

**SAN JOAQUIN REGIONAL RAIL COMMISSION
TRANSPORTATION DEVELOPMENT ACT FUND
AND MEASURE K FUND
PASSENGER RAIL PURPOSES**

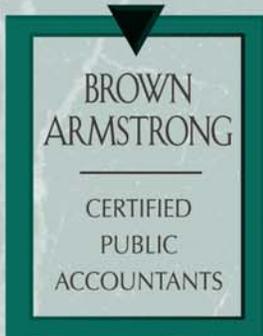
**INDEPENDENT AUDITOR'S REPORTS,
FUND FINANCIAL STATEMENTS,
REQUIRED SUPPLEMENTARY INFORMATION,
AND COMPLIANCE REPORT**

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

**SAN JOAQUIN REGIONAL RAIL COMMISSION
TRANSPORTATION DEVELOPMENT ACT FUND AND MEASURE K FUND
PASSENGER RAIL PURPOSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor’s Report	1
 <u>Fund Financial Statements</u>	
Balance Sheet - Transportation Development Act and Measure K Funds Passenger Rail Purposes.....	4
Statement of Revenues, Expenditures, and Changes in Fund Balances - Transportation Development Act and Measure K Funds Passenger Rail Purposes.....	5
Notes to Financial Statements	6
 <u>Required Supplementary Information</u>	
Budgetary Comparison Schedule – Transportation Development Act Fund	10
Budgetary Comparison Schedule – Measure K Fund	11
Notes to Required Supplementary Information.....	12
 <u>Other Report</u>	
Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> and the Transportation Development Act	13



BROWN ARMSTRONG

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

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

To the Board of Commissioners
San Joaquin Regional Rail Commission
Stockton, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Transportation Development Act (TDA) and Measure K Funds (collectively, the Funds), allocated for passenger rail purposes, of the San Joaquin Regional Rail Commission (SJRRRC), as of and for the fiscal year ended June 30, 2018, and the related notes to the financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control, as it relates to the Funds, relevant to the SJRRRC'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 SJRRRC's internal control, as it related to the Funds. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

BAKERSFIELD OFFICE

(MAIN OFFICE)

4200 TRUXTUN AVENUE
SUITE 300
BAKERSFIELD, CA 93309
TEL 661.324.4971
FAX 661.324.4997
EMAIL info@bacpas.com

FRESNO OFFICE

10 RIVER PARK PLACE EAST
SUITE 208
FRESNO, CA 93720
TEL 559.476.3592

LAGUNA HILLS OFFICE

23272 MILL CREEK DRIVE
SUITE 255
LAGUNA HILLS, CA 92653
TEL 949.652.5422

STOCKTON OFFICE

1919 GRAND CANAL BLVD
SUITE C6
STOCKTON, CA 95207
TEL 888.565.1040

WWW.BACPAS.COM

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective balance sheets of the SJRRC's Funds, allocated for passenger rail purposes, as of June 30, 2018, and the respective statements of revenues, expenditures, and changes in fund balances 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, allocated for passenger rail purposes, and do not purport to, and do not, present fairly the balance sheet of the SJRRC as of June 30, 2018, or the statements of revenues, expenditures, and changes in fund balance for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information, on pages 10-11, be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board (GASB), who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Report on Summarized Comparative Information

We have previously audited the financial statements of SJRRC's Funds, allocated for passenger rail purposes, as of and for the fiscal year ended June 30, 2017, and our report dated March 28, 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 December 31, 2018, on our consideration of the SJRRC's internal control over financial reporting, as it relates to the Funds, allocated for passenger rail purposes, 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 SJRRC's internal control

over financial reporting or on compliance, as it relates to the Funds allocated for passenger rail purposes. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the SJRRC's internal control over financial reporting and compliance, as it relates to the Funds allocated for passenger rail purposes.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

