

**CITY OF ESCALON
TRANSPORTATION DEVELOPMENT ACT FUNDS**

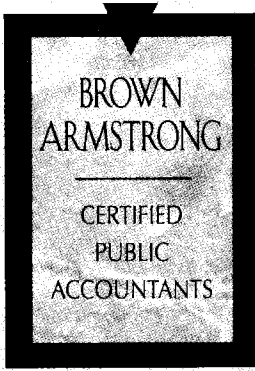
**INDEPENDENT AUDITOR'S REPORTS,
FUND FINANCIAL STATEMENTS, SUPPLEMENTARY
INFORMATION, AND COMPLIANCE REPORT**

**FOR THE FISCAL YEARS ENDED
JUNE 30, 2012 AND 2011**

**CITY OF ESCALON
TRANSPORTATION DEVELOPMENT ACT AND MEASURE K FUNDS
NON-TRANSIT PURPOSES
FOR THE FISCAL YEARS ENDED JUNE 30, 2012 AND 2011**

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BROWN ARMSTRONG

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

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

To the City Council
City of Escalon
Escalon, California

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We have audited the accompanying financial statements of the Transportation Development Act Fund, Measure K Fund, and Transit Enterprise Fund of the City of Escalon, California (City), as of and for the fiscal year ended June 30, 2012, as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit. The June 30, 2011, summarized comparative information has been derived from the 2011 financial statements and are included for additional analysis only.

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 of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The financial statements present only the Transportation Development Act Fund, Measure K Fund, and Transit Enterprise Fund 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 conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Transportation Development Act Fund, Measure K Fund, and Transit Enterprise Fund of the City as of June 30, 2012 and 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.



REGISTERED with the Public Company Accounting Oversight Board and MEMBER of the American Institute of Certified Public Accountants

In accordance with *Government Auditing Standards*, we have also issued our report dated December 31, 2012, on our consideration of the City's internal control over financial reporting as it relates to the Transportation Development Act Fund, Measure K Fund, and Transit Enterprise Fund 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. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management has omitted the management discussion and analysis (MD&A) that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Our audit was conducted for the purpose of forming opinions on the financial statements of the Transportation Development Act Fund, Measure K Fund, and Transit Enterprise Fund taken as a whole. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information listed in the table of contents is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
December 31, 2012

**CITY OF ESCALON
TRANSPORTATION DEVELOPMENT ACT AND MEASURE K FUNDS
NON-TRANSIT PURPOSES
BALANCE SHEETS
JUNE 30, 2012 AND 2011**

	Transportation Development Act Fund	Measure K Fund	Totals	
			2012	2011
ASSETS				
Cash and investments	\$ 853,172	\$ 322,764	\$ 1,175,936	\$ 672,978
Due from other agencies	-	-	-	421,593
Accounts receivable	-	144,149	144,149	-
Interest receivable	678	282	960	701
TOTAL ASSETS	\$ 853,850	\$ 467,195	\$ 1,321,045	\$ 1,095,272
LIABILITIES AND FUND BALANCES				
CURRENT LIABILITIES				
Cash deficit	\$ -	\$ -	\$ -	\$ 181,132
Accounts payable	-	73,021	73,021	20,976
TOTAL LIABILITIES	-	73,021	73,021	202,108
FUND BALANCES				
Assigned	853,850	394,174	1,248,024	893,164
TOTAL FUND BALANCES	853,850	394,174	1,248,024	893,164
TOTAL LIABILITIES AND FUND BALANCES	\$ 853,850	\$ 467,195	\$ 1,321,045	\$ 1,095,272

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

**CITY OF ESCALON
TRANSPORTATION DEVELOPMENT ACT AND MEASURE K FUNDS
NON-TRANSIT PURPOSES
STATEMENTS OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
FOR THE FISCAL YEARS ENDED JUNE 30, 2012 AND 2011**

