

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

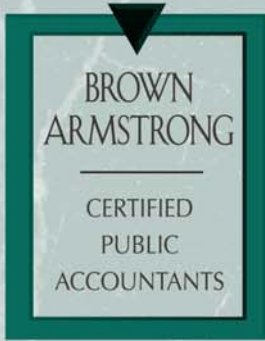
**INDEPENDENT AUDITOR'S REPORTS,
FUND FINANCIAL STATEMENTS,
REQUIRED SUPPLEMENTARY INFORMATION,
AND COMPLIANCE REPORT**

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

**CITY OF LATHROP
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 Lathrop
Lathrop, California

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Report on the Financial Statements

We have audited the accompanying financial statements of the Transportation Development Act (TDA) and Measure K Funds, allocated for non-transit purposes, and the Transit Enterprise Fund (collectively, the Funds) of the City of Lathrop (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 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 Controller 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 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Funds of the City as of June 30, 2018, and the respective changes in financial position, and, where applicable, cash flows thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Basis of Presentation

As discussed in Note 2, these financial statements present only the Funds and do not purport to, and do not, present fairly the financial position of the City as of June 30, 2018, and the changes in its financial position for the fiscal year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on pages 14 and 15 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board (GASB), who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the management's discussion and analysis (MD&A) that accounting principles generally accepted in the United States of America require to be presented to supplement the financial statements. Such missing 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. Our opinion on the financial statements is not affected by this missing information.

Report on Summarized Comparative Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 31, 2018, on our consideration of the City's internal control over financial reporting, as it relates to the Funds, and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance, as

it relates to the Funds. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance as it relates to the Funds.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

*Brown Armstrong
Accountancy Corporation*

Bakersfield, California
December 31, 2018

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

	Transportation Development Act Fund	Measure K Fund	Totals	
			2018	2017
ASSETS				
Cash and investments	\$ -	\$ 553,514	\$ 553,514	\$ 1,871,890
Interest receivable	2,968	1,265	4,233	1,958
Intergovernmental receivable	768,565	92,649	861,214	739,949
TOTAL ASSETS	\$ 771,533	\$ 647,428	\$ 1,418,961	\$ 2,613,797
LIABILITIES AND FUND BALANCES				
CURRENT LIABILITIES				
Cash deficit	\$ 168,857	\$ -	\$ 168,857	\$ -
TOTAL LIABILITIES	168,857	-	168,857	-
FUND BALANCES				
Restricted	602,676	647,428	1,250,104	2,613,797
TOTAL LIABILITIES AND FUND BALANCES	\$ 771,533	\$ 647,428	\$ 1,418,961	\$ 2,613,797

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

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

	Transportation	Measure K	Totals	
	Development Act Fund		Fund	2018
REVENUES				
Local transportation fund				
Streets and roads	\$ 750,000	\$ -	\$ 750,000	\$ 644,000
Pedestrian and bicycle	18,565	-	18,565	15,044
Measure K Fund				
Local street repair	-	375,042	375,042	338,648
Investment earnings	18,327	7,719	26,046	12,243
	<u>786,892</u>	<u>382,761</u>	<u>1,169,653</u>	<u>1,009,935</u>
TOTAL REVENUES				
EXPENDITURES				
Street and road maintenance	<u>2,128,427</u>	<u>404,919</u>	<u>2,533,346</u>	<u>600,298</u>
	<u>2,128,427</u>	<u>404,919</u>	<u>2,533,346</u>	<u>600,298</u>
TOTAL EXPENDITURES				
EXCESS OF REVENUES OVER EXPENDITURES	<u>(1,341,535)</u>	<u>(22,158)</u>	<u>(1,363,693)</u>	<u>409,637</u>
FUND BALANCES AT BEGINNING OF YEAR	<u>1,944,211</u>	<u>669,586</u>	<u>2,613,797</u>	<u>2,204,160</u>
FUND BALANCES AT END OF YEAR	<u>\$ 602,676</u>	<u>\$ 647,428</u>	<u>\$ 1,250,104</u>	<u>\$ 2,613,797</u>