*Brown Armstrong
Accountancy Corporation*

Bakersfield, California
December 31, 2018

**SAN JOAQUIN REGIONAL RAIL COMMISSION
TRANSPORTATION DEVELOPMENT ACT AND MEASURE K FUNDS
PASSENGER RAIL PURPOSES
BALANCE SHEET
JUNE 30, 2018, WITH COMPARATIVE TOTALS**

	Transportation Development Act Fund	Measure K Fund	Totals	
			2018	2017
ASSETS				
Cash and investments	\$ 420,025	\$ 1,920,089	\$ 2,340,114	\$ 2,871,770
Interest receivable	1,942	-	1,942	3,048
Prepaid expense	-	324,252	324,252	324,252
Due from other agencies	4,294,411	179,825	4,474,236	2,839,700
TOTAL ASSETS	\$ 4,716,378	\$ 2,424,166	\$ 7,140,544	\$ 6,038,770
LIABILITIES				
Accounts payable	\$ 25,115	\$ 287,916	\$ 313,031	\$ 257,123
Due to other agencies	-	458,124	458,124	385,066
Intergovernmental payable	3,535,960	-	3,535,960	2,722,251
Unearned revenue	366,836	-	366,836	1,155,077
TOTAL LIABILITIES	3,927,911	746,040	4,673,951	4,519,517
FUND BALANCES				
Restricted for passenger rail - operations and capital	788,467	1,678,126	2,466,593	1,519,253
TOTAL FUND BALANCES	788,467	1,678,126	2,466,593	1,519,253
TOTAL LIABILITIES AND FUND BALANCES	\$ 4,716,378	\$ 2,424,166	\$ 7,140,544	\$ 6,038,770

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

**SAN JOAQUIN REGIONAL RAIL COMMISSION
TRANSPORTATION DEVELOPMENT ACT AND MEASURE K FUNDS
PASSENGER RAIL 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	2017
REVENUES				
Local Transportation Funds				
Passenger rail	\$ 3,116,000	\$ -	\$ 3,116,000	\$ 2,206,500
State Transit Assistance Funds				
Passenger rail	1,128,955	-	1,128,955	472,518
Transit System Safety, Security & Disaster Response	67,686	-	67,686	47,125
Proposition 1B (PTMISEA)	788,241	-	788,241	459,259
Interest revenue	12,411	-	12,411	4,524
Measure K Funds				
SJRRRC operations	-	1,964,757	1,964,757	3,737,142
SJRRRC capital	-	1,025,718	1,025,718	2,206,913
SJRRRC other revenue	-	64,019	64,019	101,545
TOTAL REVENUES	5,113,293	3,054,494	8,167,787	9,235,526
EXPENDITURES				
Passenger rail - operations	3,465,646	1,860,759	5,326,405	5,967,546
Passenger rail - capital	868,324	1,025,718	1,894,042	2,393,262
TOTAL EXPENDITURES	4,333,970	2,886,477	7,220,447	8,360,808
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	779,323	168,017	947,340	874,718
FUND BALANCES AT BEGINNING OF YEAR	9,144	1,510,109	1,519,253	644,535
FUND BALANCES AT END OF YEAR	\$ 788,467	\$ 1,678,126	\$ 2,466,593	\$ 1,519,253

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

**SAN JOAQUIN REGIONAL RAIL COMMISSION
TRANSPORTATION DEVELOPMENT ACT AND MEASURE K FUNDS
PASSENGER RAIL PURPOSES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 1 – ORGANIZATION

The San Joaquin Regional Rail Commission (SJRRRC) receives funds under the provisions of the Transportation Development Act (TDA) from the San Joaquin County (County) Local Transportation Fund (LTF) under Article 4, Section 99260 for passenger rail service operations and capital costs. The funds provided under Article 4 represent amounts available after the determination by the San Joaquin Council of Governments (SJCOG), the transportation planning agency administering TDA funds, of amounts needed to meet the unmet transportation needs of the County. The TDA funds received by the SJRRRC for passenger rail purposes are reflected in these financial statements of the TDA Fund.

