CITY OF LODI
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 LODI
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 Lodi
Lodi, California

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 Lodi (City), California, 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 an opinion 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 misstatements.

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, relating to the Funds, 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, relating to the Funds. 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 opinion.

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

As discussed in Note 1, 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, and 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 Schedule of Changes in Net Pension Liability and Related Ratios and the Schedule of Pension Contributions on pages 20 and 21 and the budgetary comparison information on pages 22 and 23 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.

Report on Summarized Comparative Information

We have previously audited the City's Funds as of June 30, 2017, financial statements, and our report dated March 30, 2018, 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 the City's 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

Brown Armstrong
Accountancy Corporation

Bakersfield, California
March 30, 2019

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

	Transportation Development Act Fund	Measure K Fund	Totals 2018	Totals 2017
ASSETS				
Cash	$ 3,688	$ 1,344,266	$ 1,347,954	$ 1,260,066
Accounts receivable	1,245,065	256,811	1,501,876	696,547
Interest receivable	-	1,547	1,547	1,863
TOTAL ASSETS	$ 1,248,753	$ 1,602,624	$ 2,851,377	$ 1,958,476
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	$ 26,666	$ 41,762	$ 68,428	$ 55,716
Cash deficit	-	-	-	41,539
Due to other City funds	-	10,803	10,803	10,803
TOTAL LIABILITIES	26,666	52,565	79,231	108,058
FUND BALANCES				
Restricted for streets and road projects	-	1,550,059	1,550,059	1,482,437
Restricted for pedestrian and bicycle facilities	1,222,087	-	1,222,087	367,981
TOTAL FUND BALANCES	1,222,087	1,550,059	2,772,146	1,850,418
TOTAL LIABILITIES AND FUND BALANCES	$ 1,248,753	$ 1,602,624	$ 2,851,377	$ 1,958,476

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

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

	Transportation Development Act Fund	Measure K Fund	Totals 2018	Totals 2017
REVENUES				
Local transportation funds				
Streets and roads	$ 1,152,905	$ -	$ 1,152,905	$ 450,000
Pedestrian and bicycle	92,097	-	92,097	15,236
Measure K funds				
Local street repair	-	1,039,568	1,039,568	968,207
Investment earnings	2,169	8,297	10,466	7,255
Other revenues	-	19,941	19,941	3,171
TOTAL REVENUES	1,247,171	1,067,806	2,314,977	1,443,869
EXPENDITURES				
Local street repair	333,405	272,654	606,059	219,232
Pedestrian and bicycle projects	59,660	-	59,660	29,999
TOTAL EXPENDITURES	393,065	272,654	665,719	249,231
EXCESS OF REVENUES OVER EXPENDITURES	854,106	795,152	1,649,258	1,194,638
OTHER FINANCING USES				
Transfers to other City of Lodi funds	-	(727,530)	(727,530)	(380,000)
EXCESS OF REVENUES OVER EXPENDITURES AND OTHER FINANCING USES	854,106	67,622	921,728	814,638
FUND BALANCES, BEGINNING OF YEAR	367,981	1,482,437	1,850,418	1,035,780
FUND BALANCES, END OF YEAR	$ 1,222,087	$ 1,550,059	$ 2,772,146	$ 1,850,418