	Transportation	Measure K	Totals	
	Development Act Fund		Fund	2012
REVENUES				
Local Transportation funds				
Streets and roads	\$ 143,167	\$ -	\$ 143,167	\$ 193,669
Pedestrian and bicycle	3,882	-	3,882	3,802
Measure K funds				
Local street repair	-	300,000	300,000	25,000
Congestion relief	-	267,564	267,564	498,251
Renewal smart growth	-	-	-	-
Reimbursement from other agencies	-	-	-	-
Investment earnings	2,593	1,357	3,950	2,567
TOTAL REVENUES	149,642	568,921	718,563	723,289
EXPENDITURES				
Streets and roads	-	12,216	12,216	115,189
Congestion relief	9,966	341,521	351,487	387,726
Renewal smart growth	-	-	-	-
TOTAL EXPENDITURES	9,966	353,737	363,703	502,915
EXCESS OF REVENUES OVER EXPENDITURES	139,676	215,184	354,860	220,374
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	139,676	215,184	354,860	220,374
FUND BALANCES AT BEGINNING OF YEAR	714,174	178,990	893,164	672,790
FUND BALANCES AT END OF YEAR	\$ 853,850	\$ 394,174	\$ 1,248,024	\$ 893,164

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

**CITY OF ESCALON
TRANSIT ENTERPRISE FUND
STATEMENTS OF NET ASSETS
JUNE 30, 2012 AND 2011**

	2012	2011
ASSETS		
CURRENT ASSETS		
Accounts receivable	\$ 16	\$ 7,958
Due from other agencies	157,879	82,191
	157,895	90,149
TOTAL CURRENT ASSETS	157,895	90,149
CAPITAL ASSETS, NET	213,431	84,658
TOTAL ASSETS	\$ 371,326	\$ 174,807
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Cash deficit	\$ 65,045	\$ 8,069
Accounts payable	23,593	10,907
Deferred revenue	-	1,500
	88,638	20,476
TOTAL CURRENT LIABILITIES	88,638	20,476
NET ASSETS		
Invested in capital assets	213,431	84,658
Unrestricted net assets	69,257	69,673
	282,688	154,331
TOTAL NET ASSETS	282,688	154,331
TOTAL LIABILITIES AND NET ASSETS	\$ 371,326	\$ 174,807

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

**CITY OF ESCALON
TRANSIT ENTERPRISE FUND
STATEMENTS OF REVENUES, EXPENSES, AND
CHANGES IN NET ASSETS
FOR THE FISCAL YEARS ENDED JUNE 30, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
OPERATING REVENUES		
Fares	\$ 5,304	\$ 5,867
OPERATING EXPENSES		
Operations	115,185	91,467
Vehicle maintenance	-	9,672
Administration	6,000	6,000
Depreciation expense	<u>12,005</u>	<u>9,314</u>
TOTAL OPERATING EXPENSES	<u>133,190</u>	<u>116,453</u>
OPERATING LOSS	(127,886)	(110,586)
NONOPERATING REVENUES		
Local Transportation Funds	33,638	38,029
Federal Transit Administration funds - operating	29,934	89,401
Federal Transit Administration funds - capital	130,713	13,245
State Transit Assistance	4,898	4,941
Proposition 1B (Homeland Security)	-	15,055
Proposition 1B (PTMISEA)	45,094	-
Measure K	10,036	-
Other revenues	<u>1,930</u>	<u>2,842</u>
TOTAL NONOPERATING REVENUES	<u>256,243</u>	<u>163,513</u>
CHANGES IN NET ASSETS	128,357	52,927
NET ASSETS BEGINNING OF YEAR	<u>154,331</u>	<u>101,404</u>
NET ASSETS END OF YEAR	<u>\$ 282,688</u>	<u>\$ 154,331</u>