The SJRRRC also receives funds under the provisions of the TDA from the State Transit Assistance (STA) Fund under Article 4 for public transportation. The STA funds are to be used for public transportation purposes only. The SJRRRC STA Fund is used to account for these funds, which is reflected in these financial statements of the TDA Fund.

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- A. Basis of Presentation: The financial statements of the SJRRRC TDA and Measure K Funds (collectively, the Funds), allocated for passenger rail purposes, 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 and results of operations of only those transactions recorded in the SJRRRC's Funds. These Funds are included in the financial statements of the SJRRRC.
- C. Fund Accounting: The accounts of the SJRRRC Funds, allocated for passenger rail purposes, are organized on the basis of funds or account groups. A fund or account group is an accounting entity with a self-balancing set of accounts established to record the financial position and results of operations of a specific governmental activity.

The SJRRRC utilizes the special revenue fund type of the governmental fund group to account for the activities of the Funds allocated for passenger rail purposes. Special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purpose.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Basis of Accounting: The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. A special revenue fund is accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The modified accrual basis of accounting is used by special revenue funds. 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 that 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.

E. Fund Balance: The SJRRC follows the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. Governmental funds report fund balance as nonspendable, restricted, committed, assigned, or unassigned based primarily on the extent to which the SJRRC 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 SJRRC’s highest level of decision-making Commission (Board of Commissioners) 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 Board of Commissioners resolution.
- *Assigned fund balance* – amounts that are constrained by the SJRRC’s *intent* to be used for specific purposes. The intent can be established at either the highest level of decision-making Commission, or by a body or an official designated for that purpose.
- *Unassigned fund balance* – the residual classification for the SJRRC’s General Fund that includes amounts not contained in the other classifications. In other funds, the unassigned classification is used only if expenditures incurred for specific purposes exceed the amounts restricted, committed, or assigned to those purposes.

F. 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 SJRRC Funds allocated for passenger rail purposes.

G. 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.

H. Interfund Activity: During the course of operations, numerous transactions occur between individual funds for funding purposes that are accounted for in other funds of the SJRRC not presented in these financial statements. These receivables and payables are classified as “due from other funds” or “due to other funds” on the balance sheet.

NOTE 3 – CASH AND INVESTMENTS

The cash and investment balances for the SJRRC’s Funds, allocated for passenger rail purposes, are held in the County’s cash and investment pool. The SJRRC 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 County’s cash management pool are available on demand to the SJRRC Funds, allocated for passenger rail purposes, and are stated at cost, which approximates fair value. Information regarding categorization of investments can be found in the SJRRC’s financial statements.

NOTE 4 – UNEARNED REVENUE

SJRRC reports unearned revenue on its fund financial statements. Unearned revenues arise when potential revenue does not meet both the “measureable” and “available” criteria for recognition in the current period. Unearned revenues also arise when resources are unearned by the SJRRC and received before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the SJRRC has a legal claim to the resources, the liability for unearned revenue is removed from the applicable financial statement and revenue is recognized.

Unearned revenues in the financial statements at June 30, 2018, are composed of the following:

	<u>TDA Fund</u>
Unearned Revenues:	
TDA Fund:	
Grant advances, beginning of year	\$ 1,155,077
Proposition 1B (PTMISEA) interest earned	12,395
Proposition 1B (PTMISEA) earned	<u>(800,636)</u>
Net change	<u>(788,241)</u>
Grant advances, end of year	<u>\$ 366,836</u>

PTMISEA

In November 2006, California voters passed a bond measure enacting the Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006. Of the \$19.925 billion of state general obligations bonds authorized, \$4 billion was set aside by the State as instructed by statute as the Public Transportation Modernization, Improvement, and Service Enhancement Account (PTMISEA). These funds are available to the California Department of Transportation for intercity rail projects and to transit operators in California for rehabilitation, safety, or modernization improvements; capital service enhancements or expansions; new capital projects; bus rapid transit improvements; or for rolling stock procurement, rehabilitation, or replacement.