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

CITY OF LODI
TRANSIT ENTERPRISE FUND
STATEMENT OF NET POSITION
JUNE 30, 2018, WITH COMPARATIVE TOTALS

	2018	2017
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
CURRENT ASSETS		
Cash and cash equivalents	$ 998,020	$ 2,113,032
Accounts receivable	2,445,565	1,310,989
Due from other governmental agencies	1,400,000	1,320,000
TOTAL CURRENT ASSETS	4,843,585	4,744,021
CAPITAL ASSETS		
Land and other assets not being depreciated	4,310,804	3,426,642
Facilities, vehicles, and equipment, net of depreciation	11,985,122	13,401,068
TOTAL CAPITAL ASSETS	16,295,926	16,827,710
TOTAL ASSETS	21,139,511	21,571,731
DEFERRED OUTFLOWS OF RESOURCES		
Related to pensions	124,079	132,892
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 21,263,590	$ 21,704,623
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION		
CURRENT LIABILITIES		
Accounts payable	$ 453,663	$ 415,903
Accrued salaries and wages	92,354	92,650
Grant advances - Proposition 1B (PTMISEA)	550,393	550,393
Grant advances - Proposition 1B (TSSSDRA)	232,859	491,330
Net pension liability	710,346	620,283
TOTAL CURRENT LIABILITIES	2,039,615	2,170,559
DEFERRED INFLOWS OF RESOURCES		
Related to pensions	3,125	17,212
NET POSITION		
Net investment in capital assets	16,295,926	16,827,710
Unrestricted net position	2,924,924	2,689,142
TOTAL NET POSITION	19,220,850	19,516,852
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	$ 21,263,590	$ 21,704,623

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

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

	2018	2017
OPERATING REVENUES		
Fares	$ 226,485	$ 220,218
OPERATING EXPENSES		
Operations	2,834,916	2,636,969
Vehicle maintenance	529,528	445,968
General administration	452,238	407,520
Depreciation	1,415,946	1,435,183
TOTAL OPERATING EXPENSES	5,232,628	4,925,640
OPERATING LOSS	(5,006,143)	(4,705,422)
NONOPERATING REVENUES		
Local transportation funds	2,284,049	1,163,954
Proposition 1B (TSSSDRA)	258,471	1,875
Federal Transit Administration grant	1,740,830	1,636,869
State Transit Assistance grant	45,867	137,113
Measure K funds	400,000	-
Miscellaneous	158,869	168,666
TOTAL NONOPERATING REVENUES	4,888,086	3,108,477
Transfers to other City of Lodi funds	(177,945)	-
NET TRANSFERS	(177,945)	-
CHANGE IN NET POSITION	(296,002)	(1,596,945)
NET POSITION BEGINNING OF YEAR	19,516,852	21,113,797
NET POSITION, END OF YEAR	$ 19,220,850	$ 19,516,852

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

CITY OF LODI
TRANSIT ENTERPRISE FUND
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018, WITH COMPARATIVE TOTALS

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from (paid to) customers	$ 1,560,847	$ 2,960,478
Cash payments for general and administrative expenses	(367,745)	(375,885)
Cash payments to suppliers for goods and services	(3,326,684)	(2,892,302)
NET CASH AND CASH EQUIVALENTS USED BY OPERATING ACTIVITIES	(2,133,582)	(307,709)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Proposition 1B	258,471	-
Local transportation funds	(39,022)	-
Federal Transit Administration grant	1,660,830	1,669,577
Measure K funds	300,000	-
Miscellaneous	158,869	171,507
NET CASH AND CASH EQUIVALENTS PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES	2,339,148	1,841,084
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital grants recognized (advance)	(258,471)	544,124
Transfers to other City funds	(177,945)	-
Acquisition of capital assets	(884,162)	(1,445,604)
NET CASH AND CASH EQUIVALENTS USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(1,320,578)	(901,480)
NET INCREASE IN CASH AND CASH EQUIVALENTS	(1,115,012)	631,895
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	2,113,032	1,481,137
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 998,020	$ 2,113,032
RECONCILIATION OF OPERATING LOSS TO NET CASH AND CASH EQUIVALENTS USED BY OPERATING ACTIVITIES		
Operating loss	$ (5,006,143)	$ (4,705,422)
Adjustments to reconcile operating loss to net cash and cash equivalents used by operating activities:		
Depreciation	1,415,946	1,435,183
Change in assets and liabilities:		
Decrease in accounts receivable	1,334,362	2,740,260
(Decrease) in deferred pensions	(5,274)	(123,431)
Increase in accounts payable	37,760	190,635
(Decrease) in accrued salaries and wages	(296)	(1,012)
Increase in net pension liability	90,063	156,078
NET CASH AND CASH EQUIVALENTS USED BY OPERATING ACTIVITIES	$ (2,133,582)	$ (307,709)

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 Lodi (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.

A. Reporting Entity

The City receives funds under the provisions of the TDA from the San Joaquin County Local Transportation Fund (LTF) under Article 3, Section 99234 for pedestrian and bicycle facilities. 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 TDA 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 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 (SJCOG), 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 Transportation Tax Fund is used to account for these funds, which is reflected in these financial statements of the Measure K Fund.

