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

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

FOR THE FISCAL YEAR ENDED
JUNE 30, 2018

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

TABLE OF CONTENTS

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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 Tracy
Tracy, 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 Tracy, 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 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. 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.

Opinions

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 to these financial statements, Summary of Significant Accounting Policies, in 2018, the City adopted Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.* Our opinion is not modified with respect to this 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, Schedule of Pension Contributions, Schedule of Changes in Net OPEB Liability and Related Ratios, and Schedule of OPEB Contributions, on pages 24 through 28 and the budgetary comparison information on pages 29 and 30 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by 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 financial statements of the City's Funds as of June 30, 2017, and our report dated June 29, 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 31, 2019, on our consideration of the City's internal control over financial reporting, as it relates to the Funds, and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the 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 31, 2019

CITY OF TRACY
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 and investments	$ 2,048,666	$ 649,065	$ 2,697,731	$ 1,125,346
Interest receivable	10,605	3,099	13,704	3,376
Due from other agencies - local	248,318	364,381	612,699	326,402
TOTAL ASSETS	$ 2,307,589	$ 1,016,545	$ 3,324,134	$ 1,455,124
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	$ 78,400	$ 164,917	$ 243,317	$ 480,339
Unearned revenue	74,897	-	74,897	-
TOTAL LIABILITIES	153,297	164,917	318,214	480,339
FUND BALANCES				
Restricted	2,154,292	851,628	3,005,920	974,785
TOTAL FUND BALANCES	2,154,292	851,628	3,005,920	974,785
TOTAL LIABILITIES AND FUND BALANCES	$ 2,307,589	$ 1,016,545	$ 3,324,134	$ 1,455,124

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

CITY OF TRACY
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	$ 3,207,870	$ -	$ 3,207,870	$ -
Measure K funds				
Local street repair	-	1,475,012	1,475,012	1,366,232
Investment income	(3,882)	5,303	1,421	6,327
TOTAL REVENUES	3,203,988	1,480,315	4,684,303	1,372,559
EXPENDITURES				
General government	86,795	-	86,795	38,500
Street and road maintenance	4,268	-	4,268	794,834
Capital outlay	1,290,697	1,271,408	2,562,105	1,265,268
TOTAL EXPENDITURES	1,381,760	1,271,408	2,653,168	2,098,602
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	1,822,228	208,907	2,031,135	(726,043)
Fund balances at beginning of year	332,064	642,721	974,785	1,700,828
Fund balances at end of year	$ 2,154,292	$ 851,628	$ 3,005,920	$ 974,785

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

CITY OF TRACY
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	$ -	$ 542,720
Interest receivable	3,328	-
Due from other agencies	5,428,251	4,694,817
TOTAL CURRENT ASSETS	5,431,579	5,237,537
NONCURRENT ASSETS		
Capital assets, not being depreciated	1,427,226	1,427,226
Capital assets, being depreciated	13,194,777	14,152,705
TOTAL NONCURRENT ASSETS	14,622,003	15,579,931
TOTAL ASSETS	20,053,582	20,817,468
DEFERRED OUTFLOWS OF RESOURCES		
Related to pensions	99,518	80,024
Related to OPEB	747	-
TOTAL DEFERRED OUTFLOWS OF RESOURCES	100,265	80,024
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 20,153,847	$ 20,897,492
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION		
CURRENT LIABILITIES		
Accounts payable	$ 273,315	$ 101,943
Compensated absences	4,588	2,829
Unearned revenues	990,647	-
Due to other funds	3,601,333	6,551,334
TOTAL CURRENT LIABILITIES	4,869,883	6,656,106
NONCURRENT LIABILITIES		
Compensated absences	4,025	2,534
Net pension liability	317,094	264,192
Net OPEB liability	25,506	-
TOTAL NONCURRENT LIABILITIES	346,625	266,726
TOTAL LIABILITIES	5,216,508	6,922,832
DEFERRED INFLOWS OF RESOURCES		
Related to pensions	9,298	34,825
Related to OPEB	1,298	-
TOTAL DEFERRED INFLOWS OF RESOURCES	10,596	34,825
NET POSITION		
Net investment in capital assets	14,622,003	15,579,931
Unrestricted	304,740	(1,640,096)
TOTAL NET POSITION	14,926,743	13,939,835
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	$ 20,153,847	$ 20,897,492

