



AGENDA

Independent Taxpayer Oversight Committee (ITOC)

January 26, 2016 – 4:00 PM

700 H Street – Suite 1487 • Sacramento, California 95814

Voting Members:	Joan Borucki, Chair Maureen Daly Pascoe Beth Tincher
Ex-Officio Members:	Robert Holderness (STA Governing Board Chair designee) Sacramento County Auditor-Controller (or designee) Jeffrey L. Spencer - STA Executive Director
Staff:	Tim Jones, STA Accounting Manager

1. Call to order
2. Approve minutes from last meetings
3. Review and approve audited financial statements
4. Review audit letters
5. Review and approve budget to actual expenditures for quarters ending September 30, 2016 and December 31, 2016.
6. Isleton pre-award audit results
7. Isleton's most recent audit report – June 30, 2014
8. CalTrans request for accelerated funding
9. Comments from the public regarding matters not on the agenda



Meeting Minutes

To: ITOC Committee Members

From: Tim Jones, Accounting Manager and ITOC Staff

Date: January 23, 2017

Re: December 15, 2016 ITOC Meeting Minutes

Attendees:

Joan Borucki – Chair, Maureen Daly Pascoe, Beth Tincher – voting members

Robert Holderness and Jeffrey Spencer – ex-officio members

Agenda Item #2

- Review draft financial statements. Accountant walked through basic financial statements. Discussion focused on a \$13 million restatement to the General Fund's beginning balance.
- The Authority identified certain revenue and expenditures that were not reported in its financial statements for the period ending June 30, 2015. Specifically, in July and August each year, the Authority receives an advance on the sales tax revenue collected in May and June. Then in September each year, it receives a final payment for the difference between the total amount of the advances for the last quarter of the previous fiscal year (April through June) and the total sales tax revenue it is due. In the past, the Authority's availability period has been 60 days, which the September payment fell outside of. However, this payment is typically 2-4 million dollars, which is material to the Authority. Therefore, Authority management changed its availability policy to 90 days to allow for the accrual of the September payment into the year it was earned.
- The Authority receives monthly advances of Measure A sales tax revenue. Under the Measure A Ordinance, the revenue is allocated and expensed formulaically to specific jurisdictions. The revenue and related expenditures are incurred at the same time – effectively passed through to each jurisdiction. However, the Authority's past practice was to accrue the revenue collected in July and August (see discussion in previous bullet point) in the year it was earned, but not the related expenditures. After a careful review of its past practices, Authority management determined that since expenditures are incurred at the same time revenue is earned, a better practice is to record the expenditures related to the revenue collected subsequent to year-end at the same time. Therefore, a restatement was necessary to shift the expenditures related to the July, August, and September 2015 revenue allocations into the fiscal year ending June 30, 2015.

- The accounting manager will invite the independent audit firm's Partner to the STA Board's March 2017 meeting to help explain the restatement to the Board if necessary.

Agenda Item #3

- The timeline for public delivery of the financial statements will be after the ITOC's review and approval at the January 26, 2017 meeting.
- The audited financial statements were released on January 9, 2017 to the STA's financial institutions as required under the Authority's bond covenants. Statements will be posted to the STA's website subsequent to the ITOC's approval.

Agenda Items #4 and 5

- The review and update of the functional guidelines and performance standards is expected to be completed by June 2017. Each of the voting members will work together to meet that deadline.

Agenda Item #6

- Reviewed the December 8, 2016 Governing Board agenda and related supporting documentation. All of the ITOC was present at the Board meeting, therefore there were no questions.

Agenda Item #7

- Discussed the development of a new ITOC website. Currently, the ITOC's information is integrated into STA's website. The website is expected to take about a month to develop. It should go live by the end of January.
- Each voting and ex-officio member agreed to provide ITOC staff with a biography to be posted on the website.

Agenda Item #9

- Set up monthly meetings for calendar year 2017 – except December.
- Dates, place, and time – All meetings are on the fourth Thursday of each month at 4:00 PM at the County Administration building unless otherwise noted. January 26, February 23 (STA conference room), March 30, April 27, May 25, June 29, July 27, August 31, September 28, October 26, and November 30.

Agenda Item #10

- No public members were in attendance.



Meeting Minutes

To: ITOC Committee Members

From: Tim Jones, Accounting Manager and ITOC Staff

Date: January 23, 2017

Re: July 7, 2016 ITOC Meeting Minutes

Committee members Joan Borucki and Maureen Daly Pascoe met in the Sacramento Transportation Authority's conference room at 2:00 PM with Ex-Officio appointee (by STA Executive Director) Norman Hom and Tim Jones – staff to the ITOC. Committee member Russell Davis was ill and unable to attend.

Agenda Item #1 – ITOC Functional Guidelines Review

- Members requested that an electronic copy of the Functional Guidelines be forwarded to them.
- Subsequent to the meeting, staff forwarded an electronic copy of the guidelines to each committee member.
- Members desire to review and update guidelines. Timetable TBD.

General discussion

- Discussed the independent financial auditor's schedule for the June 30, 2016 financial statements.
 - Fieldwork expected to begin in late September. Completion of financial statements anticipated by the end of the calendar year.
 - Requested that an entrance conference be set up with the independent auditor the week of August 15.
- Accounting manager plans to implement a new accounting system based on an updated chart of accounts during fiscal year 2016/17.
- Committee requested that an annual calendar of meetings be proposed.
- Change meeting location from STA conference room to the Sacramento County Administration building. Hold meetings late in the afternoon. Both efforts intended to provide easier public access to ITOC meetings.

- Committee requested that the most recent board agenda be added to the ITOC's agenda each meeting.
- Schedule next meeting for September.

Agenda Item #2

- Members requested that an electronic copy of the Performance Standards be forwarded to them.
- Subsequent to the meeting, staff forwarded an electronic copy of the Performance Standards to each committee member.
- Members desire to review and update performance standards. Timetable TBD.



Meeting Minutes

To: ITOC Committee Members
From: Tim Jones, Accounting Manager and ITOC Staff
Date: January 23, 2017
Re: October 20, 2016 ITOC Meeting Minutes

Attendees:

Joan Borucki – Chair, Maureen Daly Pascoe, Beth Tincher – voting members

Robert Holderness and Norman Hom (STA Executive Director designee) – ex-officio members

Agenda Item #1

- Introduce new voting member Beth Tincher. Beth offers a strong background in project management, economic development, and governmental relations. She is currently employed by SMUD as a Governmental Relations Representative.
- Introduce ex-officio member Robert Holderness. Kerri Howell, STA Board Chair, designated Robert to represent her position in the ITOC. Robert is an attorney and sole-proprietor of the Holderness Law Firm established in 1980. Robert has served the public over several decades in capacities such as a Council Member and the Mayor of Folsom. In addition, he has served on numerous transportation related committees, including the steering committee for the renewal of Measure A in 2004.

Agenda Item #3

- Reach out to Sacramento County Auditor Controller to express interest in his participation (or a designee of his choice) as an ex-officio member of the ITOC as called for in Measure A.

Agenda Item #4

- Reviewed recently created quarterly capital project status update template.

- Recommended that staff add a request for “Current Estimated Project Cost”.
- Recommended that staff add a request for “Total and Current Contract” amounts for Measure A funding.
- Recommended that staff add a request for a “Planned Completion Date”.

Agenda Item #5

- Ongoing financial audit is on track to be completed by the end of the calendar year. No STA findings are expected.
- Material beginning fund balance restatement for the General Fund is expected. The restatement is the result of certain revenue and expenditures not being accrued to the appropriate fiscal year. The accounting manager has been working closely with the independent auditor to ensure that the revised accruals are consistent with Generally Accepted Accounting Principles (GAAP).

Agenda Item #6

- Review and discuss October 13, 2016 STA Governing Board agenda and related supporting documentation. No significant comments.

Agenda Item #7

- Review bids received for financial consulting services. Three bids were reviewed – Public Financial Advisors, KNN Public Finance, and Fieldman/Rolapp Associates. It was agreed that the ITOC chair would review and rank the three proposals. Ultimately, PFM Financial Advisors was the winning contractor with 86 points. Feldman received 70 points and KNN 86 points, but PFM was chosen because of its extensive experience with transportation authorities and its familiarity with Sacramento Transportation Authority in particular.
- Develop internal procedures for contracting practices. Maureen will send text for proposed policy.

Agenda Item #8

- PFM will be working on cash flow projections as they relate to capital expenditures in the months to come. Anticipated completion – Spring 2017.

Agenda Items #9 and #10

- Provide electronic copies of the functional guidelines to Beth and Robert.
- Review and update timeline - TBD

Agenda Item #11

- Request for proposal from current independent auditor to perform a pre-award audit of the City of Isleton. The STA currently holds about \$435,000 in Old Measure A funds for capital projects. Because of numerous findings by STA’s auditor and the City of Isleton’s independent auditor, including one related to internal controls, the ITOC wants a pre-award audit to be performed to determine the City’s readiness for capital project

construction. Audit costs are projected to be \$2500 - \$3500. Isleton's City Manager is planning to retire in December 2016.

Agenda Item #12

- Schedule next meeting for December.

Agenda Item #13

- No members of the public were in attendance.



2016

Sacramento Transportation Authority

Comprehensive Annual Financial Report

For the Fiscal Year Ended
June 30, 2016



Sacramento, California



COMPREHENSIVE ANNUAL FINANCIAL REPORT

OF THE

SACRAMENTO TRANSPORTATION AUTHORITY

Sacramento, California

FOR THE

FISCAL YEAR ENDED JUNE 30, 2016

PREPARED BY

Timothy Jones, CPA, CPFO
Accounting Manager

**SACRAMENTO TRANSPORTATION AUTHORITY
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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**SACRAMENTO TRANSPORTATION AUTHORITY
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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INTRODUCTORY SECTION



Sacramento Transportation Authority

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Web: sacta.org

December 30, 2016

The Honorable Members of the Sacramento Transportation Authority Governing Board and the Citizens of Sacramento County, CA

We are pleased to present this Comprehensive Annual Financial Report (CAFR) of the Sacramento Transportation Authority (Authority) for the fiscal year ended June 30, 2016. Authority management is responsible for the accuracy, completeness and reliability of the information contained in this report. A comprehensive system of internal controls has been implemented which is designed to protect the Authority's assets from loss, theft or misuse, to identify and record transactions accurately and to compile the necessary information to report the financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP). Because the cost of internal controls should not exceed anticipated benefit, the objective of the Authority's internal control system is to provide reasonable, but not absolute, assurance that the financial statements are free from any material misstatement.

The Management's Discussion and Analysis (MD&A) interprets the financial reports by analyzing trends and by explaining changes, fluctuations, and variations in the financial data. In addition, the MD&A is intended to disclose any significant events or decisions that affect the financial condition of the Authority. The MD&A complements this letter of transmittal and should be read in conjunction with it.

Measure A requires that an Independent Taxpayer Oversight Committee (ITOC) supervise fiscal and performance audits regarding the use of all sales tax funds and perform a periodic independent review to ensure that all Measure A funds are spent in accordance with provisions of the Expenditure Plan and Ordinance as approved by voters in November 2014. Under the supervision of the ITOC, the Authority engages an independent audit firm to perform a financial and compliance audit of all Measure A and Sacramento Abandoned Vehicle Service Authority (SAVSA) funds.

PROFILE OF THE AUTHORITY

The Authority was established in August 1988 under the Local Transportation and Improvement Act, California Public Utilities Code Division 19. Sacramento County voters passed the Measure A ordinance enacted by the Authority (Original Measure A) imposing a 0.5% sales tax to fund transportation improvements throughout Sacramento County for a period of 20 years. In November 2004, voters approved a 30-year extension of Original Measure A beginning in 2009 (New Measure A). All sales tax revenue under the Measures is restricted for public road improvements and maintenance, public transit, air quality, and elderly and handicapped transportation programs. However, 0.75% of the net New Measure A sales tax revenue is allocated to the Authority for program administration costs.

New Measure A also created the Sacramento Countywide Transportation Mitigation Fee Program (SCTMFP). The goal of this program is to implement and administer a uniform transportation mitigation fee on certain new development in Sacramento County to assist in funding road and transit system improvements needed to accommodate projected growth and development.