The City also receives funds under the provisions of the TDA from the San Joaquin County LTF under Article 8, Section 99400(c) and (e) and State Transit Assistance (STA) under Article 4, Section 6731(b) for contracted public transportation. The STA funds are to be used for public transportation purposes only. The City's Article 8 LTF funds are for the support of public transportation systems as defined in the TDA. In addition to TDA funding, the City receives revenues from Federal Transit Administration (FTA) grants. The City's Transit Fund is used to account for TDA funds received by the City for contracted public transportation, which is reflected in these financial statements as the Transit Enterprise Fund. The City operates dial-a-ride transportation services as well as fixed route services for the general public. The City contracts with MV Transportation, Inc., for the operation of its transportation service.

The accompanying financial statements present only the Funds of the City and are not intended to present fairly the financial position, changes in financial position, or cash flows 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, 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Fund Accounting (Continued)

The TDA Fund and the Measure K Fund 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.

C. Measurement Focus and Basis of Accounting

The TDA Fund and the 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 120 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 accrual basis of accounting, whereby revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

The Transit Enterprise Fund reports grant advances on its statement of net position. Grant advances for this fund arise when potential revenue, designated for a specific purpose, has been received prior to the eligibility requirements being met. In subsequent periods, when the eligibility requirements have been met, the liability for grant advances is removed from the statement of net position and revenue is recognized.

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.

D. 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 statement of cash flows, all enterprise fund cash on hand and in the pool (including restricted assets) are considered cash and cash equivalents.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Net Position/Fund Balance

The financial statements of the Transit 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*. 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 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 by 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.

- *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.

F. 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. Estimated useful lives of equipment range from 5-20 years, estimated useful lives of buildings and improvements range from 15-20 years, and estimated useful lives of vehicles range from 5-15 years.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Grants

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

H. 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.

I. 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 2 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents balances are held in the City's cash and investment pool. 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 3 – CAPITAL ASSETS

Capital assets and accumulated depreciation at June 30, 2018, are as follows:

	Balances July 1, 2017	Transfers and Additions	Transfers and Deletions	Balances June 30, 2018
Capital assets not being depreciated				
Land	$ 400,000	$ -	$ -	$ 400,000
Construction in progress	3,026,642	884,162	-	3,910,804
Total capital assets, not being depreciated	3,426,642	884,162	-	4,310,804
Capital assets being depreciated				
Transit vehicles	6,383,439	-	-	6,383,439
Building and improvements	16,045,239	-	-	16,045,239
Equipment	1,413,059	-	-	1,413,059
Total capital assets, being depreciated	23,841,737	-	-	23,841,737
Less: accumulated depreciation	(10,440,669)	(1,415,946)	-	(11,856,615)
Total capital assets, being depreciated, net	13,401,068	(1,415,946)	-	11,985,122
Total capital assets	$ 16,827,710	$ (531,784)	$ -	$ 16,295,926

Depreciation expense was $1,415,946 for the fiscal year ended June 30, 2018.

NOTE 4 – GRANT ADVANCES

	Proposition 1B PTMISEA
Capital Assistance:	
Excess funds at June 30, 2017	$ 550,393
Allocations received	-
Funds available	550,393
Less: eligible costs	-
Excess funds at June 30, 2018	$ 550,393

	Proposition 1B TSSSDRA
Capital Assistance:	
Excess funds at June 30, 2017	$ 491,330
Allocations received	-
Funds available	491,330
Less: eligible costs	(258,471)
Excess funds at June 30, 2018	$ 232,859

NOTE 4 – <u>GRANT ADVANCES</u> (Continued)

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. Of the $19.925 billion of State general obligation bonds authorized, $4 billion was set aside by the State as instructed by statute as 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, 2018, the City received $0 and interest of $3,417 on deposits of PTMISEA funds. During the fiscal year ended June 30, 2018, $0 was disbursed.