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

CITY OF TRACY
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 and other fees	$ 117,183	$ 115,843
OPERATING EXPENSES		
Administration	318,559	75,530
Transportation operations	4,295,386	3,044,038
Depreciation	957,928	833,134
TOTAL OPERATING EXPENSES	5,571,873	3,952,702
OPERATING LOSS	(5,454,690)	(3,836,859)
NONOPERATING REVENUES		
Local transportation funds	3,474,904	-
State Transit Assistance funds	85,279	-
Federal Transit Administration	2,863,048	3,650,073
Interest	(1,743)	429
Other income	44,917	62,838
TOTAL NONOPERATING REVENUES	6,466,405	3,713,340
CHANGE IN NET POSITION	1,011,715	(123,519)
NET POSITION AT BEGINNING OF YEAR, AS RESTATED	13,939,835	14,063,354
PRIOR PERIOD ADJUSTMENT	(24,807)	-
NET POSITION, BEGINNING OF YEAR, AS RESTATED	13,915,028	14,063,354
NET POSITION AT END OF YEAR	$ 14,926,743	$ 13,939,835

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

CITY OF TRACY
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 users	$ 117,183	$ 115,843
Cash payments to suppliers and contractors	(4,114,883)	(2,979,926)
Cash payments to employees for services	(315,309)	(89,388)
NET CASH USED BY OPERATING ACTIVITIES	(4,313,009)	(2,953,471)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Operating grants and subsidies	5,734,714	1,161,437
Net transfers to (from) other City funds	(2,950,001)	4,601,334
NET CASH PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES	2,784,713	5,762,771
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital grants	990,647	-
Acquisition of capital assets	-	(2,745,548)
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	990,647	(2,745,548)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest	(5,071)	3,012
NET CASH FLOWS PROVIDED (USED) BY INVESTING ACTIVITIES	(5,071)	3,012
Net Increase (Decrease) in Cash and Cash Equivalents	(542,720)	66,764
CASH AND CASH EQUIVALENTS, JULY 1	542,720	475,956
CASH AND CASH EQUIVALENTS, JUNE 30	$ -	$ 542,720
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating loss	$ (5,454,690)	$ (3,836,859)
Adjustment to reconcile operating loss to net cash used by operating activities:		
Depreciation	957,928	833,134
Change in assets and liabilities:		
(Increase) in deferred pensions	(45,021)	(55,864)
(Increase) in deferred OPEB	(24,256)	-
Increase in accounts payable	171,372	85,058
Increase (Decrease) in compensated absences	3,250	(13,858)
Increase in net pension liability	52,902	34,918
Increase in net OPEB liability	25,506	-
NET CASH USED BY OPERATING ACTIVITIES	$ (4,313,009)	$ (2,953,471)

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 Tracy (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 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, Section 99400 (a) 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 the TDA funds received by the City for non-transit purposes, which is reflected in the 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, 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 Proposition 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 received funds under the provisions of the TDA from the San Joaquin County LTF under Article 8, Section 99400 (c), (d), 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 as well as County of San Joaquin operating assistance. The City's Municipal Transit Fund is used to account for TDA funds received by the City for contracted public transportation, which is reflected in these financial statements of the Transit Enterprise Fund. The City provides dial-a-ride transportation services for senior and handicapped citizens through contracts with MV Transportation, Inc., and Yellow Cab of Tracy and provides transit services to the general public through a contract with MV Transportation, Inc.

The accompanying financial statements present only the TDA 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.

The TDA Fund is a governmental fund specifically categorized as a special revenue fund. Special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

The Measure K Fund is a governmental fund specifically categorized as a special revenue fund. 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 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 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.

Under the provisions of GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) Pronouncements,* the City applies all applicable GASB pronouncements for the Transit Enterprise Fund as well as Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

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.

E. 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 sheet.

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

- *Nonspendable fund balance* – amounts that cannot be spent because they are either (a) not 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 City Council 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.

NOTE 1 – 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. Estimated useful lives of buildings are 30 years, office furniture and equipment are 10 years, leasehold improvements 20 years, and vehicles are 5 years.

H. Grants

Grant revenues and receivables are recorded when eligibility requirements that 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.

I. Risk Management

The City participates in various risk management programs, some of which relate to the TDA Funds, and are reported in the financial statements of the City. The risk management allocation is based on a percentage of each invoice from the Central San Joaquin Valley Risk Management Authority: 15% to the TDA Fund and 10% to the Transit Enterprise Fund.