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

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

	2018	2017
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 20,206	\$ 20,006
Interest receivable	46	21
TOTAL CURRENT ASSETS	20,252	20,027
PROPERTY AND EQUIPMENT, NET	13,361	15,928
TOTAL ASSETS	\$ 33,613	\$ 35,955
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
TDA advances	\$ 20,147	\$ 20,147
TOTAL CURRENT LIABILITIES	20,147	20,147
NET POSITION		
Net investment in capital assets	13,361	15,928
Restricted	105	(120)
TOTAL NET POSITION	13,466	15,808
TOTAL LIABILITIES AND NET POSITION	\$ 33,613	\$ 35,955

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

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

	<u>2018</u>	<u>2017</u>
OPERATING EXPENSES		
Depreciation	<u>\$ 2,567</u>	<u>\$ 2,567</u>
TOTAL OPERATING EXPENSES	<u>2,567</u>	<u>2,567</u>
NET LOSS FROM OPERATIONS	(2,567)	(2,567)
NONOPERATING REVENUES		
Interest	<u>225</u>	<u>114</u>
TOTAL NONOPERATING REVENUES	<u>225</u>	<u>114</u>
CHANGES IN NET POSITION	(2,342)	(2,453)
NET POSITION BEGINNING OF YEAR	<u>15,808</u>	<u>18,261</u>
NET POSITION END OF YEAR	<u><u>\$ 13,466</u></u>	<u><u>\$ 15,808</u></u>

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

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

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Expenditures	\$ -	\$ -
NET CASH USED BY OPERATING ACTIVITIES	-	-
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Interest	200	108
NET CASH PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES	200	108
NET INCREASE IN CASH AND CASH EQUIVALENTS	200	108
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	20,006	19,898
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 20,206	\$ 20,006
RECONCILIATION OF OPERATING LOSS TO NET CASH AND CASH EQUIVALENTS USED BY OPERATING ACTIVITIES		
Operating loss	\$ (2,567)	\$ (2,567)
Adjustment to reconcile operating loss to net cash used by operating activities:		
Depreciation	2,567	2,567
NET CASH AND CASH EQUIVALENTS USED BY OPERATING ACTIVITIES	\$ -	\$ -

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

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

NOTE 1 – ORGANIZATION

The City of Lathrop (City) receives funds under the provisions of the TDA (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 represent amounts available after the determination by the San Joaquin Council of Governments (SJCOG), 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 TDA Fund is used to account for these funds received by the City for non-transit purposes, which is reflected in these financial statements of the TDA Fund allocated for non-transit purposes.

The City also receives funds from an ordinance (Measure K) passed by San Joaquin County voters resulting in a sales tax increase of one-half of one percent for transportation improvements. The 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 Fund is used to account for these funds, which is reflected in these financial statements of the Measure K Fund.

The City provides streets and road services, which is reflected in these financial statements of the Transit Enterprise Fund.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

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

B. Reporting Entity

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

C. Fund Accounting

The accounts of the City are organized on the basis of funds, 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 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Fund Accounting (Continued)

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

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

D. 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 60 days. Revenues that are susceptible to accrual include LTF allocations and interest income.

The Transit Enterprise Fund is classified as an enterprise fund using the flow of economic resources management focus and 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 unearned revenue on its statement of net position as TDA advances. 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 TDA 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.

E. Cash and Cash Equivalents

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. The estimated useful life of the bus shelter is 25 years.

G. Net Position/Fund Balance

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

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

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

- *Nonspendable fund balance* – amounts that cannot be spent because they are either (a) not spendable in form or (b) legally or contractually required to be maintained intact.
- *Restricted fund balance* – amounts with constraints placed on their use that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.
- *Committed fund balance* – amounts that can only be used for specific purposes determined by formal action of the City's highest level of decision-making authority (City Council) and that remain binding unless removed in the same manner. Committed fund balance does not lapse at year-end. The formal action must occur prior to the end of the reporting period. However, the amount which will be subject to the constraint may be determined in the subsequent period. The formal action required to commit fund balance shall be a City Council adopted resolution.
- *Assigned fund balance* – amounts that are constrained by the City's *intent* to be used for specific purposes. The intent can be established at either the highest level of decision-making authority, or by a body or an official designated for that purpose. The City Council has delegated authority to assign fund balance for a specific purpose to the Manager of Finance.
- *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 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Grants

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

I. 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.

J. 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.

K. 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 term and conditions of the contracts. Management is of the opinion that no material liabilities will result from such potential audits.