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

**CITY OF ESCALON
TRANSIT ENTERPRISE FUND
STATEMENTS OF CASH FLOWS
FOR THE FISCAL YEARS ENDED JUNE 30, 2012 AND 2011**

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 5,304	\$ 5,867
Cash payments to suppliers for goods and services	(108,499)	(106,312)
NET CASH USED BY OPERATING ACTIVITIES	(103,195)	(100,445)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Local Transportation funds	33,638	38,029
Federal Transit Administration funds	92,901	70,763
State Transit Assistance	4,898	4,941
Proposition 1B (Homeland Security)	-	15,055
Proposition 1B (PTMISEA)	43,594	-
Measure K	10,036	-
Other revenues	1,930	2,842
NET CASH PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES	186,997	131,630
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of capital assets	(140,778)	(21,893)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(140,778)	(21,893)
NET (DECREASE) INCREASE IN CASH	(56,976)	9,292
CASH DEFICIT, BEGINNING OF YEAR	(8,069)	(17,361)
CASH DEFICIT, END OF YEAR	\$ (65,045)	\$ (8,069)
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating loss	\$ (127,886)	\$ (110,586)
Adjustment to reconcile operating loss to net cash used by operating activities:		
Depreciation	12,005	9,314
Change in assets and liabilities		
Increase in accounts payable and other liabilities	12,686	827
Decrease in due to other agencies	-	(1,500)
Increase in deferred revenue	-	1,500
NET CASH USED BY OPERATING ACTIVITIES	\$ (103,195)	\$ (100,445)

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

**CITY OF ESCALON
TRANSPORTATION DEVELOPMENT ACT AND MEASURE K FUNDS
NON-TRANSIT PURPOSES
AND TRANSIT ENTERPRISE FUND
NOTES TO THE FUND FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2012 AND 2011**

NOTE 1 – ORGANIZATION

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

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

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

The City contracts with Storer Transit Systems for operation of a dial-a-ride service.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

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

B. Reporting Entity

The financial statements are intended to present the financial position, results of operations, and cash flows of only transactions recorded in the TDA Fund, Measure K Fund, and Transit Enterprise Fund of the City. The funds are included in the financial statements of the City.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Fund Accounting

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures or expenses as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

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

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

Under the provisions of GASB Statement 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, 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 Opinions, and Accounting Research Bulletins issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

D. Measurement Focus and Basis of Accounting

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

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

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

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

E. Cash and Cash Equivalents

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Interfund Transactions

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

G. Capital Assets

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

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

Depreciation of all capital assets in the Transit Enterprise Fund is computed using the straight-line method over their estimated useful lives. The estimated useful life of equipment (bus) is 10 years and the estimated useful life of leasehold improvements is 20 years.

H. Net Assets/Fund Balance

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

- *Invested in Capital Assets, Net of Related Debt* – This category groups all capital assets into one component of net assets. 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 Assets* – This category presents 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 Assets* – This category represents net assets 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*, for the year ended June 30, 2012. 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 a City Council adopted resolution.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Net Assets/Fund Balance (Continued)

- *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, or by a body or an official designated for that purpose. The City Council delegated authority to assign fund balance for a specific purpose to the Manager of Finance.
- *Unassigned fund balance* – the residual classification for the City's General Fund that includes amounts not contained in the other classifications. In other funds, the unassigned classification is used only if expenditures incurred for specific purposes exceed the amounts restricted, committed, or assigned to those purposes.

Minimum Fund Balance:

The City does not have a minimum fund balance policy.

I. Grants

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 LTF. The LTF and STA were created by the State Legislature under the TDA.

J. Risk Management

The City participates in various risk management programs, some of which relate to the TDA Fund, Measure K Fund, and Transit Enterprise Fund, 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.

K. 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.

L. 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 TDA Fund, Measure K Fund, and Transit Enterprise Fund.

M. 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 cash equivalents balances for the City TDA Fund, Measure K Fund, and Transit Enterprise Fund 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 TDA Fund, Measure K Fund, and Transit Enterprise Fund are stated at fair value. Information regarding categorization of investments can be found in the City's financial statements.

NOTE 4 – CAPITAL ASSETS

	<u>2012</u>	<u>2011</u>
Capital Assets Not Being Depreciated		
Construction in progress	\$ 1,866	\$ -
Capital Assets Being Depreciated		
Transit vehicles	209,474	91,797
Equipment	21,234	-
Improvements	10,970	10,970
Total Capital Assets Being Depreciated	<u>241,678</u>	<u>102,767</u>
Less: Accumulated depreciation	<u>(30,113)</u>	<u>(18,109)</u>
Total Capital Assets Being Depreciated, Net	<u>211,565</u>	<u>84,658</u>
Total Capital Assets, Net	<u>\$ 213,431</u>	<u>\$ 84,658</u>

Depreciation expense was \$12,005 and \$9,314 for the years ended June 30, 2012 and 2011, respectively.