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 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. New Accounting Pronouncement – Implemented

GASB Statement No. 75 – *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. The provisions of this statement are effective for fiscal years beginning after June 15, 2017. This statement essentially parallels GASB Statement No. 68 and replaces GASB Statement No. 45. As a result of this implementation, the City reported a prior period adjustment to net position in the amount of $(24,807) and recognized a net other postemployment benefits (OPEB) liability, deferred outflows of resources, and deferred inflows of resources associated with OPEB as of June 30, 2018. See Note 6 for a detailed discussion of the effects of the City's financial statements as a result of adopting this standard.

NOTE 2 – CASH AND INVESTMENTS

The cash and investment balances for the City's TDA 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 TDA 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 consisted of the following at June 30:

	Balances July 1, 2017	Additions	Deletions	Adjustments	Balances June 30, 2018
Land	$ 1,427,226	$ -	$ -	$ -	$ 1,427,226
Buildings and improvements	15,771,993	-	-	336,646	16,108,639
Equipment	4,954,956	-	-	(336,646)	4,618,310
Subtotal	22,154,175	-	-	-	22,154,175
Less: accumulated depreciation	(6,574,244)	(957,928)	-	-	(7,532,172)
Total capital assets	$ 15,579,931	$ (957,928)	$ -	$ -	$ 14,622,003

Depreciation expense was $957,928 for the year ended June 30, 2018.

NOTE 4 – PERFORMANCE OBJECTIVES

The City is required by the San Joaquin Council of Governments to maintain two of the three established performance objectives as a transit operator claimant for the year ended June 30, 2018: the 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. For the year ended June 30, 2018, the transit system's performance was to meet two of the three criteria of having operating cost of less than $92.6 per hour; more than 6.2 passengers per hour; and less than $14.14 subsidy per passenger. The City met 1 of the 3 performance objective requirements for the year ended June 30, 2018.

NOTE 4 – PERFORMANCE OBJECTIVES (Continued)

The calculation of the transit system's performance objectives is as follows for the year ended June 30, 2018:

Factors in determining performance measures:		
Total Operating Costs	$	5,571,873
Less TDA Eligible Exclusions		
Depreciation		(957,928)
Net TDA Operating Cost	$	4,613,945
Revenue Hours		37,395
Passengers		167,702
Fare Revenue	$	117,183
Federal Operating Revenue		2,863,048
Fare Revenue + Federal, Measure K, and Other Operating Revenue	$	2,980,231
Performance measures:		
Cost per Revenue Hour(1)	$	123.38
Passenger per Revenue Hour(2)		4.48
Subsidy per Passenger(3)	$	9.74

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

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

(3)Subsidy per Passenger is calculated as:

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

NOTE 5 – PENSION PLAN

Plan Descriptions

All qualified permanent and probationary employees 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 plan regarding benefit provisions, assumptions, and membership information that can be found on the CalPERS website.

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full-time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: The Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for the Plan are applied as specified by the Public Employees' Retirement Law. The Pension Reform Act of 2013 (PEPRA), Assembly Bill 340, is applicable to employees new to CalPERS and hired after December 31, 2012.

NOTE 5 – <u>PENSION PLAN</u> (Continued)

Benefits Provided (Continued)

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

	Miscellaneous Plan		
	Classic Tier I	Classic Tier II	PEPRA
Hire date	Prior to October 9, 2011	After October 9, 2011	On or after January 1, 2013
Benefit formula	2.0% @ 55	2.5% @ 55	2.0% @ 62
Benefit vesting schedule	5 years service	5 years service	5 years service
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	50 - 63	50 - 55	52 - 67
Monthly benefits, as a % of eligible compensation	1.426% - 2.418%	2.0-2.5%	1.0% - 2.5%
Required employee contribution rates	7%	8%	6.25%
Required employer contribution rates	8.632%	8.632%	8.632%
Required UAL contribution	$2,130,284 - Includes Transit Enterprise Fund employees		

Beginning in fiscal year 2018, CalPERS collects employer contributions for the Plan as a percentage of payroll for the normal cost portion as noted in the rates above and as a dollar amount for contributions toward the unfunded accrued liability (UAL). The dollar amounts are billed on an annual basis. The City's required contribution for the UAL of the Plan was $2,130,284, including Transit Enterprise Fund employees, in fiscal year 2018, as shown in the table above.

Employees Covered

At the June 30, 2016 actuarial valuation date, the following employees were covered by the benefit terms for the Plan:

	Miscellaneous Plan *
Inactive employees or beneficiaries currently receiving benefits	268
Inactive employees entitled to but not yet receiving benefits	243
Active employees	279
Totals	790

*Including the Transit Enterprise Fund employees

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for 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 Transit Enterprise Fund's contribution to the Plan was $37,377 for the fiscal year ended June 30, 2018.