As of June 30, 2018, \$800,636 in qualifying expenditures were incurred and the remaining proceeds of \$366,836, including accrued interest, is the deferred balance on grant advance. Qualifying expenditures must be encumbered within three years from the date of the allocation and expended within three years from the date of the encumbrance.

NOTE 5 – COMMITMENTS

Certificates of Participation

On November 4, 2010, in conjunction with the California Transit Finance Corporation, the SJRRC issued \$35,525,000 in Certificates of Participation to finance the construction of the SJRRC's new transit maintenance facility. Measure K funds have been pledged, in conjunction with farebox revenues, for the repayment of said certificates. The liability, revenue, and expenditures related to this commitment are included in other funds of the SJRRC and are not included in these financial statements.

Consolidated Note Payable

At June 30, 2018, principal and accrued interest on the consolidated loan were \$19,172,607. The consolidated loan has a term of eighteen (18) years and a current interest rate of 4.771%. This rate shall be adjusted annually by SJCOG in accordance with the Measure K Portfolio cost of borrowing. Annual payments are scheduled to begin on July 1, 2017, with the first payment of \$318,012 and thereafter in the amount of \$1,118,012. Because these funds are presented on the modified accrual accounting basis, the liability related to this commitment is included in the government-wide financial statements of the SJRRC and is not included in these fund financial statements.

Litigation

On March 7, 2016, an ACE Train derailment occurred that resulted in a number of legal claims. At this time, the probable outcome and potential liability from these claims have not yet been determined.

NOTE 6 – SUBSEQUENT EVENTS

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

REQUIRED SUPPLEMENTARY INFORMATION

**SAN JOAQUIN REGIONAL RAIL COMMISSION
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	\$ 3,005,229	\$ 3,005,229	\$ 3,116,006	\$ 110,777
State transit assistance funds	460,417	460,417	1,196,651	736,234
State transit assistance PTMISEA funds	<u>1,145,934</u>	<u>1,145,934</u>	<u>800,636</u>	<u>(345,298)</u>
Total revenues	4,611,580	4,611,580	5,113,293	501,713
EXPENDITURES				
Local transportation funds	3,005,229	3,005,229	3,005,229	-
State transit assistance funds	460,417	460,417	528,105	(67,688)
State transit assistance PTMISEA funds	<u>1,145,934</u>	<u>1,145,934</u>	<u>800,636</u>	<u>345,298</u>
Total expenditures	<u>4,611,580</u>	<u>4,611,580</u>	<u>4,333,970</u>	<u>277,610</u>
Excess of revenues over expenditures	<u>\$ -</u>	<u>\$ -</u>	779,323	<u>\$ 779,323</u>
Fund balance at beginning of year			<u>9,144</u>	
Fund balance at end of year			<u>\$ 788,467</u>	

See notes to required supplementary information.

**SAN JOAQUIN REGIONAL RAIL COMMISSION
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 SJRRC operating funds	\$ 2,422,881	\$ 2,422,881	\$ 1,964,757	\$ (458,124)
Measure K SJRRC capital funds	1,172,105	3,652,105	1,025,718	(2,626,387)
Measure K SJRRC other revenues	-	-	64,019	64,019
Total revenues	<u>3,594,986</u>	<u>6,074,986</u>	<u>3,054,494</u>	<u>(3,020,492)</u>
EXPENDITURES				
Passenger rail operating funds	2,422,881	2,422,881	1,860,759	562,122
Passenger rail capital funds	<u>1,172,105</u>	<u>3,652,105</u>	<u>1,025,718</u>	<u>2,626,387</u>
Total expenditures	<u>3,594,986</u>	<u>6,074,986</u>	<u>2,886,477</u>	<u>3,188,509</u>
Excess of revenues over expenditures	<u>\$ -</u>	<u>\$ -</u>	168,017	<u>\$ 168,017</u>
Fund balance at beginning of year			<u>1,510,109</u>	
Fund balance at end of year			<u>\$ 1,678,126</u>	

See notes to required supplementary information.

