subsidy per Passenger <sup>(3)</sup>	\$ 10.98

<sup>(1)</sup>Cost per Revenue Hour is calculated as:  
Net TDA Operating Cost / Revenue Hour

<sup>(2)</sup>Passengers per Revenue Hour is calculated as:  
Passengers / Revenue Hour

<sup>(3)</sup>Subsidy per Passenger is calculated as:  
$$\frac{\text{Net Operating Cost} - (\text{Fare Revenue} + \text{Federal Operating Revenue} + \text{Measure K Operating Revenue})}{\text{Passengers}}$$

**NOTE 6 – SUBSEQUENT EVENTS**

Subsequent events have been evaluated through March 30, 2019, the date these financial statements were available to be issued. The City did not identify any subsequent events that require disclosure.

**REQUIRED SUPPLEMENTARY INFORMATION**

**CITY OF ESCALON  
TRANSPORTATION DEVELOPMENT ACT FUND  
BUDGETARY COMPARISON SCHEDULE  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Local transportation fund and investment earnings	<u>\$ 169,581</u>	<u>\$ 173,281</u>	<u>\$ 239,044</u>	<u>\$ 65,763</u>
Total Revenues	169,581	173,281	239,044	65,763
<b>EXPENDITURES</b>				
Local street repair	<u>1,005,403</u>	<u>959,625</u>	<u>211,396</u>	<u>748,229</u>
Total Expenditures	<u>1,005,403</u>	<u>959,625</u>	<u>211,396</u>	<u>748,229</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (835,822)</u>	<u>\$ (786,344)</u>	27,648	<u>\$ 813,992</u>
Fund balance, beginning of year			<u>1,587,648</u>	
Fund balance, end of year			<u>\$ 1,615,296</u>	

See notes to required supplementary information.

**CITY OF ESCALON  
MEASURE K FUND  
BUDGETARY COMPARISON SCHEDULE  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Measure K fund and investment earnings	<u>\$ 304,500</u>	<u>\$ 327,000</u>	<u>\$ 332,623</u>	<u>\$ 5,623</u>
Total Revenues	304,500	327,000	332,623	5,623
<b>EXPENDITURES</b>				
Local street repair	<u>393,000</u>	<u>423,000</u>	<u>76,653</u>	<u>346,347</u>
Total Expenditures	<u>393,000</u>	<u>423,000</u>	<u>76,653</u>	<u>346,347</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (88,500)</u>	<u>\$ (96,000)</u>	255,970	<u>\$ 351,970</u>
Fund balance, beginning of year			<u>956,064</u>	
Transfers in/out			<u>74,381</u>	
Fund balance, end of year			<u>\$ 1,286,415</u>	

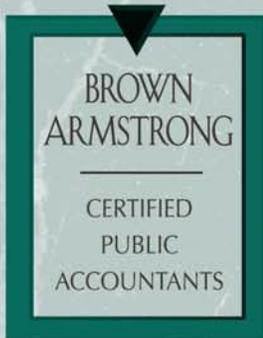
See notes to required supplementary information.

**CITY OF ESCALON  
TRANSPORTATION DEVELOPMENT ACT AND MEASURE K FUNDS  
NON-TRANSIT PURPOSES  
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

**NOTE 1 – BUDGETARY INFORMATION**

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the Transportation Development Act Fund and the Measure K Fund. All appropriations lapse at year-end. The appropriate budget is prepared by department, function, and fund. The City Manager may make transfers of appropriations between departments within a fund; however, any revisions that alter the total expenditures of any fund must be approved by the City Council. The legal level of budgetary control is the object level within a fund.

## **OTHER REPORTS**



# 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 THE FUND FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors  
San Joaquin Council of Governments  
Stockton, California

To the City Council  
City of Escalon  
Escalon, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Transportation Development Act (TDA) and Measure K Funds, allocated for non-transit purposes, and the Transit Enterprise Fund (collectively, the Funds) of the City of Escalon, California (City), as of and for the fiscal year ended June 30, 2018, and the related notes to the financial statements, and have issued our report thereon dated March 30, 2019.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) as it relates to the 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 as it relates to the Funds. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

*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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. 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.

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## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's 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. 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*.

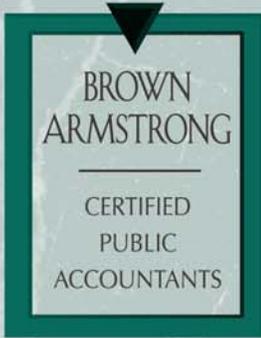
## Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance relating to the Funds 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 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 Funds. Accordingly, this report is not suitable for any other purpose.

BROWN ARMSTRONG  
ACCOUNTANCY CORPORATION

*Brown Armstrong  
Accountancy Corporation*

Bakersfield, California  
March 30, 2019



# BROWN ARMSTRONG

*Certified Public Accountants*

## INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

To the Board of Directors  
San Joaquin Council of Governments  
Stockton, California

To the City Council  
City of Escalon  
Escalon, California

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### Report on Compliance with Transportation Development Act and Measure K Requirements

We have audited the City of Escalon, California (City), compliance with Transportation Development Act (TDA) and Measure K requirements that funds allocated to and received by the City were expended in conformance with applicable statutes, rules, and regulations of the TDA and Measure K; and the allocation instructions and resolutions of the San Joaquin Council of Governments as required by Sections 6666 and 6667 of Title 21, Division 3, Chapter 2, Article 5.5 of the California Code of Regulations during the year ended June 30, 2018.

### Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to the applicable statutes, rules, and regulations of the TDA and Measure K.

### Auditor's Responsibility

Our responsibility is to express an opinion on each of the City's compliance requirements referred to above. We have conducted our audit of compliance 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the TDA and Measure K Funds, allocated for non-transit purposes, and the Transit Enterprise Fund. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

### Opinion on Transportation Development Act and Measure K Compliance

In our opinion, the City complied, in all material respects, with the compliance requirements referred to above that are applicable to the City for the year ended June 30, 2018.

## Report on Public Transportation Modernization, Improvement, and Service Enhancement Account

Also, as part of our audit, we performed tests of compliance to determine whether certain state funds were received and expended in accordance with the applicable bond act and state accounting requirements.

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 the 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.

As of June 30, 2018, all Proposition 1B funds received and expended were verified in the course of our current and previous audits as follows:

	<u>PTMISEA</u>
Unexpended proceeds July 1, 2017	\$ -
Proceeds received	690
Interest earned	-
Expenditures	<u>690</u>
Unexpended proceeds June 30, 2018	<u>\$ -</u>

### Purpose of this Report

The purpose of this report on compliance is solely to describe the scope of our testing of compliance and the results of that testing. Accordingly, this report is not suitable for any other purpose.

BROWN ARMSTRONG  
ACCOUNTANCY CORPORATION

*Brown Armstrong*  
*Accountancy Corporation*

Bakersfield, California  
March 30, 2019