NOTE 5 – PENSION PLAN (Continued)

Net Pension Liability

For purposes of measuring the net pension liability, deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Plan and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the CalPERS Financial Office. For this purpose, benefit payments (including refunds of employee contributions) are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value.

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. A summary of principal assumptions and methods used to determine the net pension liability is shown below.

The net pension liabilities are liquidated by the fund that has recorded the liability only when matured. The long-term portion of the net pension liability is liquidated primarily by the City's General Fund.

Actuarial Assumptions

For the measurement period ended June 30, 2017, the total pension liability was determined by rolling forward the June 30, 2016 total pension liability. The June 30, 2017 total pension liability was based on the following actuarial methods and assumptions:

	Miscellaneous Plan (1)
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%
Payroll Growth	3.00%
Projected Salary Increase	3.2% - 12.2% (2)
Investment Rate of Return	7.15% (3)
Mortality	Derived using CalPERS Membership Data for all Funds (4)
Post Retirement Benefit Increase	Contract cost of living adjustment (COLA) up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

(1) Actuarial assumptions are the same for all benefit tiers (Classic Tier I, Classic Tier II, and PEPRA)
(2) Depending on age, service, and type of employment
(3) Net of pension plan investment and administrative expenses, including inflation
(4) The mortality table used was developed based on the CalPERS' specific data. The table includes 20 years of projected mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the CalPERS 2017 experience study report available on CalPERS' website.

NOTE 5 – PENSION PLAN (Continued)

Change of Assumptions

For the measurement date of June 30, 2017, the accounting discount rate was reduced from 7.65 percent to 7.15 percent.

All other actuarial assumptions used in the June 30, 2016 valuation were based on the results of a January 2014 actuarial experience study for the period 1997 to 2011, including updates to salary increase, mortality, and retirement rates. Further details of the Experience Study can be found on the CalPERS website under Forms and Publications.

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 each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.15% discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long-term expected discount rate of 7.15% 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. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. 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.

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 geometric rates of return are net of administrative expenses.

Asset Class	New Strategic Allocation	Real Return Years 1 - 10(a)	Real Return Years 11+(b)
Global Equity	47.0%	4.90%	5.38%
Global Fixed Income	19.0%	0.80%	2.27%
Inflation Sensitive	6.0%	0.60%	1.39%
Private Equity	12.0%	6.60%	6.63%
Real Estate	11.0%	2.80%	5.21%
Infrastructure and Forestland	3.0%	3.90%	5.36%
Liquidity	2.0%	-0.40%	-0.90%
Total	100.00%		

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

NOTE 5 – PENSION PLAN (Continued)

Changes in the Net Pension Liability

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

Miscellaneous Plan:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability/(Asset)
Balance at June 30, 2016	$ 1,049,059	$ 784,867	$ 264,192
Changes in the year:			
Service cost	33,776	-	33,776
Interest on the total pension liability	93,663	-	93,663
Differences between actual and expected experience	669	-	669
Changes in assumptions	79,444	-	79,444
Changes in benefit terms	-	-	-
Contribution - employer	-	36,794	(36,794)
Contribution - employee	-	14,750	(14,750)
Net investment income	-	104,479	(104,479)
Administrative expenses	-	(1,373)	1,373
Benefit payments, including refunds of employee contributions	(51,736)	(51,736)	-
Net Changes	155,816	102,914	52,902
Balance at June 30, 2017	$ 1,204,875	$ 887,781	$ 317,094

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 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:

	Transit Enterprise Fund
1% Decrease	6.15%
Net Pension Liability	$ 556,404
Current Discount Rate	7.15%
Net Pension Liability	$ 317,094
1% Increase	8.15%
Net Pension Liability	$ 201,547

Pension Plan Fiduciary Net Position

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

NOTE 5 – PENSION PLAN (Continued)

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

For the year ended June 30, 2018, the Transit Enterprise Fund recognized pension expense of $7,881. 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	$ 37,377	$ -
Differences between actual and expected experience	466	(11,251)
Changes in assumptions	48,335	1,953
Net differences between projected and actual earnings on plan investments	13,340	-
Total	$ 99,518	$ (9,298)

The $37,377 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended June 30	Transit Enterprise Fund
2019	$ 10,483
2020	37,097
2021	12,881
2022	(7,618)
2023	-
Thereafter	-
Total	$ 52,843

NOTE 6 – POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS

Plan Description

The City administers a single employer defined benefit (implicit subsidy) healthcare plan. No assets have been accumulated in a trust for the payment of benefits that meets the criteria in paragraph 4 of the GASB Statement No. 75.