The Authority's Governing Board (Authority Board) consists of sixteen-members – five from the Sacramento County Board of Supervisors, five from the Sacramento City Council, one from the Citrus Heights City Council, two from the Elk Grove City Council, one from the Folsom City Council, one from the Galt City Council, and one from the Rancho Cordova City Council. The Authority is responsible for establishing ordinances, adopting an annual budget, and hiring the Executive Director. The Executive Director is responsible for carrying out the policies and ordinances of the Authority as well as overseeing day-to-day operations and Authority staff consisting of a Principal Analyst, Accounting Manager, and Freeway Service Patrol Manager.

In addition to the Original and New Measure A programs, the Authority administers the Sacramento Abandoned Vehicle Service Authority (SAVSA), which is considered a component unit of the Authority, and the Freeway Service Patrol (FSP) program. SAVSA was established under California Vehicle Code Section 22710 in September 1991. The code allows participating counties to impose a \$1 surcharge on vehicle registration to be used for abandoned vehicles abatement. Participating jurisdictions include the County of Sacramento and the Cities of Citrus Heights, Elk Grove, Folsom, Galt, Rancho Cordova, and Sacramento. Each participating jurisdiction has adopted an ordinance which establishes procedure for the abatement, removal, and disposal of abandoned vehicles.

FSP was established in June 1992 through a Memorandum of Understanding (MOU) with the Department of Transportation (Caltrans), California Highway Patrol (CHP) and the Authority. Beginning in April, 2009, the Authority began administering the FSP program for Yolo County. Funding for the program is provided by a state grant from Caltrans and local matching funds from the Capitol Valley Regional Service Authority for Freeways & Expressways. The FSP program consists of a system of roving tow trucks deployed at peak traffic times in high congestion areas throughout Sacramento and Yolo counties that respond to accidents and remove hazards from roadways. As such, FSP has become one of Sacramento's more successful congestion management tools by eliminating non-recurrent freeway delays caused by minor accidents, stalled vehicles, and in-lane debris. In turn, the FSP program improves highway safety and reduces mobile source emissions by easing highway congestion.

The mission of the Authority is to plan, fund, and oversee expenditures of revenues in a manner that improves the vehicular traffic circulation system and mitigates the environmental impacts of traffic. In 2013, the STA board began exploring additional revenue sources for a new Transportation Expenditure Plan (TEP), developed in coordination with the Professional Advisory Group (PAG). The effort known as Measure B, asked voters to approve an additional 0.5% sales tax to fund transportation maintenance and construction projects. It reflected the County's and voters' long-term priorities, and was estimated to generate \$120 million annually. At the June 2016 meeting, the STA Board adopted the Transportation Expenditure Plan (TEP) and Ordinance, STA 16-001. This Ordinance was enacted pursuant to the provisions of Division 19 (commencing with Section 180000) of the California Public Utilities Code and Section 7252.16 of the California Revenue and Taxation Code.

Measure B prioritized "fix-it-first" projects focused on maintenance. It required that potholes be fixed, streets repaved, bridges strengthened, and roadways brought up to modern standards to better serve all users. These priorities were intended to keep up with the growth of the region, strengthen our

economy, and fix our transportation infrastructure to avoid paying more in the future. This effort included educating residents and stakeholders about successful transportation projects in their communities that were funded by Measure A as well as highlighting the need for additional transportation funding and the importance of Measure B. Poll results from March 2016 showed 69% support, more than the 2/3 requirement. However, in November 2016, the elections results showed Measure B received 65.71% yes votes; just one-percent shy of that requirement. The Authority is currently assessing its future funding options.

This report includes all funds and jurisdictions that are financially accountable to the Authority. Accountability was determined on the basis of budget adoption, taxing authority, and imposition of will. Under this criteria, SAVSA is governed by the Authority, considered a component unit of the Authority, and reported as a Special Revenue Fund in its financial statements.

FACTORS AFFECTING FINANCIAL CONDITION

Local Economy - The unemployment rate for Sacramento County in June 2016 was 5.6%, a marginal improvement from June 2015. However, unemployment dropped further to 5.4% by October 2016. This compares to an unadjusted unemployment rate of 5.3% for California and 4.7% for the nation. Between October of 2015 and 2016, private educational and health services led year-over-year growth followed by construction and government. As unemployment declines, taxable sales go up which drives the Authority's sales tax revenue receipts.

Year-over-year sales tax revenues increased 4.9% to \$110.7 million, as budgeted. However, the Authority's 2017 adopted budget reflects more conservative growth of 3% or \$114 million in sales tax revenue. Total Measure A sales tax receipts fiscal year-to-date are 4.7% higher than the same period last year. However, revenue is well below expectations established early in the program, in part because of the severe recession experienced during 2008 through 2010.

Long Term Financial Planning - The Authority plans to update its cash flow projections for fiscal year 2017 and beyond. This effort is necessary to align the timing of capital project cash needs with cash resources. In the Fall of 2016, the Authority hired PFM Financial Advisors to assist with this effort which is expected to be completed in the Spring of 2017. Based on the information provided by the analysis, the Authority will identify when and if additional Measure A Sales Tax Revenue Bonds should be issued to address cash flow needs.

Under New Measure A, the Neighborhood Shuttle program receives \$1 million annually. This program is designed to fund the development of additional neighborhood shuttles throughout Sacramento County. The Authority is required to develop a program that will allow local jurisdictions to compete for these funds. This program holds \$7 million in funds as of June 30, 2016 but has not been implemented yet. However, in fiscal year 2017 staff will work with the ITOC and the Authority to identify potential uses for these funds.

Budget Information - Before the beginning of each fiscal year, staff propose an annual budget based on program goals and objectives. This information is presented to the Authority's Board for adoption. The Authority's Board may adjust the budget throughout the fiscal year, and the Executive Director has the authority to transfer authorized budget amounts between expenditure line items. This report includes statements for the General Fund and SAVSA that compare actual results to the final adopted budget.

AWARDS AND ACKNOWLEDGEMENTS

An audit team from Richardson and Company, LLP performed this year's audit. The independent auditor's unmodified opinion is included in the Independent Auditor's Report.

For the 21st consecutive year, the Authority received the Government Finance Officers Association of the United States and Canada (GFOA) Certificate of Achievement for Excellence in Financial Reporting for the fiscal year ended June 30, 2015. This is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports. We believe this report continues to conform to the program's requirements, therefore we plan to submit it to the GFOA for review.

We want to thank the members of the Authority's Board for their continued interest and support regarding the financial operations of the Authority.

Respectfully Submitted,



Jeffrey Spencer, Executive Director



Timothy Jones, Accounting Manager

SACRAMENTO TRANSPORTATION AUTHORITY

LIST OF PRINCIPAL OFFICIALS

June 30, 2016

BOARD MEMBERS

KERRI HOWELL, City of Folsom (Chair)
PATRICK KENNEDY, County of Sacramento (Vice-Chair)
PHIL SERNA, County of Sacramento
SUSAN PETERS, County of Sacramento
ROBERTA MACGLASHAN, County of Sacramento
DON NOTTOLI, County of Sacramento
LARRY CARR, City of Sacramento
ERIC GUERRA, City of Sacramento
STEVE HANSEN, City of Sacramento
JEFF HARRIS, City of Sacramento
JAY SCHENIRER, City of Sacramento
MEL TURNER, City of Citrus Heights
GARY DAVIS, City of Elk Grove
PATRICK HUME, City of Elk Grove
CURT CAMPION, City of Galt and Isleton
ROBERT J. MCGARVEY, City of Rancho Cordova

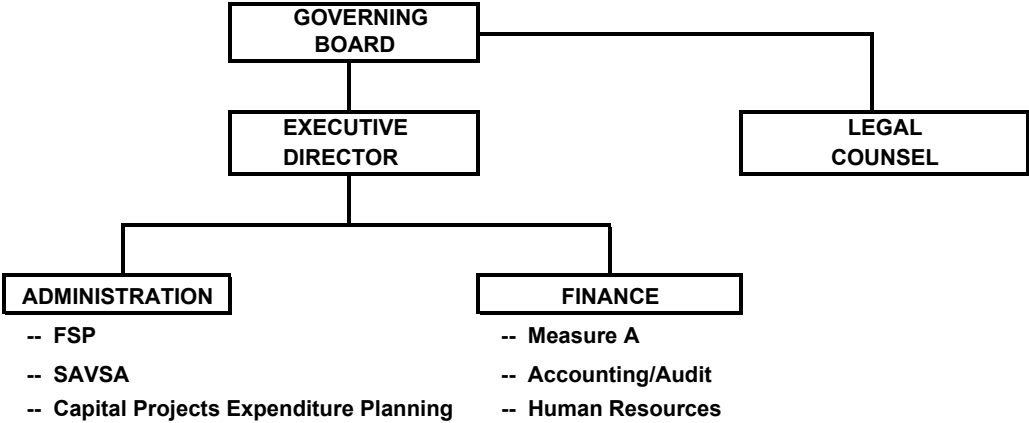
Alternates

NICK AVDIS, County of Sacramento
MARK CREWS, City of Galt and Isleton
JEFF SLOWEY, City of Citrus Heights
ANDY MORIN, City of Folsom
TERESA STANLEY, County of Sacramento
DONALD TERRY, City of Rancho Cordova

STAFF

JEFFREY L. SPENCER, Executive Director
NORMAN HOM, Principal Administrator
TIMOTHY JONES, Accounting Manager
JENNIFER DOLL, FSP Program Manager
BILL BURKE, Legal Counsel

Sacramento Transportation Authority
For the Year Ended June 30, 2016
Organization Chart





Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**Sacramento Transportation Authority
California**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2015

Executive Director/CEO

FINANCIAL SECTION



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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Sacramento Transportation Authority
Sacramento, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Sacramento Transportation Authority (Authority), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 relevant to the entity'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 entity'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 governmental activities, each major fund, and the aggregate remaining fund information of the Authority as of June 30, 2016, and the respective changes in financial position and budgetary comparison for the General Fund and Special Revenue Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Restatement

As discussed in Note 12 to the financial statements, management has elected to change its method for determining the recognition of sales tax revenue and expenses/expenditures of Measure A funds to the jurisdictions in 2016. Our opinion is not modified with respect to that matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, Schedule of Proportionate Share of the Net Pension Liability and Schedule of Contributions to Pension Plan as listed in the accompanying table of contents, be presented to supplement the basic financial statements. Such 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. 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 basic financial statements, and other knowledge we obtained during our audit of the basic 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.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The introductory section, Combining Statement of Changes in Assets and Liabilities – All Agency Funds and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Combining Statement of Changes in Assets and Liabilities – All Agency Funds is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Combining Statement of Changes in Assets and Liabilities – All Agency Funds is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

To the Board of Directors
Sacramento Transportation Authority

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 23, 2016 on our consideration of the Authority's internal control over financial reporting 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 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Richardson & Company, LLP

December 23, 2016

**SACRAMENTO TRANSPORTATION AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2016**

As management of the Sacramento Transportation Authority (Authority), we offer readers the Authority's financial statements, this narrative overview, and analysis of the financial activities of the Authority for the fiscal year ended June 30, 2016. We encourage readers to consider the information presented here in conjunction with the transmittal letter at the front of this report and the Authority's financial statements, which begin on page 12 of this report.

FINANCIAL HIGHLIGHTS

- Sales tax revenue increased to \$110.7 million or \$5.1 million (4.9%) over the prior year. This amount is consistent with the estimated sales tax revenues included in the 2015-16 adopted budget. During the fiscal year, Sacramento's economy continued to improve and sales tax revenue is expected to grow moderately in the coming year.
- The liabilities and deferred inflow of resources exceeded assets and deferred outflow of resources at the close of the most recent fiscal year by \$325.9 million (*net position*). All of this deficit consists of long-term debt associated with Measure A Sales Tax Revenue Bonds issued to fund capital projects. The assets related to this debt are reported in the financial statements of the jurisdictions building the assets. Over time, bond principal payments will reduce bond debt and the related liabilities.
- A prior year restatement in the amount of \$13 million reduced the General Fund's beginning fund balance. This was the result of recording expenditures associated with revenue earned during the fiscal year but collected within 90 days after the end of the fiscal year. The Authority's past practice was to record revenue earned during the fiscal year but collected afterwards, without recording the associated expenditures. However, to be in compliance with accounting principles generally accepted in the United States of America (GAAP), the expenditures should also be recorded since they are considered passed-through the Authority at the same time revenue is earned, not when it is received.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The Authority's basic financial statements comprise four components: 1) government-wide financial statements, 2) fund financial statements, 3) notes to the basic financial statements, and 4) required supplementary information. This report also contains other supplementary information in addition to the basic financial statements.