NOTE 5 – PERFORMANCE OBJECTIVES

The City is required by the San Joaquin Council of Governments to maintain three performance objectives as a non-transit operator claimant for the year ending June 30, 2012: the cost per revenue hour, passenger per revenue hour, and subsidy per passenger. The cost per revenue hour and subsidy per passenger are not to exceed thresholds while the passenger per revenue hour is a minimum threshold. For the year ending June 30, 2012, the transit systems performance were to have operating costs less than \$42.39 per hour, more than 2.5 passengers per hour, and less than \$8.71 subsidy per passenger.

The City did not meet the cost per revenue hour and subsidy per passenger objectives for the year ended June 30, 2012, and the cost per revenue hour objective for the year ended June 30, 2011.

NOTE 5 – PERFORMANCE OBJECTIVES (Continued)

The calculation of the transit systems performance objectives is as follows for the years ending June 30:

	<u>2012</u>	<u>2011</u>
Factors in determining performance measures:		
Total Operating Costs	\$ 133,190	\$ 116,453
Less TDA Eligible Exclusions		
Depreciation	12,005	9,314
Net TDA Operating Costs	<u>121,185</u>	<u>107,139</u>
Revenue Hours	1,189	887
Passengers	3,627	3,879
Fare Revenue	5,304	5,867
Federal Operating Revenue	29,934	89,401
Local Operating Revenue (Measure K or General Fund)	<u>10,036</u>	<u>-</u>
Fare Revenue + Federal Operating Revenue + Measure K Operating Revenue	45,274	95,268
Performance measures:		
Cost per Revenue Hour ⁽¹⁾	\$ 101.92	\$ 120.79
Passenger per Revenue Hour ⁽²⁾	3.05	4.37
Subsidy per Passenger ⁽³⁾	\$ 20.93	\$ 3.06
Operating cost per Passenger	N/A	N/A

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

NOTE 6 – SUBSEQUENT EVENTS

The City had previously filed an action in eminent domain on June 28, 2011, in regards to property being acquired. This was settled on November 18, 2012, for \$114,289. The initial deposit of \$43,158 was made to the State Treasurer in June 2011. The settlement check for \$71,131 was issued on November 28, 2012.

Subsequent events have been evaluated through December 31, 2012, the date these financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

**CITY OF ESCALON
TRANSPORTATION DEVELOPMENT ACT FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Local transportation funds and investment earnings	<u>\$ 148,847</u>	<u>\$ 148,847</u>	<u>\$ 149,642</u>	<u>\$ 795</u>
Total Revenue	148,847	148,847	149,642	795
EXPENDITURES				
Congestion relief	<u>10,000</u>	<u>10,000</u>	<u>9,966</u>	<u>34</u>
Excess of revenues over expenditures and other financing uses	<u><u>\$ 138,847</u></u>	<u><u>\$ 138,847</u></u>	139,676	<u><u>\$ 829</u></u>
Fund balance, beginning			<u>714,174</u>	
Fund balance, ending			<u><u>\$ 853,850</u></u>	

See note to supplementary information.

**CITY OF ESCALON
MEASURE K FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Measure K funds and investment earnings	<u>\$ 1,910,400</u>	<u>\$ 2,210,400</u>	<u>\$ 568,921</u>	<u>\$ (1,641,479)</u>
Total Revenue	1,910,400	2,210,400	568,921	(1,641,479)
EXPENDITURES				
Measure K funds	<u>1,940,000</u>	<u>1,940,000</u>	<u>353,737</u>	<u>1,586,263</u>
Excess (deficiency) of revenues over (under) expenditures and other financing uses	<u>\$ (29,600)</u>	<u>\$ 270,400</u>	215,184	<u>\$ (55,216)</u>
Fund balance, beginning			<u>178,990</u>	
Fund balance, ending			<u>\$ 394,174</u>	

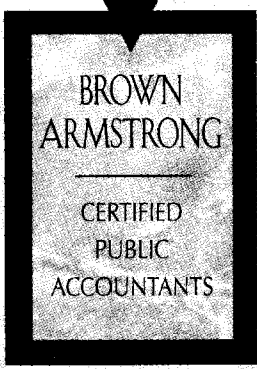
See note to supplementary information.