The City offers medical, dental, vision, and life insurance benefits to its employees, retirees, and their dependents. However, the City does not explicitly pay for the cost of retiree health premiums. The medical plans consist of two HealthNet HMO options, a HealthNet PPO and a HealthNet High Deductible Health Plan (HDHP), and a Kaiser HMO, all fully insured. Medical premiums for retirees under age 65 are the same as those charged for active employees.

Employees who retire with at least ten years of service may elect to convert all accrued sick leave at the time of retirement to a medical insurance bank that can be used for medical, dental, and vision premiums. Miscellaneous employees, except members of the Teamsters Bargaining Unit, can bank their unused sick leave upon retirement. Members of the Teamsters can also bank their unused sick leave only if they have at least ten (10) years of employment with the City. The value of the medical insurance bank is determined by multiplying the number of accrued sick leave hours by the employees' hourly rate of pay at the time of retirement.

NOTE 6 – POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (Continued)

Plan Description (Continued)

The retired employee and his/her dependents are entitled to continued group health insurance coverage currently in effect with premiums for such coverage being deducted from the medical leave bank until the bank is exhausted.

The cost of retiree health care benefits is recognized as an expenditure as health care premiums are paid. For the fiscal year ending June 30, 2018, those costs for 85 retirees, including the Transit Enterprise Fund retirees, totaled $595,343 and the total liability amount in the medical leave bank is $3,333,130.

After the account is exhausted, the retiree has the option to either terminate coverage or elect to continue paying the medical (but not dental or vision) premiums with personal funds. Spouses and eligible dependent children of retirees may also be covered at the retiree's expense. While the City does not directly contribute towards the cost of premiums for retirees, the ability to obtain coverage at an active employee rate constitutes a significant economic benefit to the retirees, called an "implicit subsidy" under accounting principles generally accepted in the United States of America. The inclusion of the retirees increases the City's overall health insurance rates; it is, in part, the purpose of this valuation to determine the amount of the subsidy.

The ability to participate in the City's health plan by self-paying the premiums extends for the lifetime of the retiree; however, upon attaining the age of Medicare eligibility (65), the retiree may enter a plan coordinated with Medicare. Standard actuarial practice assumes that Medicare supplement plans do not generally give rise to an implicit subsidy, and while the City has included Medicare eligible retirees in this valuation, both their liability and their annual implicit subsidy are $0.

The Plan does not issue a separate financial report.

Membership in the plan consist of the following at June 30, 2016, the date of the latest actuarial valuation:

Active plan members	203
Inactive employees or beneficiaries currently receiving benefit payments	22
Inactive employees entitled to but not yet receiving payments	36
Totals	261

Funding Policy

The contribution requirement of plan members of the City are established and may be amended by the City. The required contribution is based on projected pay-as-you-go financing requirements.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and includes the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

NOTE 6 – POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (Continued)

Actuarial Methods and Assumptions (Continued)

For the measurement period ended June 30, 2017, the net OPEB liability was determined by rolling forward the June 30, 2016 net OPEB liability. The June 30, 2017 net OPEB liability was based on the following actuarial methods and assumptions:

Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions	
Discount Rate	3.13%
Inflation	2.75%
Payroll Growth	3.00%
Projected Salary Increase	3.25%
Healthcare Trend	8.50% in 2018, declining to 5.0% for 2025 and beyond
Mortality	Bickmore Scale 2017 applied generationally (1)

(1) Demographic actuarial assumptions used in this valuation are based on the 2014 experience study of the California Public Employees Retirement System using data from 1997 to 2011, except for a difference basis used to project future mortality improvements. Mortality rates used were those published by CalPERS, adjusted to back out 20 years of Scale BB to central year 2008, then projected.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to revision at least biannually as results are compared to past expectations and new estimates are made about the future.

Discount Rate

The discount rate used to measure the net OPEB liability was 3.13%. The City's funding policy affects the calculation of liabilities by choosing the discount rate that is used to develop the plan liability and expense. The City is currently financing its OPEB liability on a pay-as-you-go basis. The discount rate used in the June 30, 2017 valuation is based on the S&P Municipal Bond 20-year high grade index.