Government-wide Financial Statements

The *government-wide financial Statements* are designed to provide readers with a broad overview of the Authority's finances in a manner similar to a private-sector business.

Statement of Net Position - presents information on all of the Authority's assets, deferred outflow of resources, liabilities, and deferred inflow of resources, with the difference reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

Statement of Activities - presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. earned but unused vacation leave).

The government-wide financial statements can be found on pages 12-13 of this report.

Fund Financial Statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Authority, like other state and local governments, uses fund accounting to demonstrate compliance with finance-related legal requirements. All of the funds of the Authority can be divided into two categories: governmental and fiduciary.

Governmental Funds - Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflow and outflow of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for the *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions.

Both the governmental fund balance sheet and the governmental fund statements of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Authority maintains three individual governmental funds organized according to their type: *general, special revenue, and debt service*. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balance for the General Fund, Special Revenue Fund, and Debt Service Fund.

A budgetary statement has been provided for the General and Special Revenue Funds to demonstrate compliance with the budget. This statement can be found on pages 18-19 of this report.

Fiduciary Funds - Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the Authority's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The basic fiduciary fund financial statement can be found on page 20 of this report.

Notes to the Basic Financial Statements - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found on pages 21-42 of this report.

Required Supplementary Information – The statements are followed by a section of *required supplementary information* (RSI) that further explains and supports information in the financial statements. This information can be found on page 43 of this report.

Other Supplementary Information – In addition to the basic financial statements, accompanying notes, and required supplementary information, this report also presents certain *other supplementary information* concerning *agency funds* reported by the Authority. This information can be found on pages 44-46 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Position

As stated earlier, net position may serve over time as a useful indicator of a government’s financial position. In the case of the Authority, liabilities and deferred inflow of resources exceeded assets and deferred outflow of resources by \$325.9 million. The entire amount is related to the long-term bonds issued by the Authority. Since assets constructed with bond proceeds are reported in the financial statements of the jurisdictions building them, the Authority reports the liability without any offsetting asset. In October 2016, the Authority started making bond principal payments, which over time, will reduce the deficit net position.

Table A
Statement of Net Position
Governmental Activities
June 30, 2016

Assets:	2016	2015
Cash and investments	\$ 34,621,999	\$ 25,547,935
Receivables and prepaid items	23,866,562	20,115,418
Restricted cash and investments	24,034,134	45,444,311
Total assets	82,522,695	91,107,664
Deferred outflow of resources	120,283,826	90,916,865

Liabilities:		
Due to other governments	23,045,643	4,393,482
Accounts payable*	647,442	259,874
Other current liabilities	7,461,241	4,033,729
Long-term liabilities (bonds)	497,534,425	472,255,458
Total liabilities	<u>528,688,751</u>	<u>480,942,543</u>
Deferred inflow of resources	<u>62,979</u>	<u>152,933</u>
Net position:		
Restricted for transportation mitigation	13,296,991	9,885,863
Restricted for debt service	6,362,460	-
Restricted - all other	<u>318,887</u>	<u>121,827</u>
Total restricted	<u>19,978,338</u>	<u>10,007,690</u>
Unrestricted	<u>(345,923,547)</u>	<u>(309,078,758)</u>
Total net position (deficit)	<u>\$ (325,945,209)</u>	<u>\$ (299,071,068)</u>

* In 2015, approximately \$4.4 million in due to other governments was combined with accounts payable

Changes in Net Position

The net deficit position increased by 9.0% to \$325.9 million from \$299.0 million over the prior year. The net deficit position is comprised of two components - restricted and unrestricted. The restricted portion increased by a positive \$10 million (99.6%), while the negative unrestricted portion increased by \$36.8 million. The increase in the restricted balance is primarily driven by the reclassification of the debt service balance. In prior years, the positive balance associated with debt service was netted against the unrestricted negative balance. To reflect the fact that debt service reserves are maintained in separate accounts, this year the debt service balance of \$6.4 million was reported separately as restricted. Additionally, the restricted amount reported as Sacramento Countywide Transportation Mitigation Fee Program (SCTMFP) increased by \$3.4 million. This increase was caused by the program's revenues exceeding expenditures. However, beginning in July 2017, expenditures are expected to increase significantly as the Authority transitions to paying capital claims with SCTMFP money instead of bond funds, which have been exhausted with exception of required reserves.

As mentioned previously, the unrestricted (deficit) balance increased by \$36.8 million. The primary cause of the increase is that expenditures reported as due to other governments increased by \$18.7 million to \$23 million. The majority of this amount, \$16.4 million, is related to recording expenditures that were not similarly recorded in prior years' financial statements. In July and August each year, the Authority receives an advance on the sales tax revenue collected in May and June. Then in September each year, the Authority receives a final payment for the difference between the total amount of advances for the last quarter of the previous fiscal year and the total sales tax revenue it is due. Most of the sales tax revenue is concurrently allocated to each Measure A jurisdiction per the ordinance. Therefore, the Authority records the expenditures at the same time as the revenue and reports the expenditures related to the sales tax collections after the end of the fiscal year in the due to other governments account.

The remaining variance is attributable, in part, to an \$8.6 million net decrease in assets. This was caused by several factors including spending \$21.4 million in bond proceeds for capital projects offset by a \$12.8 million increase in unrestricted cash and receivables. Roughly \$5 million of the increase in unrestricted cash was related to the accumulation of SCTMFP revenue, while the remainder of the increase was cash that was allocated but unused for debt service payments. This cash is therefore available for capital construction claims. Additionally, as mentioned previously, \$6.4 million related to debt service moved to the restricted classification, which increased the deficit related to the unrestricted classification.

Table C
Statement of Activities
For the Year Ended June 30, 2016

<u>Revenues:</u>	<u>2016*</u>	<u>2015</u>
Program Revenues:		
Sacramento Countywide Transportation		
Mitigation Fee Program	\$ 4,363,650	\$ 4,624,139
Freeway Service Patrol Program	1,991,947	2,050,573
Sacramento Abandoned Vehicle Service		
Authority	1,272,697	1,220,900
General Revenues:		
Sales Taxes	110,707,633	105,564,247
Interest, Investment Earnings, and other	956,364	556,829
Total revenues	<u>119,292,291</u>	<u>114,016,688</u>
Program Expenses:		
Measure A	112,316,542	104,681,621
Sacramento Countywide Transportation		
Mitigation Fee Program	1,004,034	6,676
Freeway Service Patrol Program	2,001,317	2,090,267
Sacramento Abandoned Vehicle Service		
Authority	1,216,517	1,172,574
Administration	1,394,221	-
Interest on Long-Term debt	15,208,203	15,538,373
Total expenses	<u>133,140,834</u>	<u>123,489,511</u>
Change in net position	(13,848,543)	(9,472,823)
Net position - beginning	(299,071,068)	(288,831,950)
Restatement of beginning net position	(13,025,597)	(766,295)
Net position - ending	<u>(325,945,209)</u>	<u>(299,071,068)</u>

* Administration expenses previously reported with Measure A expenses are now reported separately

Changes in the Statement of Activities

The largest change is the \$13 million reduction to net position related to the prior year fund balance restatement. This amount is the prior year's portion of the \$16.4 variance explained within the analysis of net position above. Sales tax revenue increased by \$5.1 million (4.9%) to \$110.7, which is consistent with the adopted budget and supported by the improved economy. Interest and investment earnings increased by 71.8% to \$956,364 from \$556,829 because the Local Agency Investment Fund (LAIF), which is a state managed fund containing a pool of idle funds from state and local agencies, realized improved returns on its investments.

Measure A expenditures increased by \$7.6 million (7.3%) to \$112.3 million. This amount consists of monthly Measure A expenditures supporting ongoing programs and bond proceeds to fund capital projects. Expenditures using bond proceeds make up the majority of the increase. Expenditures in the SCTMFP account increased to \$1 million from \$7,000 in the prior year. Near the end of the fiscal year, bond fund proceeds other than required reserves had been exhausted so the Authority began paying capital claims from the SCTMFP account. As mentioned previously, spending from this account will increase significantly in FY 2016-17.

FUND FINANCIAL ANALYSIS

As noted earlier, the Authority uses fund accounting to demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the Authority's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Authority's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

General Fund – As shown on the Balance Sheet, the General Fund ended the year with assets of \$75 million and liabilities of \$23.2 million, leaving the General Fund with a \$51.8 million fund balance, a decrease of approximately \$30 million from the prior year. The fund balance primarily consists of \$38.5 million in restricted bond and Measure A sales tax proceeds and \$13.3 million in restricted SCTMFP fees collected county-wide for certain property improvements. The amount reported as due to other governments increased by approximately \$18.7 million over the prior year. Each year, the Authority accrues two months of Measure A sales tax receipts earned, but uncollected, at the end of the year. However, in years past the expenditures related to those revenues were not accrued but should have been since the Authority is a pass through agency.

As shown on the Statement of Revenues, Expenditures, and Changes in Fund Balances, Measure A sales tax revenues increased 4.9% to \$110.7 million from \$105.6 million in the prior year. However, Measure A expenditures (intergovernmental) of \$113.3 million were approximately \$10 million more than the prior year. Additionally, because of the accrual issue described in the previous paragraph, a prior year restatement of the beginning fund balance in the amount of \$13 million was necessary.

Special Revenue Fund – As shown in the Statement of Revenues, Expenditures, and Changes in Fund Balances, the Sacramento Abandoned Vehicle Service Authority (SAVSA), presented as a Special Revenue Fund, reported an ending fund balance of \$155,000, a \$33,000 increase over the

prior year. Revenues and expenditures for the current and prior year were approximately \$1.2 million.

Debt Service Fund – As shown in the Statement of Revenues, Expenditures, and Changes in Fund Balances, the Debt Service Fund reported a fund balance of \$6.4 million, an increase of approximately \$2.1 million over the prior year. This increase is directly related to the bond trustee’s accumulation of cash during fiscal year 2015-16 to pay the Authority’s first 2012 series bond principal payment in October 2016. On a monthly basis, the trustee receives the net Measure A sales tax revenues from the Board of Equalization, withholds up to 20.75% of the proceeds to pay debt service costs as allowed in the ordinance and remits the balance to the Authority’s General Fund. The \$18.2 million of transfers out of the General Fund and similar transfers into the Debt Service Fund represent the amount needed to pay the debt service costs.

GENERAL FUND BUDGET HIGHLIGHTS

Actual intergovernmental expenditures were \$12.5 million (12.7%) more than budgeted due to accelerated construction activity in numerous jurisdictions. As a result, intergovernmental expenditures will likely be less than budgeted for FY 2016-17. Actual debt service costs were \$1.5 million (9.2%) more than budgeted due to the accumulation of cash during the fiscal year for the October 2016 principal payment related to the 2012 series bonds. Actual sales tax revenue was \$1.6 million (1.4%) less than budgeted because, on a cash basis, the sales tax growth projection of 5.5% was overly optimistic.

DEBT ADMINISTRATION

In October 2009, the Authority issued \$318.3 million of Measure A Sales Tax Revenue Bonds to pay-off the 2006 and 2007 Sales Tax Revenue Notes and accelerate new transportation construction projects. The 2009 bonds were issued in three series – A, B, and C, of which the A and B series were subsequently refunded. In July 2012, the Authority issued an additional \$53.4 million in fixed-rate Measure A Sales Tax Revenue Bonds to further fund transportation construction projects.

Long-term Debt
June 30, 2016
(in millions)

	Amount	Final Maturity
2009C	\$ 106.1	10/1/2038
2012	53.5	10/1/2027
2014A (refunded 2009A)	106.1	10/1/2038
2015A (refunded 2009B)	106.1	10/1/2038
Total Outstanding Bonds	371.8	

The series 2009C bonds are variable-rate with a weekly interest rate reset date. These variable rate bonds are supported by a liquidity facility in the form of a standby bond purchase agreement (SBPA) provided by US Bank. The US Bank SBPA is due to expire in February 2017. The series 2009C bondholders have the right to tender the bonds weekly. Upon the tender, the remarketing agent will attempt to remarket the bonds to a new investor. If the remarketing of the bonds is

unsuccessful, the Trustee will draw upon the SBPA to purchase the bonds and the bonds will enter into a bank bond period in which they accrue interest. These highly-rated bonds have always been remarketable. While the SBPA provider (US Bank) agrees to provide liquidity to the bondholders, they are compensated with commitment fees that are calculated as a percentage of the bank commitment amounts.