**CITY OF ESCALON
TRANSPORTATION DEVELOPMENT ACT AND MEASURE K FUNDS
NON-TRANSIT PURPOSES
NOTE TO SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEARS ENDED JUNE 30, 2012 AND 2011**

NOTE 1 – BUDGETARY INFORMATION

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

OTHER 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 BASIC 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 Escalon
Escalon, California

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We have audited the accompanying financial statements of the Transportation Development Act Fund, Measure K Fund, and Transit Enterprise Fund, of the City of Escalon, California (City), as of and for the year ended June 30, 2012, and have issued our report thereon dated December 31, 2012, which included an explanatory paragraph describing that the financial statements only present the Transportation Development Act Fund, Measure K Fund, and Transit Enterprise Fund. 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.

Internal Control Over Financial Reporting

Management of the City is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City's internal control over financial reporting as it relates to the Transportation Development Act Fund, Measure K Fund, and Transit Enterprise Fund as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.



REGISTERED with the Public Company Accounting Oversight Board and MEMBER of the American Institute of Certified Public Accountants

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Transportation Development Act Fund, Measure K Fund, and Transit Enterprise Fund 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 Transportation Development Act funds allocated to and received by the City were expended in conformance with applicable statutes, rules and regulations of the Transportation Development Act and the allocation instructions and resolutions of the San Joaquin Council of Governments as required by Sections 6666 and 6667 of Title 21 of the California Code of Regulations. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and the Transportation Development Act.

This communication is intended solely for the information and use of the Board of Directors, the City Council, management, and others within the City and the grant oversight agencies and is not intended to be, and should not be, used by anyone other than these specified parties.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
December 31, 2012

**CITY OF ESCALON
TRANSPORTATION DEVELOPMENT ACT FUND, MEASURE K FUND,
AND TRANSIT ENTERPRISE FUND
CURRENT YEAR FINDING AND RECOMMENDATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Current Year Finding

Finding

The City of Escalon is required by the San Joaquin Council of Governments (SJCOG) to maintain various performance objectives, standards for non-operator transit claimants. For the year ended June 30, 2012, the objectives were an operating cost per hour less than \$42.39, more than 2.5 passengers per hour, and less than \$8.71 subsidy per passenger. For the year ended June 30, 2012, the actual operating cost per hour was \$101.92 and subsidy per passenger was \$20.93, and shows the City is not in compliance with these requirements. This marks the City's fourth year of noncompliance with established performance objectives.

Recommendation

We recommend the City of Escalon take steps to decrease their operating costs and increase the number of passengers utilizing their transit system to meet this requirement in future years. Not meeting this performance standard will limit the amount of their future year Transportation Development Act (TDA) claim to the amount of the current year's level of TDA operating funding.

Management Response:

The City continues to work in meeting the objectives established by SJCOG. SJCOG has recognized that several changes to the City's transit system each fiscal year have resulted in the City's inability to meet cost per passenger objective. In this present fiscal year, the City expanded bus service by more than 25% and will seek an exemption for the expanded service as it is hoped that ridership will continue to grow, thus improving performance objectives. Several challenges with the present transit system include a small transit dependent population that continues to decline, small service area and increasing operating costs.

The City continues to manage its expenses, efforts include reduction in salary for staff assigned to public transit, a new agreement with RTD for provision of transit services, reduce general expenses and continue to perform additional marketing outreach. Outreach such as Rider's Guides, maintenance of a website, flyers throughout the community and continued coordination with external stakeholders to increase ridership.

SJCOG staff is proposing a revision to the cost per passenger and subsidy per passenger formulas. The revised formula will reflect the actual subsidy per passenger (i.e., the difference between operating cost and passenger fare revenue) of each transit system rather than the amount subsidized by the Local Transportation Fund. The new objectives will be maintained for the next three fiscal years (2012/13 through 2014/15) and take into account the operating measures from fiscal year 2011/12. The initial calculation allowed the subsidy per passenger to increase over the three-year period due to the assumption that CPI will increase at a greater rate than passengers. An emphasis will be placed on assuring that the objectives are reasonable and reflect past and anticipated trends in each system given the decline in economy and resulting impacts.

Staff believes with SJCOG making these changes to the performance objectives, that the City's true cost for providing transit service will be recognized, as well as the true passengers per hour carried and the true subsidy per passenger will be realized thus allowing the City to meet its objectives.