Schedule of PTMISEA Proposition 1B Funds
For the Year Ended June 30, 2018

Description		Amount
Balance – beginning of the year	$	551,463
Revenue:		
PTMISEA allocation		-
Interest accrued through June 30, 2018		3,417
Expenses:		
Expenses		-
Balance – end of year	$	554,880

Reconciliation to the Financial Statements		Amount
Receivables:		
Interest receivable	$	844
Grant advances:		
PTMISEA Proposition 1B Funds		550,393
Fund Balance:		
Total deferred interest		3,643
Balance - end of year	$	554,880

Transit System Safety, Security, and Disaster Response Account (TSSSDRA)

Included in the Proposition 1B bond measure noted above, proceeds were made available under the TSSSDRA program for capital projects that provide increased protection against security and safety threats, and develop disaster response transportation systems that can move people, goods, emergency personnel, and equipment in the aftermath of a disaster.

During the fiscal year ended June 30, 2018, the City received $0 in TSSSDRA funds and $258,471 was disbursed under this program.

NOTE 5 – PERFORMANCE OBJECTIVES

SJCOG has implemented performance objective requirements including a measure of operating cost per revenue hour, passengers 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. The City, as a transit non-operator claimant, is required by SJCOG to attain at least two out of three performance objectives. As of June 30, 2018, the City's performance requirements are to have an operating cost of less than $142.25/hour; carry more than 7.5 passengers/hour; and a subsidy per passenger of less than $18.12. The City has met the requirements of all three performance 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
Factors in determining performance measures:	
Total Operating Costs	$ 5,232,628
Less TDA Eligible Exclusions	
Depreciation	(1,415,946)
Net TDA Operating Cost	$ 3,816,682
Revenue Hours	34,526
Passengers	301,666
Fare Revenue	$ 226,485
Federal Operating Revenue	1,740,830
Local Operating Revenue (Measure K or General Fund)	148,490
Fare Revenue + Federal Operating Revenue + Measure K Operating Revenue	$ 2,115,805
Performance measures:	
Cost per Revenue Hour(1)	$ 110.55
Passengers per Revenue Hour(2)	8.74
Subsidy per Passenger(3)	$ 5.64

(1)Cost per Revenue Hour is calculated as:
Net TDA Operating Cost / Revenue Hours

(2)Passengers per Revenue Hour is calculated as:
Passengers / Revenue Hours

(3)Subsidy per Passenger is calculated as:

$$\frac{\text{Net Operating Cost - (Fare Revenue + Federal Operating Revenue + Measure K Operating Revenue)}}{\text{Passengers}}$$

NOTE 6 – PENSION PLAN

Plan Description

All qualified employees of the Transit Enterprise Fund are eligible to participate in the City's separate Miscellaneous Plan (Plan), an agent multiple-employer defined benefit pension plan 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 Plan 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.

NOTE 6 – PENSION PLAN (Continued)

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments (COLA), 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 COLA for the Plan are applied as specified by the California Public Employees' Retirement Law (PERL).

The Plan's provisions and benefits in effect at June 30, 2018, are summarized as follows:

	Miscellaneous Plan	
Hire date	Prior to January 1, 2013	On or after January 1, 2013
Benefit formula	2% @ 55	2% @ 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	monthly for life	monthly for life
Retirement age	50-67	52-67
Monthly benefits, as a % of eligible compensation	1.426%-2.418%	1% to 2.5%
Required employee contribution rates	7%	6.75%
Required employer contribution rates	21.80%	21.80%

Employees Covered

At June 30, 2016, the most recent actuarial valuation available, the following employees were covered by the benefit of the City's Plan:

	Miscellaneous Plan *
Inactive employees or beneficiaries currently receiving benefits	409
Inactive employees entitled to but not yet receiving benefits	121
Active employees	266
Totals	796

* Including the Transit Enterprise Fund employees.

Contributions

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

	Miscellaneous Plan
Contributions - employer	$ 34,008

NOTE 6 – PENSION PLAN (Continued)

Net Pension Liability

The City's net pension liability for the Plan is measured as the total pension liability, less the pension plan's fiduciary net position. The net pension liability of the Plan is measured as of June 30, 2017, using an annual actuarial valuation as of June 30, 2016, rolled forward to June 30, 2017, using standard update procedures.