In September 2014, the Authority issued \$106.1 million in series 2014A Measure A Sales Tax Revenue Refunding Bonds to refund the same amount of series 2009A bonds. As a result of the refunding, cash held as a reserve in the amount of \$8.2 million was made available to fund projects and other costs. The series 2014A bonds were directly purchased by Wells Fargo and do not require a separate liquidity facility or any credit enhancement. Wells Fargo is paid interest on the bonds based on upon 67% of 1-month London Interbank Offered Rate (LIBOR), plus a fixed spread. The direct purchase agreement is due to expire in September 2017. The interest rate swaps were retained.

In March 2015, the Authority issued \$106.1 million in series 2015A variable rate Measure A Sales Tax Revenue Refunding Bonds to refund the same amount of series 2009B bonds. As a result of the refunding, cash held as a reserve in the amount of \$10.3 million was made available to fund projects and other costs. Similar to the series 2009 bonds described above, these bonds required a liquidity facility in the form of a SBPA. Mizuho Bank holds the SBPA which is due to expire in March 2018. These bonds have always been remarketable. The interest rate swaps were retained.

Additional information on the Authority's long-term debt can be found in Note 8 on pages 37-41 of this report.

ECONOMIC CONDITION AND FUTURE BUDGETS

Sacramento County is home to the California State Capitol and is highly influenced by the public sector with government jobs comprising more that 26% of total wage and salary employment. The largest employment gains were observed in education and healthcare, professional and business services, and government. Population growth, increased employment, and housing starts will continue to fuel total taxable sales, which are estimated to be \$23.6 billion or 4% higher in the coming year.

The adopted budget for FY 2016/17 assumed a 3% increase in sales tax revenue to \$114 million. Measure A allocations and capital projects expenditures are estimated to increase 22% over the prior year to \$120 million. The remaining budgeted amounts are either similar to the prior year amounts or immaterially changed when compared to the overall budget.

REQUESTS FOR INFORMATION

The Authority designed this financial report to provide interested parties with a general overview of the Authority's finances. Address questions concerning the information provided in this report or requests for additional information through email to the Authority's Accounting Manager at tim@sacta.org. This report is also available on the Authority's website at sacta.org.

BASIC
FINANCIAL STATEMENTS

SACRAMENTO TRANSPORTATION AUTHORITY
STATEMENT OF NET POSITION
June 30, 2016

	<u>Governmental Activities</u>
ASSETS	
Cash and investments	\$ 34,621,999
Receivables:	
Interest	165,161
Due from other governments	23,691,374
Prepaid items	10,027
Restricted cash and investments	<u>24,034,134</u>
Total assets	<u>82,522,695</u>
DEFERRED OUTFLOW OF RESOURCES	
Fair value of hedging derivatives (long-term interest rates)	120,167,420
Pension	<u>116,406</u>
	120,283,826
LIABILITIES	
Accounts payable	647,442
Due to other governments	23,045,643
Deposits	524,869
Interest payable	3,450,822
Long-term liabilities:	
Due within one year	3,485,550
Long-term debt, due in more than one year	496,741,192
Compensated absences, due in more than one year	43,155
Net pension liability	<u>750,078</u>
Total liabilities	<u>528,688,751</u>
DEFERRED INFLOW OF RESOURCES	
Pension	<u>62,979</u>
NET POSITION	
Restricted for transportation mitigation	13,296,991
Restricted for abandoned vehicles	154,549
Restricted for freeway service patrol	164,338
Restricted for debt service	6,362,460
Unrestricted	<u>(345,923,547)</u>
Total net position	<u>\$ (325,945,209)</u>

The notes to the basic financial statements are an integral part of this statement.

SACRAMENTO TRANSPORTATION AUTHORITY
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2016

Functions/Programs	Expenses	Program Revenues Operating Grants and Contributions	Net (Expense) and Revenue Governmental Activities
Governmental Activities:			
Measure A	\$ 112,316,542		\$ (112,316,542)
Sacramento Countywide Transportation Mitigation Fee Program	1,004,034	\$ 4,363,650	3,359,616
Freeway Service Patrol Program	2,001,317	1,991,947	(9,370)
Sacramento Abandoned Vehicle Service Authority Administration	1,216,517 1,387,221	1,272,697	56,180 (1,387,221)
Interest on long-term debt	15,215,203		(15,215,203)
Total governmental activities	<u>\$ 133,140,834</u>	<u>\$ 7,628,294</u>	(125,512,540)
General revenues:			
Sales taxes			110,707,633
Interest, investment earnings and other			<u>956,364</u>
Total general revenues			<u>111,663,997</u>
Change in net position			(13,848,543)
Net position - beginning, as previously reported			(299,071,068)
Restatement of beginning net position			<u>(13,025,597)</u>
Net position - beginning, as restated			<u>(312,096,666)</u>
Net position - ending			<u>\$ (325,945,209)</u>

The notes to the basic financial statements are an integral part of this statement.

SACRAMENTO TRANSPORTATION AUTHORITY
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2016

	General	Abandoned Vehicle Special Revenue	Debt Service	Total Governmental Funds
ASSETS:				
Cash and investments	\$ 33,906,403	\$ 715,596		\$ 34,621,999
Prepaid items	10,027			10,027
Receivables:				
Interest	161,992	3,169		165,161
Due from other governments	23,342,190	349,184		23,691,374
Due from other funds	26,873			26,873
Restricted cash and investments	17,522,917		\$ 6,511,217	24,034,134
TOTAL ASSETS	\$ 74,970,402	\$ 1,067,949	\$ 6,511,217	\$ 82,549,568
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Accounts payable and other accrued liabilities	\$ 127,027	\$ 371,658	\$ 148,757	\$ 647,442
Due to other governments	23,045,643			23,045,643
Due to other funds		26,873		26,873
Deposits	10,000	514,869		524,869
Total liabilities	23,182,670	913,400	148,757	24,244,827
FUND BALANCES:				
Nonspendable:				
Prepaid items	10,027			10,027
Restricted:				
Measure A projects	38,511,922			38,511,922
Transportation mitigation	13,296,991			13,296,991
Freeway service patrol	164,338			164,338
Debt service			6,362,460	6,362,460
Abandoned vehicles		154,549		154,549
Unassigned:				
General administration	(195,546)			(195,546)
Total fund balances	51,787,732	154,549	6,362,460	58,304,741
TOTAL LIABILITIES AND FUND BALANCES	\$ 74,970,402	\$ 1,067,949	\$ 6,511,217	\$ 82,549,568

The notes to the basic financial statements are an integral part of this statement.

**SACRAMENTO TRANSPORTATION AUTHORITY
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
June 30, 2016**

Ending Fund Balances per governmental fund balance sheet (page 14) \$ 58,304,741

Amounts reported for the governmental activities in the statement of net position are different because:

Long-term debt, including premium and hedging derivatives, are not due and payable in the current period and therefore are not reported in the fund statements.

Bonds, including premiums and hedging derivatives	\$ (500,191,192)	
Fair value of hedging derivatives	<u>120,167,420</u>	(380,023,772)

Pension liability is not due and payable in the current period and is not reported in the fund statements.

Deferred outflow of resources	116,406	
Pension liability	(750,078)	
Deferred inflow of resources	<u>(62,979)</u>	(696,651)

Interest payable is not due and payable in the current period and therefore is not reported in the fund statements.		(3,450,822)
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Compensated absences are not due and payable in the current period and therefore are not reported in the fund statements.		<u>(78,705)</u>
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Net position of governmental activities (page 12)		<u><u>\$ (325,945,209)</u></u>
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SACRAMENTO TRANSPORTATION AUTHORITY
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
For the Year Ended June 30, 2016

	General	Abandoned Vehicle Special Revenue	Debt Service	Totals Governmental Fund
REVENUES:				
Taxes	\$110,707,633			\$110,707,633
Mitigation fees	4,363,650			4,363,650
Vehicle registration fees		\$1,272,697		1,272,697
State grants for freeway service	1,234,947			1,234,947
SAFE funds	757,000			757,000
Use of money and property	937,988	3,415	\$ 456	941,859
Miscellaneous	14,505			14,505
Total revenues	<u>118,015,723</u>	<u>1,276,112</u>	<u>456</u>	<u>119,292,291</u>
EXPENDITURES:				
General government:				
Administrative	1,334,542			1,334,542
Freeway Service Patrol	2,001,317			2,001,317
Intergovernmental	113,320,576	1,216,517		114,537,093
Debt Service:				
Interest and other charges			16,023,860	16,023,860
Total expenditures	<u>116,656,435</u>	<u>1,216,517</u>	<u>16,023,860</u>	<u>133,896,812</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>1,359,288</u>	<u>59,595</u>	<u>(16,023,404)</u>	<u>(14,604,521)</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	26,873		18,155,503	18,182,376
Transfers out	(18,155,503)	(26,873)		(18,182,376)
Total other financing sources (uses)	<u>(18,128,630)</u>	<u>(26,873)</u>	<u>18,155,503</u>	<u>-</u>
CHANGES IN FUND BALANCES	(16,769,342)	32,722	2,132,099	(14,604,521)
FUND BALANCES, JULY 1, 2015 AS PREVIOUSLY REPORTED	81,582,672	121,827	4,230,361	85,934,860
RESTATEMENT	<u>(13,025,598)</u>			<u>(13,025,598)</u>
FUND BALANCE, BEGINNING OF THE YEAR, AS RESTATED	<u>68,557,074</u>	<u>121,827</u>	<u>4,230,361</u>	<u>72,909,262</u>
FUND BALANCES, JUNE 30, 2016	<u>\$ 51,787,732</u>	<u>\$ 154,549</u>	<u>\$ 6,362,460</u>	<u>\$ 58,304,741</u>

The notes to the basic financial statements are an integral part of this statement.

**SACRAMENTO TRANSPORTATION AUTHORITY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2016**

Changes in fund balances - total governmental funds (page 16)	\$ (14,604,521)
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Amounts reported for governmental activities in the statement of activities are different because:

Changes not reported in government funds:

Pension expense	(32,219)
Change in compensated absences	(20,460)
Change in interest payable	53,580
Bond premium amortization	755,077
	755,077

Change in Net Position of governmental activities (page 13)	\$ <u>(13,848,543)</u>
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The notes to the basic financial statements are an integral part of this statement.

SACRAMENTO TRANSPORTATION AUTHORITY
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Year Ended June 30, 2016

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final	(Budgetary Basis) (See Note 3)	
REVENUES:				
Taxes	\$110,728,905	\$110,728,905	\$ 109,134,683	\$ (1,594,222)
Mitigation fees	4,284,000	4,284,000	4,363,650	79,650
State grant for freeway service	1,162,000	1,162,000	1,234,947	72,947
SAFE funds	757,000	757,000	757,000	-
Use of money and property	450,000	450,000	937,988	487,988
Miscellaneous	-	-	14,505	14,505
Total revenues	<u>117,381,905</u>	<u>117,381,905</u>	<u>116,442,773</u>	<u>(939,132)</u>
EXPENDITURES:				
General government:				
Administrative	856,194	856,194	1,334,542	(478,348)
Freeway Service Patrol	2,227,020	2,227,020	2,001,317	225,703
Intergovernmental	98,483,780	98,483,780	111,006,522	(12,522,742)
Total expenditures	<u>101,566,994</u>	<u>101,566,994</u>	<u>114,342,381</u>	<u>(12,775,387)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>15,814,911</u>	<u>15,814,911</u>	<u>2,100,392</u>	<u>(13,714,519)</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	34,000	34,000	26,873	(7,127)
Transfers out	<u>(16,620,000)</u>	<u>(16,620,000)</u>	<u>(18,155,503)</u>	<u>(1,535,503)</u>
Total other financing sources (uses)	<u>(16,586,000)</u>	<u>(16,586,000)</u>	<u>(18,128,630)</u>	<u>(1,542,630)</u>
Changes in fund balance (budgetary basis)	(771,089)	(771,089)	(16,028,238)	(15,257,149)
FUND BALANCE, BEGINNING OF YEAR - RESTATED	<u>68,557,074</u>	<u>68,557,074</u>	<u>68,557,074</u>	<u>-</u>
FUND BALANCE, END OF YEAR	<u>\$ 67,785,985</u>	<u>\$ 67,785,985</u>	<u>\$ 52,528,836</u>	<u>\$ (15,257,149)</u>

The notes to the basic financial statements are an integral part of this statement.