**SAN JOAQUIN REGIONAL RAIL COMMISSION
TRANSPORTATION DEVELOPMENT ACT AND MEASURE K FUNDS
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2018**

NOTE 1 – BUDGETARY INFORMATION

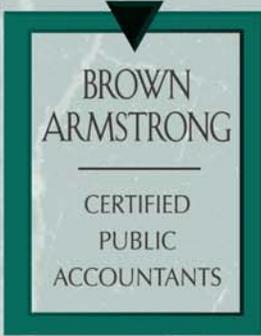
Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the Transportation Development Act Fund and Measure K Fund. All appropriations lapse at year-end. The appropriate budget is prepared by department, function, and fund. The San Joaquin Regional Rail Commission 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 Board of Commissioners. 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 had expenditures over appropriations as follows:

	<u>Transportation Development Act Fund</u>
State Transit Assistance Funds	\$ (67,688)

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 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 Board of Commissioners
San Joaquin Regional Rail Commission
Stockton, California

BAKERSFIELD OFFICE (MAIN OFFICE)

4200 TRUXTUN AVENUE
SUITE 300
BAKERSFIELD, CA 93309
TEL 661.324.4971
FAX 661.324.4997
EMAIL info@bacpas.com

FRESNO OFFICE

10 RIVER PARK PLACE EAST
SUITE 208
FRESNO, CA 93720
TEL 559.476.3592

LAGUNA HILLS OFFICE

23272 MILL CREEK DRIVE
SUITE 255
LAGUNA HILLS, CA 92653
TEL 949.652.5422

STOCKTON OFFICE

1919 GRAND CANAL BLVD
SUITE C6
STOCKTON, CA 95207
TEL 888.565.1040

WWW.BACPAS.COM

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 (collectively, the Funds), allocated for passenger rail purposes, of the San Joaquin Regional Rail Commission (SJRRRC) 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. Our audit was further made to determine that Public Transportation Modernization, Improvement, and Service Enhancement Account (PTMISEA) funds allocated to and received by the SJRRRC were expended in conformance with the applicable statutes, rules, and regulations of the PTMISEA Guidelines.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the SJRRRC’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 SJRRRC’s internal control relating to the Funds. Accordingly, we do not express an opinion on the effectiveness of the SJRRRC’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 SJRRRC’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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the SJRRC's Funds', allocated for passenger rail purposes, financial statements are free from material misstatement, we performed tests of its 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 Funds, allocated for passenger rail purposes, and received by the SJRRC were expended in conformance with applicable statutes, rules, and regulations of the TDA, and 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* or the TDA.

As part of the audit, we performed the testing of the following program:

Public Transportation Modernization, Improvement, and Service Enhancement Account (PTMISEA)

In November 2006, California voters passed a bond measure enacting the Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006. Of the \$19.925 billion of state general obligation bonds authorized, \$4 billion was set aside by the State as instructed by statute as the PTMISEA. These funds are available to the California Department of Transportation for intercity rail projects and to transit operators in California for rehabilitation, safety, or modernization improvements; capital service enhancements or expansions; new capital projects; bus rapid transit improvements; or for rolling stock procurement, rehabilitation, or replacements.

During the fiscal year ended June 30, 2018, PTMISEA funds earned and expended were verified in the course of our audit as follows:

Balance - Beginning of year	\$ 1,155,077
Revenue:	
Interest earned	12,395
Expenditures:	
Rail maintenance facility, track, and signal improvement projects	<u>800,636</u>
Balance - End of year	<u><u>\$ 366,836</u></u>

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the SJRRC'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 SJRRC's internal control and compliance relating to the Funds. Accordingly, this report is not suitable for any other purpose.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
December 31, 2018