NOTE 6 – POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (Continued)

Changes in Net OPEB Liability

	Increase (Decrease) Net OPEB Liability
Balance at June 30, 2016 (Valuation Date)	$ 25,404
Changes Recognized for the Measurement Period:	
Service cost	1,478
Interest on the net OPEB liability	662
Changes in benefit terms	-
Differences between expected and actual experience	-
Changes in assumptions	(1,441)
Contributions from the employer	-
Net investment income	-
Administrative expenses	-
Benefit payments and refunds	(597)
Net Changes During July 1, 2016 to June 30, 2017	102
Balance at June 30, 2017 (Measurement Date)	$ 25,506

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

The following presents the net OPEB liability of the Transit Enterprise Fund, calculated using the discount rate, as well as what the Transit Enterprise Fund's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower and 1-percentage point higher than the current rate:

Net OPEB Liability/(Asset)		
Discount Rate -1% (2.13%)	Current Discount Rate (3.13%)	Discount Rate +1% (4.13%)
$ 28,082	$ 25,506	$ 23,172

Sensitivity of the Net OPEB Liability to Changes in the Health Care Cost Trend Rates

The following presents the net OPEB liability of the Transit Enterprise Fund, calculated using the healthcare cost trend rates, as well as what the Transit Enterprise Fund's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage point lower and 1-percentage point higher than the current rates:

Net OPEB Liability/(Asset)		
Healthcare Cost Trend Rates -1% (2.13%)	Current Healthcare Cost Trend Rates (3.13%)	Healthcare Cost Trend Rates +1% (4.13%)
$ 22,885	$ 25,506	$ 28,783

NOTE 6 – POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (Continued)

Deferred Outflows and Inflows of Resources

The components of deferred outflows of resources and deferred inflows of resources related to OPEB at June 30, 2018, were as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Employer contributions subsequent to measurement date	$ 747	$ -
Changes in assumptions	-	1,298
Total	$ 747	$ 1,298

$747 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019. Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized as future OPEB expense as follows:

Year Ended June 30	Annual Amortization
2019	$ (142)
2020	(142)
2021	(142)
2022	(142)
2023	(142)
Thereafter	(588)
Total	$ (1,298)

NOTE 7 – PRIOR PERIOD ADJUSTMENT

A prior period adjustment was made to restate the net position and add the net OPEB liability to the financial statements for the implementation of GASB Statement No. 75.

	Transit Enterprise Fund
Net Position as Previously Reported June 30, 2017	$ 13,939,835
Prior Period Adjustment	(24,807)
Net Position as Restated July 1, 2017	$ 13,915,028

NOTE 8 – SUBSEQUENT EVENTS

Subsequent events have been evaluated through March 31, 2019, the date these financial statements were available to be issued.

Effective July 1, 2018, the City entered into three-year contracts with all employee groups. The contract includes a 4% annual salary increase for each year, or a 12% total increase. There are sufficient resources to meet these obligations.

REQUIRED SUPPLEMENTARY INFORMATION

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

Measurement Date	**June 30, 2017**	**June 30, 2016**	**June 30, 2015**	**June 30, 2014**
Total pension liability				
Service cost	$ 33,776	$ 23,633	$ 23,140	$ 24,204
Interest	93,663	79,247	72,246	70,221
Differences between expected and actual experience	669	(24,470)	(28,737)	-
Changes in assumptions	79,444	-	(18,089)	-
Changes in benefits	-	-	-	-
Benefit payments, including refunds of employee contributions	(51,736)	(40,245)	(38,439)	(35,650)
Net change in total pension liability	155,816	38,165	10,121	58,775
Total pension liability - beginning	1,049,059	1,010,894	1,000,773	941,998
Total pension liability - ending (a)	1,204,875	1,049,059	1,010,894	1,000,773
Plan fiduciary net position				
Contributions - employer	36,794	28,148	22,347	21,641
Contributions - employee	14,750	11,869	10,771	11,013
Net investment income (1)	104,479	3,957	17,063	114,468
Benefit payments, including refunds of employee contributions	(51,736)	(40,245)	(38,439)	(35,650)
Plan to plan resource movement	-	-	68	-
Administrative expense	(1,373)	(482)	(441)	-
Net change in plan fiduciary net position	102,914	3,247	11,369	111,472
Plan fiduciary net position - beginning	784,867	781,620	770,251	658,779
Plan fiduciary net position - ending (b)	$ 887,781	$ 784,867	$ 781,620	$ 770,251
Net pension liability - ending (a)-(b)	$ 317,094	$ 264,192	$ 229,274	$ 230,522
Plan fiduciary net position as a percentage of the total pension liability	73.68%	74.82%	77.32%	76.97%
Covered payroll	$ 166,164	$ 156,912	$ 152,253	$ 153,329
Net pension liability as percentage of covered payroll	190.83%	168.37%	150.59%	150.34%

(1) Net of administrative expenses in 2014.