**SACRAMENTO TRANSPORTATION AUTHORITY
ABANDONED VEHICLE SPECIAL REVENUE FUND
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Year Ended June 30, 2016**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final	(Budgetary Basis) (See Note 3)	
REVENUES:				
Vehicle registration fees	\$ 1,100,000	\$ 1,100,000	\$ 1,250,513	\$ 150,513
Use of money and property - interest	400	400	3,415	3,015
Total revenues	<u>1,100,400</u>	<u>1,100,400</u>	<u>1,253,928</u>	<u>153,528</u>
EXPENDITURES:				
General government:				
Intergovernmental	1,084,060	1,084,060	1,216,517	(132,457)
Total expenditures	<u>1,084,060</u>	<u>1,084,060</u>	<u>1,216,517</u>	<u>(132,457)</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>16,340</u>	<u>16,340</u>	<u>37,411</u>	<u>21,071</u>
OTHER FINANCING USES:				
Transfers out	(34,000)	(34,000)	(26,873)	7,127
Total other financing uses	<u>(34,000)</u>	<u>(34,000)</u>	<u>(26,873)</u>	<u>7,127</u>
Changes in fund balance (budgetary basis)	(17,660)	(17,660)	10,538	28,198
FUND BALANCE, BEGINNING OF YEAR	<u>121,827</u>	<u>121,827</u>	<u>121,827</u>	<u>-</u>
FUND BALANCE, END OF YEAR	<u><u>\$ 104,167</u></u>	<u><u>\$ 104,167</u></u>	<u><u>\$ 132,365</u></u>	<u><u>\$ 28,198</u></u>

The notes to the basic financial statements are an integral part of this statement.

SACRAMENTO TRANSPORTATION AUTHORITY
STATEMENT OF FIDUCIARY NET POSITION
AGENCY FUNDS
June 30, 2016

ASSETS:	
Cash and investments	\$ 31,172,822
Interest receivable	<u>93,089</u>
Total assets	<u><u>\$ 31,265,911</u></u>
 LIABILITIES:	
Accounts payable	\$ 1,365,692
Deposits	<u>29,900,219</u>
Total liabilities	<u><u>\$ 31,265,911</u></u>

The notes to the basic financial statements are an integral part of this statement.

SACRAMENTO TRANSPORTATION AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Sacramento Transportation Authority (Authority) and the Sacramento Abandoned Vehicle Service Authority (SAVSA) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

ORGANIZATION

In August 1988, the Authority was established under the Local Transportation and Improvement Act, Public Utilities Code Division 19. In November 1988, Sacramento County voters passed an ordinance (Original Measure A) enacted by the Authority's Governing Board (Authority's Board) imposing a retail transactions and use tax (sales tax) increase throughout the County at a maximum rate of 0.5% for a period of 20 years. In July 2004, taxpayers approved a 30-year extension of the sales tax beginning in April 2009 (New Measure A).

In September 1991, SAVSA was established as a separate legal entity under California Vehicle Code Section 22710. The code establishes a \$1 vehicle registration fee to be used for the abatement of abandoned vehicles for counties electing to impose the fee. The County Board of Supervisors, by a two-thirds vote, and the City Councils of a majority of the cities within the County having a majority of the incorporated population, adopted resolutions providing for the establishment of SAVSA. SAVSA reimburses the County, and the Cities of Sacramento, Galt, Isleton, Folsom, Elk Grove, and Citrus Heights according to the Sacramento Abandoned Vehicle Abatement Plan.

In June 1992, the Authority entered into a Memorandum of Understanding (MOU) with the Department of Transportation (Caltrans) and the California Highway Patrol (CHP) to administer the Freeway Service Patrol Program (FSP). In April 2009, the Authority began administering the FSP program for Yolo County. Funding for the program is provided by a state grant from Caltrans and local matching funds from the Capitol Valley Regional Service Authority for Freeways & Expressways.

The Authority's Board consists of sixteen-members – five from the Sacramento County Board of Supervisors, five from the Sacramento City Council, one from the Citrus Heights City Council, two from the Elk Grove City Council, one from the Folsom City Council, one from the Galt City Council, and one from the Rancho Cordova City Council. Under Measure A, the Authority distributes sales tax proceeds as prescribed by ordinance to the County of Sacramento, the Cities of Sacramento, Folsom, Galt, Isleton, Citrus Heights, Rancho Cordova, and Elk Grove, the Sacramento Regional Transit District, Paratransit, Inc., and the Sacramento Metropolitan Air Quality Management District

BASIS OF PRESENTATION

Government-wide financial statements (the Statement of Net Position and the Statement of Activities) provide information on all of the nonfiduciary activities of the Authority.

The Statement of Net Position reports all financial resources of the Authority as a whole in a format in which assets and deferred outflow of resources equal liabilities and deferred inflow of resources, plus net position. The Statement of Activities demonstrates the degree to which the expenses of a given function are offset by program revenues. Sales tax and interest earnings are not program related and reported as general revenues. Fund financial statements are provided for governmental

SACRAMENTO TRANSPORTATION AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

**NOTE 1 - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)**

and fiduciary funds. A fund is a fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions.

The Authority maintains the minimum number of funds consistent with legal and managerial requirements. Fiduciary funds, although excluded from the government-wide statements, are included in the fund financial statements. Major governmental funds are reported in separate columns in the fund financial statements.

Governmental fund types are used to account for activities primarily supported by taxes, grants, and similar revenue sources.

The Authority reports the following major governmental funds:

General Fund – The General Fund is the main operating fund of the Authority. It accounts for transactions related to resources obtained and used for those services, including FSP, that need not be accounted for in another fund.

Abandoned Vehicle Special Revenue Fund – Reports the vehicle registration fee revenue and related expenditures.

Debt Service Fund – Reports the debt service on the Authority's Measure A Sales Tax Revenue Bonds.

The Authority also reports the following fund type:

Fiduciary Funds – Reports the assets and liabilities for unspent Original Measure A funds held by the Authority in a fiduciary capacity, as Agency Funds. The financial activities of these funds are excluded from the government-wide financial statements but are presented in separate Fiduciary Fund financial statements.

BASIS OF ACCOUNTING

The government-wide financial statements use the economic resources measurement focus and the full accrual basis of accounting. Revenues are recorded when earned and expenses at the time liabilities are incurred, regardless of when the related cash flows take place. The Fiduciary Fund statements do not involve the results of operations and do not use a measurement basis.

Governmental funds use the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The Authority records revenue sources when they are earned or when they are due, provided they are measurable and available within 90-days after the end of the fiscal year. Those revenues susceptible to accrual at both the government-wide and fund level are sales taxes, vehicle license fees and interest revenue. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. Proceeds of governmental long-term debt are reported as other financing sources.

SACRAMENTO TRANSPORTATION AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

**NOTE 1 - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)**

BASIS OF ACCOUNTING (Continued)

Non-exchange transactions, in which the Authority gives or receives value without directly receiving or giving equal value in exchange, include taxes, grants, entitlements, and donations. On the accrual basis, revenue from taxes is recognized in the fiscal year for which the taxes are levied or assessed. Revenues from grants, entitlements, and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied. Certain indirect costs are included in program expenses reported for individual functions and activities.

Grant revenues are recognized in the fiscal year in which all eligibility requirements are met. Under the terms of grant agreements, the Authority may fund certain programs with a combination of cost-reimbursement grants and general revenues. Thus, funds included in restricted and unrestricted net position may be available to finance program expenditures. The Authority's policy is to first apply restricted grant resources to such programs, followed by general revenues if necessary.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are exchange or exchange-like transactions between functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

BUDGETARY PRINCIPLES

As required by Public Utilities Code 180105 of the State of California, the Authority prepares and legally adopts an operating budget each fiscal year. Operating budgets are adopted for the governmental fund types on the modified accrual basis of accounting, except that the budget for the General Fund does not include accrued sales tax and the budget for the special revenue fund does not include accrued vehicle registration fees. Budgetary control and the legal level of control are at the program level. Significant amendments, appropriation transfers between programs and transfers from contingencies must be approved by the Authority's Board.

RESTRICTED ASSETS

Certain proceeds from long-term debt are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants. Restricted cash includes the reserve accounts used to report resources set aside to make up potential future deficiencies in the bond's debt service. Restricted cash may also include unspent bond proceeds used to fund projects.

CAPITAL ASSETS

Capital assets for governmental fund types are not capitalized in the funds used to acquire or construct them. Capital acquisitions are reflected as expenditures in the governmental fund, and the related assets are reported in the government-wide financial statements. It is the Authority's policy to capitalize furniture and equipment exceeding \$5,000. The Authority has no capital assets that exceed the capitalization threshold.

SACRAMENTO TRANSPORTATION AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

**NOTE 1 - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)**

COMPENSATED ABSENCES

The Authority compensates employees for unused vacation pay, up to a maximum of 400 hours, upon termination. It also pays one-half of unused sick leave at the time of retirement, up to a maximum of 500 hours pay, or applies any portion of sick leave toward retirement credit. The Authority has accrued sick leave to the extent it is expected to be paid out.

All vacation pay is accrued when earned by the employee in the government-wide financial statements. A liability for these amounts is recorded in the government funds only if they have matured, for example, as a result of employee resignations and retirements and is currently payable. The General Fund is used to liquidate compensated absences.

LONG-TERM DEBT

In the government-wide financial statements, long-term debt is recorded as a liability in the applicable governmental activities statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of applicable bond premiums or discounts. Bond issuance costs are recognized as an expense in the period incurred.

In the fund financial statements, governmental fund types recognize bond premiums and discounts incurred during the current period. The face amount of the debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, even if withheld from the actual net proceeds received, are reported as debt service expenditures.

PENSIONS

For purposes of measuring the net pension liability and deferred outflow/inflow of resources related to pensions, and pension expense, information about the fiduciary net position of the California Public Employee's Retirement System (CalPERS) plans (Plans) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. The net position liability is liquidated by the Authority's General Fund.

FUND BALANCE CLASSIFICATION

Net Position - The government-wide financial statement includes the following categories of net position:

Restricted net position - This category presents external restrictions imposed by creditors, grantors, contributors or laws and regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position – any amount that is not restricted.

SACRAMENTO TRANSPORTATION AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

**NOTE 1 - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)**

FUND BALANCE CLASSIFICATION (Continued)

Fund Balance - In the fund financial statements, fund balance amounts are reported based on the Authority's constraints on the use of funds.

Nonspendable fund balances are not expected to be converted to cash within the next operating cycle and are typically comprised of prepaid items.

Restricted fund balances are subject to external restrictions imposed by creditors, grantors, contributors, laws, regulations, or enabling legislation which requires the resources to be used only for a specific purpose.

Committed fund balances are subject to constraints imposed by formal action of the Authority's Board which may be altered only by formal action of the Authority's Board consisting of an ordinance or resolution.

Assigned fund balances are amounts constrained by the Authority's intent to be used for a specific purpose, but are neither restricted nor committed. Intent is expressed by the Authority's Board or management and may be changed at their discretion.

Unassigned is the residual amount of the General Fund not included in the four classifications described above. In other governmental funds in which expenditures incurred for specific purposes exceeded amounts restricted, committed, or assigned to those purposes, a negative unassigned fund balance is reported. This includes the residual general fund balance and residual fund deficits, if any, of other governmental funds.

The Authority typically spends resources in the following order when an expenditure is incurred: restricted, committed, assigned, and unassigned.

INSURANCE

The Authority provides employees with commercial worker's compensation insurance. In addition, the Authority purchases commercial insurance for general liability claims. At June 30, 2016, there were no claims outstanding. There were no reductions in coverage during the year. The amount of settlements did not exceed insurance coverage for each of the past three fiscal years.

RECLASSIFICATIONS

In 2016, certain amounts from 2015 were reclassified to conform to the current presentation. The reclassifications had no effect on total net assets or change in net assets.