Actuarial Assumptions

The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions:

	Miscellaneous Plan
Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.75%
Investment Rate of Return	7.65% (1)
Mortality	Based on rates of CalPERS Experience Study

(1) Net of pension plan investment expenses, including inflation

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2016 valuation were based on the 2014 CalPERS Experience Study for the period from 1997 to 2014. Further details for the Experience Study can be found on the CalPERS website.

Discount Rate

The discount rate used to measure the total pension liability was 7.15% for the Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for the Plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.15% discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long-term expected discount rate of 7.65% will be applied to the Plan in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

NOTE 6 – PENSION PLAN (Continued)

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

Asset Class	Current Target Allocation	Real Return Years 1-10 (1)	Real Return Years 11+ (2)
Global Equity	47.00%	5.25%	5.71%
Global Fixed Income	19.00%	0.99%	2.43%
Inflation Sensitive	6.00%	0.45%	3.36%
Private Equity	12.00%	6.83%	6.95%
Real Estate	11.00%	4.50%	5.13%
Infrastructure and Forestland	3.00%	4.50%	5.09%
Liquidity	2.00%	-0.55%	-1.05%

(1) An expected inflation of 2.50 percent used for this period.
(2) An expected inflation of 3.00 percent used for this period.

Changes in the Net Pension Liability

The changes in the net pension liability for the Transit Enterprise Fund follows:

Miscellaneous Plan:	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balance at June 30, 2016 (1)	$ 2,113,493	$ 1,493,210	$ 620,283
Changes in the year:			
Service cost	34,823	-	34,823
Interest on total pension liability	157,211	-	157,211
Change of assumptions	128,233	-	128,233
Differences between expected and actual experience	(4,845)	-	(4,845)
Contribution - employer	-	48,061	(48,061)
Contribution - employee	-	16,315	(16,315)
Net investment income (2)	-	165,215	(165,215)
Benefit payments, including refunds of employee contributions	(111,065)	(111,065)	-
Other changes in fiduciary net position	-	(4,232)	4,232
Net changes during measurement period	204,357	114,294	90,063
Balance at June 30, 2017	$ 2,317,850	$ 1,607,504	$ 710,346

(1) The fiduciary net position includes receivables for employee service buybacks, deficiency reserves, fiduciary self insurance and other post-employment benefit (OPEB) expense.
(2) Net of administrative expenses.

NOTE 6 – PENSION PLAN (Continued)

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the Transit Enterprise Fund, 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:

	Miscellaneous Plan
1% Decrease	6.15%
Net Pension Liability	$ 1,015,553
Current Discount Rate	7.15%
Net Pension Liability	$ 710,346
1% Increase	8.15%
Net Pension Liability	$ 454,412

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued CalPERS financial reports.

Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions

For the fiscal year ended June 30, 2018, the Transit Enterprise Fund recognized pension expense of $93,610 for the Plan.

At June 30, 2018, the Transit Enterprise Fund reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Transit Enterprise Fund	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 17,088	$ -
Changes of assumptions	82,436	-
Difference between expected and actual experiences	2,581	3,125
Net differences between projected and actual earnings on plan investments	21,974	-
Total	$ 124,079	$ 3,125

The $17,088 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the Transit Enterprise Fund's net pension liability in the year ending June 30, 2019. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

NOTE 6 – PENSION PLAN (Continued)

Year Ending June 30	Transit Enterprise Fund
2019	$ 45,049
2020	61,006
2021	9,378
2022	(11,567)
Total	$ 103,866

NOTE 7 – SUBSEQUENT EVENTS

Subsequent events have been evaluated through March 30, 2019, the date these financial statements were available to be issued.