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

Notes to Schedule:

Changes in assumptions: In 2017, the accounting discount rate was reduced from 7.65 percent to 7.15 percent. In 2016, there were no changes. In 2015, amounts reported reflect an adjustment of the discount rate from 7.5 percent (net of administrative expense) to 7.65 percent (without a reduction for pension plan administrative expense). In 2014, amounts reported were based on the 7.5 percent discount rate.

* Fiscal year 2015 was the 1st year of implementation.

Source: CalPERS Accounting Valuation

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

Fiscal Year Ended June 30	**2018**	**2017**	**2016**	**2015***
Actuarially determined contribution	$ 37,377	$ 36,794	$ 28,148	$ 22,347
Contributions in relation to the actuarially determined contribution	(37,377)	(36,794)	(28,148)	(22,347)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
Covered payroll	$ 227,900	$ 166,164	$ 156,912	$ 152,253
Contributions as a percentage of covered payroll	16.40%	22.14%	17.94%	14.68%
Notes to schedule:				
Valuation date:	June 30, 2015	June 30, 2014	June 30, 2013	June 30, 2012

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry Age
Amortization method	Level percentage of payroll
Remaining amortization period	15 Years as of the Valuation Date
Asset valuation method	15 Year Smoothed Market
Inflation	2.75%
Salary increase	3.30% to 14.20% depending on age, service, and types of employment
Investment rate of return	7.50%, net of pension plan investment expense, including inflation
Retirement age	The probabilities of retirement are based on the 2014 CalPERS Experience Study for the period from 1997 to 2011.
Mortality	The probabilities of mortality are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007 for fiscal years 2015 and 2016, and based on the 2014 CalPERS Experience Study for the period from 1997 to 2011 for fiscal years 2017 and 2018. Pre-retirement and post-retirement mortality rates include 20 years of projected mortality improvement using Scale BB published by the Society of Actuaries.

*Fiscal year 2015 was the 1st year of implementation.

Source: City of Tracy's general ledger and CalPERS Actuarial Valuations

CITY OF TRACY
TRANSPORTATION DEVELOPMENT ACT FUND
SCHEDULE OF CHANGES IN NET OPEB LIABILITY AND RELATED RATIOS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

Measurement period	**2016-17**
Total OPEB liability	
Service cost	$ 1,478
Interest	662
Differences between expected and actual experience	-
Assumption changes	(1,440)
Benefit payments, including refunds of employee contributions	(597)
Net change in total OPEB liability	103
Total OPEB liability - beginning	25,403
Total OPEB liability - ending	$ 25,506
Covered payroll	$ 103,190
Plan total OPEB liability as percentage of covered-employee payroll	24.72%

*Fiscal year 2018 was the first year of implementation.

CITY OF TRACY
TRANSPORTATION DEVELOPMENT ACT FUND
SCHEDULE OF OPEB CONTRIBUTIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	2018
Actuarially determined contribution	$ 3,288
Contributions in relation to the actuarially determined contribution	749
Contribution deficiency (excess)	$ 2,539
Covered-employee payroll	$ 132,556
Contributions as a percentage of covered-employee payroll	0.57%

Notes to Schedule:

Methods and assumptions used to determine contribution rates:

Valuation Date	June 30, 2016
Actuarial Cost Method	Entry Age Normal, Level Percentage of Payroll
Amortization Method	Level Percentage of Projected Payroll on an Open Basis
Remaining Amortization	28 years remaining as of June 30, 2018
Asset Valuation Method	Market value of assets ($0, no OPEB Trust has been established)
Discount Rate	3.13%
General Inflation	2.75% per year
Mortality, Retirement, Disability, Termination	Same as June 30, 2016 actuarial valuation
Mortality Improvement	Bickmore Scale 2017 applied generationally
Salary Increases	3.25% per year, used only to allocate the cost of benefits between service years

*Fiscal year 2018 was the first year of implementation.