SACRAMENTO TRANSPORTATION AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 2 - CASH AND INVESTMENTS

Cash and investments as of June 30, 2016 are classified in the accompanying financial statements as follows:

Governmental activities:	
Cash and investments	\$ 34,621,999
Restricted cash and investments	24,034,134
Agency funds:	
Cash and investments	<u>31,172,822</u>
Total cash and investments	<u><u>\$ 89,828,955</u></u>

As of June 30, 2016, the Authority's cash and investments consisted of the following:

Deposits with financial institutions	<u>\$ 18,881</u>
Total cash and deposits	<u>18,881</u>
County Pool	48,875,940
Local Agency Investment Fund	16,900,000
Investments with fiscal agent	
Money market mutual fund (governmental obligations)	6,511,217
U.S. Treasury securities	10,122,152
Commercial paper	1,722,845
CAMP pool	<u>5,677,920</u>
Total investments	<u>89,810,074</u>
Total cash and investments	<u><u>\$ 89,828,955</u></u>

SACRAMENTO TRANSPORTATION AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 2 - CASH AND INVESTMENTS (Continued)

Investment policy - Investments are stated at fair value. California statutes authorize public agencies to invest idle or surplus funds in a variety of credit instruments as provided for in the California Government Code, Section 53600, and Chapter 4 - Financial Affairs. The table below identifies the investment types that are authorized for the Authority by the California Government Code (or the Authority's investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk. During the year ended June 30, 2016, the Authority's permissible investments included the following instruments:

Authorized Investment Type	Maximum Maturity	Maximum % or Amount of the Portfolio
US Treasury Bonds/Notes/Bills	5 years	100%
Bonds issued by local agencies	5 years	80%
Registered State Warrants and Municipal Notes	5 years	80%
Bankers Acceptances	180 days	40%
Commercial Paper	270 days	40%
Negotiable Certificate of Deposit	180 days	30%
CRA Bank Deposit/Certificate of Deposit	1 year	30%
Repurchase Agreements	1 year	30%
Reverse Repurchase Agreement	92 days	20%
Medium Term Corporate Notes	180 days	30%
Shares of Money Market Mutual Fund	90 days	20%
Collateralized Mortgage Obligations	180 days	20%
California Assets Management Program (CAMP)	none	none
County Pool	none	none
LAIF	none	none

Investments Authorized by Debt Agreements - Investment of debt proceeds held by the bond trustee is governed by the provisions of the debt agreements, rather than the general provisions of the California Government Code or the Authority's investment policy. The 2009, 2012, 2014A and 2015A Measure A Sales Tax Revenue Bonds debt agreements contain certain provisions that address interest rate risk and credit risk, but not concentration of credit risk.

SACRAMENTO TRANSPORTATION AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 2 - CASH AND INVESTMENTS (Continued)

Authorized Investment Type	Maximum Security	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Bonds or Obligations	None	None	None
U.S. Treasury Obligations	None	None	None
U.S. Agency Securities	None	None	None
Bankers Acceptances	1 year	None	None
Commercial Paper	270 days	None	None
Money Market Fund	None	None	None
Certificates of Deposit	None	None	None
Investment Agreements	None	None	None
Repurchase Agreements	None	None	None
Mutual Funds	N/A	None	None
LAIF	N/A	None	None

Investment in Pooled Funds - The Authority's investments in the Sacramento County pooled investment funds are managed by the Sacramento County Treasurer and stated at fair value or amortized cost, which approximates fair value. The total amount invested by all public agencies as of June 30, 2016 was \$3.5 billion. The Authority's share of the pool is stated at market value in the Authority's financial statement. Sacramento County does not invest in any derivative financial products directly. The Sacramento County Treasury Investment Oversight Committee (Committee) oversees the County's cash and investment pool. The Committee consists of ten members as required by State law. The value of pooled shares that may be withdrawn from the County that may be withdrawn is determined on an amortized cost basis, which is different than the fair value of the Authority's position in the pool.

Investment in LAIF – Local Agency Investment Fund (LAIF) is stated at amortized cost. The LAIF is a special fund of the California State Treasury through which local governments may invest idle cash. The total fair value amount invested by all public agencies in LAIF is \$75.3 billion. The fund is managed by the State Treasurer. No amounts are invested in derivative financial products. The Local Investment Advisory Board oversees the LAIF. The Board consists of five members as designated by State Statute. The fair value of the Authority's investment in this pool is reported in the accompanying financial statements based upon the Authority's pro-rata share of the fair value of the entire pool. There are no restrictions or limitations on withdrawals of Authority funds from LAIF.

Investment in CAMP - California Asset Management Program (CAMP) was created under the provisions of the California Joint Exercise of Powers Act to provide professional investment management services and allows the participants to combine the use of a money market portfolio with an individually managed portfolio. CAMP is governed by a board of seven trustees, all of whom are officials or employees of public agencies. The money market portfolio offers daily liquidity and is rated AAAM by Standard and Poor. To maintain the AAAM rating, the portfolio's weighted average maturity may not exceed 70 days.

SACRAMENTO TRANSPORTATION AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 2 - CASH AND INVESTMENTS (Continued)

Interest rate risk - Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. As of June 30, 2016, the weighted average maturity of the investments contained in LAIF, the County Pool, CAMP, and mutual money market funds is approximately 167, 253, 45, and 38 days, respectively. The maturity dates of the U.S. Treasury Securities are within 15 months and commercial paper within five months.

Credit Risk - Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Neither LAIF or the County Pool is rated by a nationally recognized statistical rating organization. The Money Market Mutual Fund is rated AAAM by Standard and Poor's. The U.S. Treasury Securities are rated AA+ and commercial paper A-1 or A-1+ by Standard and Poor's.

Custodial credit risk - Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and the Authority's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure public agency deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. The Authority's deposits were covered by federal depository insurance at June 30, 2016.

Fair Value Measurement - The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

SACRAMENTO TRANSPORTATION AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 2 - CASH AND INVESTMENTS (Continued)

The Authority reports the following recurring fair value measurements as of June 30, 2016:

		Fair Value Measurements Using		
June 30, 2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Investments by fair value level				
Money market mutual fund	\$ 6,511,217			
U.S. Treasury securities	10,122,152	\$ 10,122,152		
Commercial paper	1,722,845		\$ 1,722,845	
Total investments by fair value level	18,356,214	\$ 10,122,152	\$ 1,722,845	
Investments measured at net asset value				
County pool	48,875,940			
Local Agency Investment Fund	16,900,000			
CAMP pool	5,677,920			
	\$ 89,810,074			

All securities classified in Level 2 are valued using pricing models that are based on market data, such as matrix or model pricing, which use standard inputs, which include benchmark yields, reported trades, broker/dealer quotes, issue spreads, two sided markets, benchmark securities, bids, offers and reference data including market research publications.

NOTE 3 - RECONCILIATION OF THE MODIFIED ACCRUAL BASIS TO BUDGETARY BASIS OF ACCOUNTING

The reconciliation of General Fund excess of revenues over expenditures to the budgetary basis of accounting is as follows:

	Modified Accrual Basis	Reversal of Prior Year Accrual	Current Year Accrual	Budgetary Basis
Revenues	\$ 118,015,723	\$ 19,765,342	\$ (21,338,292)	\$ 116,442,773
Expenditures	116,656,435	14,468,306	(16,782,360)	114,342,381
Excess of revenues over expenditures	\$ 1,359,288	\$ 5,297,036	\$ (4,555,932)	\$ 2,100,392

SACRAMENTO TRANSPORTATION AUTHORITY
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 JUNE 30, 2016

NOTE 3 - RECONCILIATION OF THE MODIFIED ACCRUAL BASIS TO BUDGETARY BASIS OF ACCOUNTING (Continued)

The reconciliation of SAVSA Fund excess of revenues over expenditures to the budgetary basis of accounting is as follows:

	Modified Accrual Basis	Reversal of Prior Year Accrual	Current Year Accrual	Budgetary Basis
Revenues	\$ 1,276,112	\$ 327,000	\$ (349,184)	\$ 1,253,928
Expenditures	1,216,517			1,216,517
Excess of revenues over expenditures	<u>\$ 59,595</u>	<u>\$ 327,000</u>	<u>\$ (349,184)</u>	<u>\$ 37,411</u>

NOTE 4 - PENSION PLAN

A. General Information about the Pension Plans

Plan Descriptions

All qualified permanent and probationary employees are eligible to participate in the Authority's cost-sharing multiple employer defined benefit pension plans administered by the California Public Employees' Retirement System (CalPERS). The Authority has the following cost-sharing rate plans:

- Miscellaneous Plan
- PEPRA Miscellaneous Plan

Benefit provisions under the Plans are established by State statute and Board resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website at www.calpers.ca.gov.

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 (52 for PEPRA Miscellaneous Plan) with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the 1959 Survivor Benefit level 4, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

SACRAMENTO TRANSPORTATION AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 4 - PENSION PLAN (Continued)

Benefits Provided (Continued)

The Plan's provisions and benefits in effect at June 30, 2016, are summarized as follows:

	Miscellaneous	PERPA Miscellaneous
	Prior to January 1, 2013	On or after January 1, 2013
Hire Date		
Benefit formula (at full retirement)	2.5% @ 55	2.0% @ 62
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	50-55	52-67
Monthly benefits, as a % of eligible compensation	2.0% to 2.5%	1.0% to 2.5%
Required employee contribution rates	8.00%	6.25%
Required employer contribution rates	9.067%	6.237%

In addition to the contribution rate above, the Authority was also required to make a payment of \$47,859 towards its unfunded actuarial liability during the fiscal year ended June 30, 2016.

The Miscellaneous Plan is closed to new members that are not already CalPERS participants

Contributions

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

The contributions to the Plan were \$76,574 for the year ended June 30, 2016.

B. Pension Liabilities, Pension Expenses and Deferred Outflow/Inflow of Resources Related to Pensions

As of June 30, 2016, the Authority reported a net pension liability for its proportionate share of the net pension liability of the Plan of \$750,078.

The Authority's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan as of June 30, 2016 is measured as of June 30, 2015 and the total pension liability for the Plan is determined by an actuarial valuation as of June 30, 2014 rolled forward to June 30, 2015 using standard update procedures. The Authority's

SACRAMENTO TRANSPORTATION AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 4 - PENSION PLAN (Continued)

proportion of the net pension liability is based on a projection of the Authority's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined. The Authority's proportionate share of the net pension liability for the Miscellaneous Plan as of June 30, 2016 and 2015 is as follows:

	Miscellaneous
Proportion - June 30, 2015	0.024636%
Proportion - June 30, 2016	0.027341%
Change - Increase (Decrease)	0.002705%

For the year ended June 30, 2016, the Authority recorded pension expense of \$101,400. At June 30, 2016, the Authority reported deferred outflow of resources and deferred inflow of resources related to the Plan from the following sources:

	Deferred Outflow of Resources	Deferred Inflow of Resources
Pension contributions subsequent to measurement date	\$ 76,574	
Change in employer's proportion and differences between the employer's contribution and the employer's proportionate share of contributions	35,398	
Net differences between projected and actual earnings on plan investments		\$ (21,029)
Changes in assumption		(41,950)
Difference between expected and actual experience	4,434	
Total	\$ 116,406	\$ (62,979)

The \$76,574 reported as deferred outflow of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2017. Other amounts reported as deferred inflow and outflow of resources relate to pensions and will be recognized as pension expense as follows:

Year Ended June 30		
2017	\$	(16,776)
2018		(16,747)
2019		(16,506)
2020		26,882
	\$	(23,147)

SACRAMENTO TRANSPORTATION AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 4 - PENSION PLAN (Continued)

Actuarial Assumptions

The total pension liabilities in the actuarial valuations for the Plan were determined using the following actuarial assumptions:

Valuation Date	June 30, 2014
Measurement Date	June 30, 2015
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation	2.75%
Payroll Growth	3.0%
Projected Salary Increase (1)	3.3% - 14.2%
Mortality	Derived using CalPERS Membership data for all funds

(1) Depending on age and service

The underlying mortality assumptions and all other actuarial assumptions used in June 30, 2016 were based on the results of a January 2014 actuarial experience study for the period 1997 to 2011. Further details of the Experience Study can found on the CalPERS website.

Discount Rate

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

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined net of pension plan investment expense but without reduction for pension plan administrative expense. The discount rate was changed from 7.50 percent (net of administrative expense in 2014) to 7.65 percent as of the June 30, 2015 measurement date to correct the adjustment which previously reduced the discount rate for administrative expense.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach.