On December 31, 2017, all employment contracts, Memorandum of Understandings (MOUs), between the City and the employees' Unions expired. The City has been negotiating with the employees' labor unions on terms and conditions of employment and the MOUs. In August 2018, the first MOU contract was presented to the City Council for approval. The final MOU contract was presented and approved by the Council in December 2018. The new MOU contracts are extended through June 30, 2019 or December 31, 2019, depending on the bargaining unit.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF LODI
TRANSIT ENTERPRISE FUND
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

Measurement Period	2016-17 [1]	2015-16 [1]	2014-15 [1]	2013-14 [1]
Total Pension Liability				
Service Cost	$ 34,823	$ 29,986	$ 34,335	$ 27,767
Interest	157,211	152,862	137,487	131,113
Differences Between Expected and Actual Experience	(4,845)	6,596	(18,865)	-
Changes of Assumptions	128,233	-	(33,097)	-
Benefit Payments, Including Refunds of Employee Contributions	(111,065)	(105,126)	(93,563)	(86,582)
Other Changes in Proportion of Total Pension Liability	-	127,820	-	-
Net Change in Total Pension Liability	204,357	212,138	26,296	72,298
Total Pension Liability - Beginning	2,113,493	1,901,355	1,875,059	1,802,761
Total Pension Liability - Ending (a)	2,317,850	2,113,493	1,901,355	1,875,059
Plan Fiduciary Net Position				
Contributions - Employer	48,061	42,580	34,139	30,186
Contributions - Employee	16,315	15,099	13,490	13,866
Net Investment Income [2]	165,215	7,828	32,259	215,615
Benefit Payments, including Refunds of Employee Contributions	(111,065)	(105,126)	(93,563)	(86,582)
Other Changes in Plan Fiduciary Net Position	(4,232)	(935)	(1,658)	-
Other Changes in Proportion of Plan Fiduciary Net Position	-	96,614	-	-
Net Change in Plan Fiduciary Net Position	114,294	56,060	(15,334)	173,085
Plan Fiduciary Net Position - Beginning	1,493,210	1,437,150	1,452,484	1,279,399
Plan Fiduciary Net Position - Ending (b)	1,607,504	1,493,210	1,437,150	1,452,484
Plan Net Pension Liability - Ending (a) - (b)	$ 710,346	$ 620,283	$ 464,205	$ 422,575
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	69.35%	70.65%	75.59%	77.46%
Covered-Employee Payroll	$ 218,613	$ 211,959	$ 188,909	$ 186,718
Plan Net Pension Liability as a Percentage of Covered-Employee Payroll	324.93%	292.64%	245.73%	226.32%

[1] Historical information is required only for measurement periods for which GASB Statement No. 68 is applicable.
[2] Net of administrative expenses.

Notes to Schedule:

Benefit Changes: There have been no changes in benefit terms. The figures above do not include any liability impact that may have resulted from plan changes which occurred after June 30, 2015. This applies for voluntary benefit changes as well as any offers to Two Years Additional Service Credits (a.k.a. Golden Handshakes).

Changes of Assumptions: In fiscal year 2017-18, the discount rate was changed from 7.65 percent to 7.15 percent. In fiscal year 2015-16, there were no changes. In fiscal year 2014-15, the discount rate was changed from 7.5 percent (net of administrative expense) to 7.65 percent.

Information in this schedule is not available prior to fiscal year 2013-14 measurement period. Additional years will be added to this schedule until 10 years of data is presented.

CITY OF LODI
TRANSIT ENTERPRISE FUND
SCHEDULE OF PENSION CONTRIBUTIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	2017-18 [1]	2016-17 [1]	2015-16 [1]	2014-15 [1]	2013-14 [1]
Miscellaneous Plan:					
Actuarially Determined Contributions	$ 48,061	$ 47,207	$ 42,580	$ 34,139	$ 30,186
Contributions in Relation to the Actuarially Determined Contributions [2]	(48,061)	(47,207)	(42,580)	(34,139)	(30,186)
Contribution Deficiency	$ -	$ -	$ -	$ -	$ -
Covered-Employee Payroll	$ 218,613	$ 216,575	$ 211,959	$ 188,909	$ 186,718
Contributions as a Percentage of Covered-Employee Payroll	21.98%	21.80%	20.09%	18.07%	16.17%

[1] Historical information is required only for measurement periods for which GASB 68 is applicable.
[2] Employers are assumed to make contributions equal to the actuarially determined contributions. However, some employers may choose to make additional contributions towards their unfunded liability. Employer contributions for such plans exceed the actuarially determine contributions.
[3] Covered-Employee Payroll represented above is based on pensionable earnings provided by the employer. However, GASB 68 defines covered-employee payroll as the total payroll of employees that are provided pensions through the pension plan. Accordingly, if pensionable earnings are different than total earnings for covered-employers, the employer should display in the disclosure footnotes the payroll based on total earnings for the covered group and recalculate the required payroll-related ratios.
[4] Payroll from prior year $216,575 was assumed to increase by 1.00 percent payroll growth assumption.