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

NOTE 3 – CASH AND CASH EQUIVALENTS

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

NOTE 4 – CAPITAL ASSETS

	Balance June 30, 2017	Additions	Deletions	Balance June 30, 2018
Bus shelter	\$ 64,185	\$ -	\$ -	\$ 64,185
Less: Accumulated depreciation	(48,257)	(2,567)	-	(50,824)
	<u>\$ 15,928</u>	<u>\$ (2,567)</u>	<u>\$ -</u>	<u>\$ 13,361</u>

NOTE 5 – TDA ADVANCES

The City receives an allocation of funds from the Local Transportation Authority. Revenues received from this source are deferred until expended for transit services, and are considered earned when they are properly spent for operations or capital assets by the City for its transit system. The changes in grant advances are as follows for the year ended June 30, 2018:

	<u>2018</u>
Transit Enterprise Fund:	
TDA advances, beginning of year	\$ 20,147
TDA funds allocated	-
Interest received	-
	<hr/>
TDA advances, end of year	<u>\$ 20,147</u>

NOTE 6 – SUBSEQUENT EVENTS

Subsequent events have been evaluated through December 31, 2018, the date these financial statements were available to be issued. There were no subsequent events identified by management which would require disclosure in the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

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

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Local transportation funds	\$ 902,474	\$ 902,474	\$ 768,565	\$ (133,909)
Investment earnings	-	-	18,327	18,327
Total Revenues	902,474	902,474	786,892	(115,582)
EXPENDITURES				
Streets and roads	2,692,330	2,692,330	2,128,427	563,903
Total Expenditures	2,692,330	2,692,330	2,128,427	563,903
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (1,789,856)</u>	<u>\$ (1,789,856)</u>	(1,341,535)	<u>\$ 448,321</u>
Fund balance, beginning			<u>1,944,211</u>	
Fund balance, ending			<u>\$ 602,676</u>	

See note to required supplementary information.

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

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Measure K Fund	\$ 325,000	\$ 325,000	\$ 375,042	\$ 50,042
Investment earnings	-	-	7,719	7,719
Total Revenues	325,000	325,000	382,761	57,761
EXPENDITURES				
Measure K Fund	433,602	433,602	404,919	28,683
Total Expenditures	433,602	433,602	404,919	28,683
Deficiency of revenues under expenditures	<u>\$ (108,602)</u>	<u>\$ (108,602)</u>	(22,158)	<u>\$ 86,444</u>
Fund balance, beginning			<u>669,586</u>	
Fund balance, ending			<u>\$ 647,428</u>	

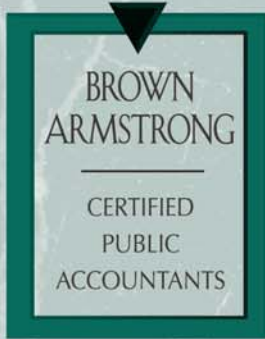
See note to required supplementary information.

**CITY OF LATHROP
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 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.

OTHER REPORT



BROWN ARMSTRONG

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FUND FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS AND THE TRANSPORTATION DEVELOPMENT ACT

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

To the City Council
City of Lathrop
Lathrop, 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 Transit Enterprise Fund (collectively, the Funds) of the City of Lathrop, 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 December 31, 2018.

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

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

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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. Our audit was further made to determine that TDA funds allocated to and received by the City were expended in conformance with applicable statutes, rules and regulations of the TDA, and the allocation instructions and resolutions of the SJCOG as required by Sections 6666 and 6667 of Title 21 of the California Code of Regulations. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and the TDA.

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, as it relates 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
December 31, 2018