SACRAMENTO TRANSPORTATION AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 4 - PENSION PLAN (Continued)

Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects the long-term expected real rate of return by asset class for the Plan as of the measurement date of June 30, 2015. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

Asset Class	New Strategic Allocation	Real Return Years 1 - 10(a)	Real Return Years 11+(b)
Global Equity	51.0%	5.25%	5.71%
Global Fixed Income	19.0%	0.99%	2.43%
Inflation Sensitive	6.0%	0.45%	3.36%
Private Equity	10.0%	6.83%	6.95%
Real Estate	10.0%	4.50%	5.13%
Infrastructure and Forestland	2.0%	4.50%	5.09%
Liquidity	2.0%	(0.55)%	(1.05)%
Total	<u>100.00%</u>		

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

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

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

The following presents the Authority's proportionate share of the net pension liability for the Plan, calculated using the discount rate for the Plan, as well as what the Authority's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage point lower or higher than the current rate:

1% Decrease	6.65%
Net Pension Liability	\$ 1,257,955
Current Discount Rate	7.65%
Net Pension Liability	\$ 750,078
1% Increase	8.65%
Net Pension Liability	\$ 330,790

SACRAMENTO TRANSPORTATION AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 4 - PENSION PLAN (Continued)

Pension Plan Fiduciary Net Position

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

NOTE 5 – DEFERRED COMPENSATION PLAN

The Authority offers its regular employees a deferred compensation plan under the provisions of Internal Revenue Code (IRC) Section 457. The plan permits these employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or an unforeseeable emergency.

The Authority has established a separate independent trust which is administered outside the Authority to hold the assets and earnings of its deferred compensation plans for the exclusive benefit of the participants that are not included in the Authority's financial statements.

NOTE 6 - OPERATING LEASES

The Authority leases certain premises under an operating lease through September 30, 2017, at which time the lease expires. An option to extend the lease for two consecutive five-year options is available upon six-months' prior notice. The rental rate for each renewal period would be at the current market rate. Rental expense for the year ended June 30, 2016 was \$58,511.

Future minimum lease payments under operating leases as of June 30, 2016 are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2017	\$ 59,646
2018 *	<u>14,939</u>
Total	<u><u>\$ 74,585</u></u>

* July through September 2017

NOTE 7 – INTERFUND TRANSACTIONS

Interfund transfers are used to (1) reimburse the General Fund for services to and payments on behalf of the Special Revenue Fund in the amount of \$26,873, and (2) repay interest per the debt agreement in the amount of \$18.2 million.

SACRAMENTO TRANSPORTATION AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 8 – LONG-TERM LIABILITIES

The activity of the Authority’s long-term liabilities during the year ended June 30, 2016 are as follows:

	Balance July 1, 2015	Additions	Reductions	Balance June 30, 2016	Due Within One Year
2009 Series C Bonds	\$ 106,100,000			\$ 106,100,000	
Fair Value (Loss) of Interest Rate Swap (2009 Series Bonds)	90,819,499	\$ 120,167,420	\$ 90,819,499	120,167,420	
2012 Series Bonds	53,355,000			53,355,000	\$ 3,450,000
Unamortized Bond Premium (2012 Series Bonds)	9,123,849		755,077	8,368,772	
Series 2014A Bonds	106,100,000			106,100,000	
Series 2015A Bonds	106,100,000			106,100,000	
Total debt	471,598,348	120,167,420	91,574,576	500,191,192	3,450,000
Compensated absences	58,245	35,550	15,090	78,705	35,550
Net Pension liability	608,865	141,213		750,078	
Total Long-term liabilities	<u>\$ 472,265,458</u>	<u>\$ 120,344,183</u>	<u>\$ 91,589,666</u>	<u>\$ 501,019,975</u>	<u>\$ 3,485,550</u>

Long-term debt consists of the following at:

	<u>June 30, 2016</u>
2009 Series C Bonds - In October 2009, the Authority issued Measure A Sales Tax Revenue Bonds in the amount of \$106.1 million to finance transportation projects approved by voters in 2004. The bond's variable interest rate is fixed through an interest-rate swap, whereby, the Authority pays a fixed interest rate of 3.666% to 3.736% and in turn, receives a variable interest rate based on 67 percent of the one month London Interbank Offered Rate (LIBOR) which is reset on a weekly basis. Principal payments of \$22.3 million begin in 2029 and increase to \$35.4 million in 2038 when they mature. Semi-annual interest payments under the swap range from \$207,778 to \$3.7 million.	\$ 106,100,000

SACRAMENTO TRANSPORTATION AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 8 – LONG-TERM LIABILITIES (Continued)

2012 Series Bonds - In July 2012, the Authority issued fixed rate Measure A Sales Tax Bonds in the amount of \$53.4 million to finance certain transportation projects approved by voters in 2004. The average coupon interest rate is 2.480997%. Principal payments in the amount of \$3.5 million in 2016 and increase to \$5.7 million in 2027, when they mature. Semi-annual interest payments are due in April and October and range from \$143,000 to \$2.4 million. \$ 53,355,000

2014A Series A Bonds - In September 2014, the Authority issued Measure A Sales Tax Revenue Refunding Bonds in the amount of \$106.1 million to refund the outstanding series 2009A bonds and finance transportation projects approved by voters in 2004. Interest rate swaps were retained. In the floating-to-fixed rate swap, the Authority pays a fixed interest rate of 3.736% and in turn, receives a variable interest rate based on 67 percent of the one month LIBOR which is reset on a weekly basis. Principal payments range from \$7.4 million in 2029 to \$11.8 million in 2038, while semi-annual interest payments range from \$207,778 to \$3,7 million during the same period. \$ 106,100,000

2015A Series B Bonds - In March 2015, the Authority issued Measure A Sales Tax Revenue Refunding Bonds in the amount of \$106.1 million to refund the outstanding Measure A Sales Tax Revenue Series 2009B bonds and finance transportation projects approved by voters in 2004. Interest rate swaps were retained. In the floating-to-fixed rate swap, the Authority pays a fixed interest rate of 3.666% and in turn, receives a variable interest rate based on 67 percent of the three month LIBOR which is reset on a weekly basis. Principal payments range from \$7.4 million in 2029 to \$11.8 million in 2038, while semi-annual interest payments range from \$197,150 to \$3.5 million during the same period. \$ 106,100,000

The Authority has pledged all of the future sales tax proceeds to cover all debt service requirements. The total principal and interest remaining on the 2009C, 2012, 2014A, and the 2015A bonds is \$618.6 million. For the current year, the interest paid and total incremental sales tax revenues were \$15.9 and \$110.7 million respectively.

The 2014A and 2015A Measure A Sales Tax Revenue Refunding Bonds were issued to refund the 2009A and 2009B Measure A Sales Tax Revenue Bonds. The advance refunding resulted in no differences between the reacquisition price and the net carrying amount of the outstanding debt.

As of June 30, 2016, the future annual debt service requirements and net payments on associated hedging derivative instruments on the Authority's 2009, 2014A, and 2015A Series Bond obligations are detailed in the schedule below. These amounts assume that current interest rates

SACRAMENTO TRANSPORTATION AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 8 – LONG-TERM LIABILITIES (Continued)

on variable rate bonds will remain the same for their term. As these rates vary, interest payments on variable rate bonds and net payments on the hedging derivatives will vary. Included in the schedule are the future principal and fixed interest obligations on the 2012 Series Bonds.

Fiscal Year Ending June 30,	Principal	Estimated Bond Interest (1)	Hedging Derivatives, Net (2)	Ancillary Fees (3)	Total
2017	\$ 3,450,000	\$ 3,254,785	\$ 11,018,329	\$ 962,318	\$ 18,685,432
2018	3,590,000	3,113,985	11,018,329	962,755	18,685,069
2019	3,740,000	2,967,385	11,018,329	962,755	18,688,469
2020	3,890,000	2,814,785	11,018,329	965,248	18,688,362
2021	4,050,000	2,655,985	11,018,329	962,318	18,686,632
2022 - 2026	23,475,000	10,058,050	55,091,645	4,815,831	93,440,526
2027 - 2031	83,260,000	4,502,950	51,455,006	4,498,335	143,716,291
2032 - 2036	144,200,000	2,337,377	30,548,266	2,672,659	179,758,302
2037 - 2039	102,000,000	412,594	5,393,080	471,699	108,277,373
Total	\$ 371,655,000	\$ 32,117,896	\$ 197,579,642	\$ 17,273,918	\$ 618,626,456

(1) Estimated at assumed rates as of June 30, 2016 as follows:

Series 2009C – .1169%

Series 2012 (fixed) – 2.480997%

Series 2014A – 0.5631%.

Series 2015A – 0.1147%

(2) Based on fixed rate less variable receive rate at June 30, 2016 as follows:

Series 2009C – 3.5217%.

Series 2014A – 3.5217%.

Series 2015A – 3.3415%.

(3) Includes liquidity and remarketing fees ranging from .35% to .45%

Arbitrage - The Tax Reform Act of 1986 instituted certain arbitrage restrictions with respect to the issuance of tax exempt bonds after August 31, 1986. Arbitrage regulations deal with investments of all tax-exempt bond proceeds at an interest yield greater than the interest paid to bondholders. Generally, all interest paid to bond holders can be retroactive if applicable rebates are not reported and paid to the Internal Revenue Service at least every five years. The Authority's arbitrage liability is currently estimated to be immaterial.

Interest Rate Swaps

Objective of the interest rate swaps and terms - On October 18, 2006, the Authority entered into three forward interest rate swaps for \$106.1million each in order to hedge the interest rate risk associated with the Series 2009 Measure A Sales Tax Revenue Bonds issued on October 1, 2009, and whose initial interest rate is variable.

SACRAMENTO TRANSPORTATION AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 8 – LONG-TERM LIABILITIES (Continued)

Interest Rate Swaps (Continued)

Terms - The swap agreement requires that the Authority pay the financial institution monthly fixed-rate payments based on an annual rate; the financial institution, in turn, is required to pay the Authority a series of future variable-rate payments equal to 67% of the 1-month or 3-month LIBOR. The notional amounts and maturity dates of the swaps match the principal amounts and the maturity dates of the Series 2009 bonds. The variable-rate coupons of the hedged bonds closely match the Securities Industry and Financial Markets Association (SIFMA) and percentage of LIBOR rates paid monthly. A summary of the terms are as follows:

	Notional Amount	Effective Date	Fixed Rate Paid	Variable Rate Received	Fair Value	Swap Term Date	Counterparty Credit Rating (1)	Valuation Level
Series 2009C	\$ 106,100,000	October 18, 2006	3.736%	67% USD LIBOR	\$ (40,798,173)	October 1, 2038	A1/A/A+	Level 2
Series 2014A	\$ 106,100,000	October 18, 2006	3.736%	67% 3 month LIBOR	\$ (40,801,113)	October 1, 2038	A1/A-/A	Level 2
Series 2015A	\$ 106,100,000	October 18, 2006	3.666%	67% USD LIBOR	\$ (38,568,134) \$ (120,167,420)	October 1, 2038	Aa3/A+/AA	Level 2

(1) (Moody's Investor Services, Standard and Poor's Rating Services, and Fitch IBCA, Inc.)

Fair value - Because long-term interest rates have decreased since execution of the swaps, the swaps had a total negative fair value of \$120.2 million as of June 30, 2016, which is reported as a deferred outflow of resources. The fair values were estimated by an independent third-party based on mid-market levels as of the close of business on June 30, 2016. The fair values take into consideration the prevailing interest rate environment and the specific terms and conditions of the swaps. The fair values were estimated using the zero-coupon discounting method. This method calculates the future payments required by the swap, assuming that the current forward rates implied by the yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement payment on the swaps.

Credit risk - This is the risk that the counterparty will fail to perform under the terms of the agreement. As of June 30, 2016, the Authority was not exposed to credit risk on these swaps because the fair values were negative. However, should interest rates change and the fair values of the swaps become positive, the Authority would be exposed to credit risk in the amount of the swaps' positive fair values. In order to mitigate this risk, the Authority diversified its exposure among three counterparties. The swap agreements contain varying collateral agreements with the counterparties. The swaps require collateralization of the fair value of the swap should the credit rating fall below the applicable thresholds. The Authority's credit rating falls below certain thresholds or is withdrawn, a termination event may result, in which case the Authority could immediately owe (or be owed) the fair market value of the swap.