Notes to Schedule:

The actuarial methods and assumptions used to set the actuarially determined contributions for fiscal year 2016-17 were from the June 30, 2014 public agency funding valuations.

Actuarial Cost Method	Entry Age Normal
Amortization Method/Period	Level percent of payroll over 30 years.
Asset Valuation Method	Market value of assets.
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Payroll Growth	3.00%
Investment Rate of Return	7.50% Net of Pension Plan Investment and Administrative Expenses: includes Inflation.
Retirement Age	The probabilities of retirement are based on the 2014 CalPERS Experience Study for the period from 1997 to 2011.
Mortality	The probabilities of mortality are based on the 2014 CalPERS Experience Study for the period from 1997 to 2011. Pre-retirement and Post-retirement mortality rates include include 20 years of projected on-going mortality improvement using Scale BB published by the Society of Actuaries.

Changes of Assumptions: In fiscal year 2016-17, the probabilities of mortality were updated to include the 2014 CalPERS Experience Study through 2011, and mortality rates were changed from 5 years of projected mortality improvement using Scale AA to 20 years of projected ongoing mortality improvement using Scale BB. In fiscal year 2015-16, the asset valuation method was changed to market value of assets from actuarial value of assets. No change in assumptions for fiscal year 2014-15.

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

	Budgeted Amounts			
	Original	Final	Actual	Variance with Final Budget
REVENUES				
Streets and roads	$ 400,000	$ 400,000	$ 1,152,905	$ 752,905
Pedestrian and bicycle	49,000	49,000	92,097	43,097
Investment earnings	-	-	2,169	2,169
Total revenues	449,000	449,000	1,247,171	798,171
EXPENDITURES				
Local street repair	180,000	519,790	333,405	186,385
Pedestrian and bicycle projects	50,000	88,001	59,660	28,341
Total expenditures	230,000	607,791	393,065	214,726
Excess of revenues over expenditures	$ 219,000	$ (158,791)	854,106	$ 1,012,897
Fund balance, beginning			367,981	
Fund balance, ending			$ 1,222,087	

See note to required supplementary information.

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

	Budgeted Amounts			
	Original	Final	Actual	Variance with Final Budget
REVENUES				
Measure K funds				
Local street repair	$ 955,000	$ 955,000	$ 1,039,568	$ 84,568
Investment earnings	7,280	7,280	8,297	1,017
Other revenues	-	-	19,941	19,941
Total revenues	962,280	962,280	1,067,806	105,526
EXPENDITURES				
Measure K funds	465,000	605,982	272,654	333,328
Total expenditures	465,000	605,982	272,654	333,328
Excess of revenues over expenditures	$ 497,280	$ 356,298	795,152	$ 438,854
OTHER FINANCING USES				
Transfers to other City of Lodi funds			(727,530)	
Excess of revenues over expenditures and other financing uses			67,622	
Fund balance, beginning			1,482,437	
Fund balance, ending			$ 1,550,059	

See note to required supplementary information.

CITY OF LODI
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 allocated for non-transit purposes. 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

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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 Lodi
Lodi, 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 Lodi, 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 as it relates to the 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 City's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Funds' financial statements are free of 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

This report is intended solely to describe the scope of our testing of internal control and compliance, as it relates to the Funds, and the results of that testing, and not to provide an opinion of the effectiveness of the City's internal control or on compliance relating to the Funds. This report is an integral part of the audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance, as it relates 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

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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 Lodi
Lodi, California

Report on Compliance with Transportation Development Act and Measure K Requirements

We have audited the City of Lodi, 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:

	PTMISEA
Unexpended proceeds July 1, 2017	$ 551,463
Proceeds received	-
Interest earned	3,417
Expenditures	-
Unexpended proceeds June 30, 2018	$ 554,880

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