CITY OF TRACY
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				
Local transportation funds	$ 1,525,000	$ 1,525,000	$ 3,207,870	$ 1,682,870
Investment income	-	-	(3,882)	(3,882)
Total revenues	1,525,000	1,525,000	3,203,988	1,678,988
EXPENDITURES				
General government	55,825	55,825	86,795	(30,970)
Street and road maintenance	1,867,375	2,085,471	1,294,965	790,506
Total expenditures	1,923,200	2,141,296	1,381,760	759,536
Excess (Deficiency) of revenues over (under) expenditures	$ (398,200)	$ (616,296)	1,822,228	$ 2,438,524
Fund balance, beginning of year			332,064	
Fund balance, end of year			$ 2,154,292	

See note to required supplementary information

CITY OF TRACY
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	$ 1,300,000	$ 1,300,000	$ 1,475,012	$ 175,012
Investment income	-	-	5,303	5,303
Total revenues	1,300,000	1,300,000	1,480,315	180,315
EXPENDITURES				
Capital outlay	2,363,078	2,544,917	1,271,408	1,273,509
Excess (Deficiency) of revenues over (under) expenditures	$ (1,063,078)	$ (1,244,917)	208,907	$ 1,453,824
Fund balance, beginning of year			642,721	
Fund balance, end of year			$ 851,628	

See note to required supplementary information

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 (TDA) and Measure K Funds. 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.

NOTE 2 – EXPENDITURES OVER APPROPRIATIONS

For the fiscal year ended June 30, 2018, the TDA Fund has expenditures over appropriations as follows:

	TDA Fund
General Government	$ (30,970)

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 Tracy
Tracy, 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 Tracy, 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 31, 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 relating 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 an 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 31, 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 Tracy
Tracy, California

Report on Compliance with Transportation Development Act and Measure K Requirements

We have audited the City of Tracy's (the City) compliance with Transportation Development Act (TDA) 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.

Other Matters

The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under the TDA and which are described in the accompanying Schedule of Findings and Recommendations as items 2018-01 and 2017-01.

The City's response to the noncompliance findings identified in our audit is described in the accompanying Schedule of Findings and Recommendations. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on it.

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 31, 2019

2018-01

Condition:

During our audit of the Transit Enterprise Fund, we determined that the City was only meeting one of the three performance objectives. The City met the Subsidy per Passenger objective, but did not meet the Cost per Revenue Hour and Passenger per Revenue hour objectives.

Criteria:

The City is required by the San Joaquin Council of Governments to maintain at least two of the three performance objectives as a non-transit operator claimant for the year ending June 30, 2018.

Cause of Condition:

The condition was caused by the City not verifying whether performance objectives were being met.

Potential Effect of Condition:

The City may be ineligible for future TDA funding, if it does not meet two of the three performance objectives.

Recommendation:

We recommend that the City periodically verify whether the performance objectives are being met.

Management Response:

The City procured a new contract for transit operations which began in fiscal year 16/17. The new contract increased operation expenditures over $1 million per year, causing the City to not be able to meet the established performance measures which were based on a TDA claim from 2 or 3 years earlier when operating expenses were significantly lower. Given that the City must do contract procurement through a competitive process, we could not have predicted the increase in cost, thus affecting our ability to meet the performance measures. City staff will work with San Joaquin Council of Governments staff on the creation of the next cycle of performance measures to account for any possible increases in cost that may take effect during that period.

2017-01

Condition:

During our audit of the Transit Enterprise Fund, we determined that the City was only meeting one of the three performance objectives. The City met the Subsidy per Passenger objective, but did not meet the Cost per Revenue Hour and Passenger per Revenue hour objectives.

Criteria:

The City is required by the San Joaquin Council of Governments to maintain at least two of the three performance objectives as a non-transit operator claimant for the year ending June 30, 2017.

Cause of Condition:

The condition was caused by the City not verifying whether performance objectives were being met.

Potential Effect of Condition:

The City may be ineligible for future TDA funding, if it does not meet two of the three performance objectives.

Recommendation:

We recommend that the City periodically verify whether the performance objectives are being met.

Management Response:

The City procured a new contract for transit operations which began in fiscal year 16/17. The new contract increased operation expenditures over $1 million per year, causing the City to not be able to meet the established performance measures which were based on a TDA claim from 2 or 3 years earlier when operating expenses were significantly lower. Given that the City must do contract procurement through a competitive process, we could not have predicted the increase in cost, thus affecting our ability to meet the performance measures. City staff will work with San Joaquin Council of Governments staff on the creation of the next cycle of performance measures to account for any possible increases in cost that may take effect during that period.

Current Year Status:

The City is still only meeting one of the three performance objectives. The City is working with the San Joaquin Council of Governments to create reasonable performance objectives for the next period based on current conditions and any foreseen future conditions. We have reissued this finding for the fiscal year ended June 30, 2018. See finding 2018-01.