Basis risk -. This is the risk of a mismatch between the variable rate received from the counterparty and the variable rate paid on the variable rate debt that was issued in October 2009. The Authority is exposed to basis risk should the floating rate that it receives on a swap be less than the actual variable rate the Authority pays on the bonds. Depending on the magnitude and

SACRAMENTO TRANSPORTATION AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 8 – LONG-TERM LIABILITIES (Continued)

Interest Rate Swaps (Continued)

duration of any basis risk shortfall, the effective fixed rate on the debt will vary. Based on current and historical experience, the payments received under the agreements are expected to approximate the expected bond payments over the 29-year term of the swaps.

Termination risk and termination payments - This is the risk that the transaction is terminated in a market dictating a termination payment by the Authority. The Authority can terminate a swap at the fair market value by providing notice to the counterparty, while the counterparty may only terminate the swap upon certain termination events under the terms of the agreement. The Authority or the counterparties may terminate the swap if the other party fails to perform under the terms of the contracts, such as the failure to make swap payments. If the swap is terminated, the expected variable rate bonds would no longer be hedged.

Tax Risk - The swap exposes the Authority to tax risk if a permanent mismatch occurs between the variable-rate received from the swap and the variable-rate paid on the bonds due to tax law changes such that the federal or state tax exemption on municipal debt is eliminated or its value reduced.

NOTE 9 – FUND BALANCES

The Authority's net position and fund balance are restricted for the following purposes:

Measure A Projects – bond proceeds and sales tax revenues restricted by local ordinance for transportation-related projects.

Transportation Mitigation – represents the fund balance of the SCTMFP to assist with funding road and transit system improvements needed to accommodate projected growth and development.

Freeway Service Patrol Program – to reflect funds restricted by the Department of Transportation for urban traffic congestion mitigation.

Debt Service – represents debt service reserves required by the related debt covenants.

Abandoned Vehicle Service – represents the fund balance of SAVSA to fulfill the program objectives of the Abandoned Vehicles program.

NOTE 10 – GOVERNMENT-WIDE NET POSITION

As of June 30, 2016, the Authority had negative net position of \$325.9 million. Under a typical bond financing arrangement, the public entity issues debt and expends the funds on capital projects that are reported on the statement of net position as capital assets. The capital assets generally offset the bonded debt. However, the Authority issues bonds that pay for assets reported in other jurisdictions' financial statements, resulting in a deficit net position. Therefore, the deficit will continue, but decrease over time as the Authority makes bond principal payments.

SACRAMENTO TRANSPORTATION AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 11 – SUBSEQUENT EVENTS

The Authority’s management evaluated its financial statements for the period ending June 30, 2016 for subsequent events through December 23, 2016, the date the financial statements were available to be issued. Management is not aware of any subsequent events that would require recognition or disclosure in the financial statements.

NOTE 12 – RESTATEMENTS

The Authority identified certain revenue and expenditures that were not reported in its financial statements for the period ending June 30, 2015. Therefore, an adjustment of the financial statements for the period ending June 30, 2016 is warranted.

Revenue – In July and August each year, the Authority receives an advance on the sales tax revenue collected in May and June. Then in September each year, it receives a final payment for the difference between the total amount of the advances for the last quarter of the previous fiscal year (April through June) and the total sales tax revenue it is due. In the past, the Authority’s availability period has been 60 days, which the September payment fell outside of. However, this payment is typically 2-4 million dollars, which is material to the Authority. Therefore, Authority management changed its availability policy to 90 days to allow for the accrual of the September payment into the year it was earned.

Expenditures – The Authority receives monthly advances of Measure A sales tax revenue. Under the Measure A Ordinance, the revenue is allocated and expensed formulaically to specific jurisdictions. The revenue and related expenditures are incurred at the same time – effectively passed through to each jurisdiction. However, the Authority’s past practice was to accrue the revenue collected in July and August (see discussion in previous paragraph) in the year it was earned, but not the related expenditures. After a careful review of its past practices, Authority management determined that since expenditures are incurred at the same time revenue is earned, a better practice is to record the expenditures related to the revenue collected subsequent to year-end at the same time. Therefore, a restatement was necessary to shift the expenditures related to the July, August, and September 2015 revenue allocation into the fiscal year ending June 30, 2015.

As a result of these prior period adjustments, the net assets and fund balance reported on the statement of activities and statement of revenues and expenditures as of July 1, 2015 have been restated as follows:

	Governmental Activities	General Fund
Net assets and fund balance as of July 1, 2015, as previously reported	\$ (299,071,068)	\$ 81,582,672
Accrue additional fiscal year 2014/15 sales tax revenue	2,446,743	2,446,743
Accrue Measure A payables to jurisdictions	(15,472,341)	(15,472,341)
Total adjustments	(13,025,598)	(13,025,598)
Net assets and fund balance as of July 1, 2015, as restated	\$ (312,096,666)	\$ 68,557,074

**REQUIRED SUPPLEMENTARY
INFORMATION**

**SACRAMENTO TRANSPORTATION AUTHORITY
REQUIRED SUPPLEMENTARY INFORMATION
For the Year Ended June 30, 2016
SCHEDULE OF THE PROPORTIONATE SHARE OF THE
NET PENSION LIABILITY - MISCELLANEOUS PLAN (UNAUDITED)
Last 10 Years**

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Proportion of the net pension liability	0.02734%	0.02463%
Proportionate share of the net pension liability	\$ 750,078	\$ 608,865
Covered - employee payroll - measurement period	\$ 363,473	\$ 366,547
Proportionate share of the net pension liability as a percentage of covered payroll	206.36%	166.11%
Plan fiduciary net position as a percentage of the total pension liability	78.40%	79.82%

Notes to Schedule:

Change in Benefit Terms: The figures above do not include any liability impact that may have resulted from plan changes which occurred after June 30, 2014 as they have minimal cost impact.

Changes in assumptions: The discount rate was changed from 7.50% in 2015 to 7.65% in 2016.

Omitted years: GASB Statement No. 68 was implemented during the year ended June 30, 2015. No information was available prior to this date.

**SCHEDULE OF CONTRIBUTIONS TO THE PENSION PLAN - MISCELLANEOUS PLAN (UNAUDITED)
Last 10 Years**

	<u>June 30, 2016</u>	<u>June 30, 2015</u>	<u>June 30, 2014</u>
Contractually required contribution (actuarially determined)	\$ 76,574	\$ 69,181	\$ 63,722
Contributions in relation to the actuarially determined contributions	<u>(76,574)</u>	<u>(69,181)</u>	<u>(63,722)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered - employee payroll - fiscal year	\$ 351,909	\$ 363,473	\$ 366,547
Contributions as a percentage of covered - employee payroll	21.76%	19.03%	17.38%
Valuation date:	June 30, 2013	June 30, 2012	June 30, 2011

Methods and assumptions used to determine contribution rates:

Actuarial method	Entry age normal
Amortization method	Level percentage of payroll, closed
Remaining amortization period	15 years
Asset valuation method	5-year smoothed market
Inflation	2.75%
Salary increases	3.0%, average, including inflation of 2.75%
Investment rate of return	7.50% net of pension plan investment expense, including inflation

Omitted years: GASB Statement No. 68 was implemented during the year ended June 30, 2015; therefore, only three years are presented.

SUPPLEMENTAL INFORMATION

SACRAMENTO TRANSPORTATION AUTHORITY
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	July 1, 2015		June 30, 2016	
	Balance	Additions	Deletions	Balance
CITY OF SACRAMENTO				
Assets:				
Cash and Investments	\$ 18,894,976	\$ 65,929	\$ 1,992,634	\$ 16,968,271
Interest receivable	14,223	23,597	14,223	23,597
Total Assets	\$ 18,909,199	\$ 89,526	\$ 2,006,857	\$ 16,991,868
Liabilities:				
Accounts payable	\$ 408,983	\$ 1,307,852	\$ 408,983	\$ 1,307,852
Deposits	18,500,216	75,303	2,891,503	15,684,016
Total Liabilities	\$ 18,909,199	\$ 1,383,155	\$ 3,300,486	\$ 16,991,868
CITY OF ISLETON				
Assets:				
Cash and Investments	\$ 433,520	\$ 2,605	\$ 401	\$ 435,724
Accounts receivable	1,040	2,277	1,040	2,277
Total Assets	\$ 434,560	\$ 4,882	\$ 1,441	\$ 438,001
Liabilities:				
Deposits	\$ 434,560	\$ 3,842	\$ 401	\$ 438,001
Total Liabilities	\$ 434,560	\$ 3,842	\$ 401	\$ 438,001
CITY OF CITRUS HEIGHTS				
Assets:				
Cash and Investments	\$ 199,802	\$ 705	\$ 162,506	\$ 38,001
Interest receivable	648	591	648	591
Total Assets	\$ 200,450	\$ 1,296	\$ 163,154	\$ 38,592
Liabilities:				
Accounts payable	\$ 38,786	\$ 35,271	\$ 38,786	\$ 35,271
Deposits	161,666	1,066	159,411	3,321
Total Liabilities	\$ 200,452	\$ 36,337	\$ 198,197	\$ 38,592

Continued

SACRAMENTO TRANSPORTATION AUTHORITY
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES (Continued)
ALL AGENCY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	July 1, 2015		June 30, 2016	
	Balance	Additions	Deletions	Balance
CITY OF RANCHO CORDOVA				
Assets:				
Cash and Investments	\$ 88,377	\$ 433	\$ 44,072	\$ 44,738
Interest receivable	366	307	366	307
Total Assets	\$ 88,743	\$ 740	\$ 44,438	\$ 45,045
Liabilities:				
Accounts payable	\$ 26,674	\$ 9,926	\$ 26,674	\$ 9,926
Deposits	62,068	375	27,324	35,119
Total Liabilities	\$ 88,742	\$ 10,301	\$ 53,998	\$ 45,045
NEIGHBORHOOD SHUTTLE				
Assets:				
Cash and Investments	\$ 6,034,165	\$ 1,036,528	\$ 7,842	\$ 7,062,851
Interest receivable	13,252	34,199	13,252	34,199
Total Assets	\$ 6,047,417	\$ 1,070,727	\$ 21,094	\$ 7,097,050
Liabilities:				
Deposits	\$ 6,047,417	\$ 1,057,475	\$ 7,842	\$ 7,097,050
Total Liabilities	\$ 6,047,417	\$ 1,057,475	\$ 7,842	\$ 7,097,050
CTSA SET ASIDE				
Assets:				
Cash and Investments	\$ 5,513,642	\$ 1,103,457	\$ 6,524	\$ 6,610,575
Interest receivable	11,956	31,593	11,956	31,593
Total Assets	\$ 5,525,598	\$ 1,135,050	\$ 18,480	\$ 6,642,168
Liabilities:				
Deposits	\$ 5,525,598	\$ 1,123,094	\$ 6,524	\$ 6,642,168
Total Liabilities	\$ 5,525,598	\$ 1,123,094	\$ 6,524	\$ 6,642,168

Continued

SACRAMENTO TRANSPORTATION AUTHORITY
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES (Continued)
ALL AGENCY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	July 1, 2015		June 30, 2016	
	Balance	Additions	Deletions	Balance
JPA CONNECTOR (Pay Go)				
Assets:				
Cash and Investments	\$ 17,052	\$ 175,282	\$ 179,672	\$ 12,662
Interest receivable	263	525	263	525
Total Assets	\$ 17,315	\$ 175,807	\$ 179,935	\$ 13,187
Liabilities:				
Accounts payable	\$ 11,153	\$ 12,643	\$ 11,153	\$ 12,643
Deposits	6,162	175,525	181,143	544
Total Liabilities	\$ 17,315	\$ 188,168	\$ 192,296	\$ 13,187
TOTAL AGENCY FUNDS				
Assets:				
Cash and Investments	\$ 31,181,534	\$ 2,384,939	\$ 2,393,651	\$ 31,172,822
Interest receivable	41,748	93,089	41,748	93,089
Total Assets	\$ 31,223,282	\$ 2,478,028	\$ 2,435,399	\$ 31,265,911
Liabilities:				
Accounts payable	\$ 485,596	\$ 1,365,692	\$ 485,596	\$ 1,365,692
Deposits	30,737,687	2,436,680	3,274,148	29,900,219
Total Liabilities	\$ 31,223,283	\$ 3,802,372	\$ 3,759,744	\$ 31,265,911

STATISTICAL SECTION

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STATISTICAL SECTION

This part of the Sacramento Transportation Authority's comprehensive annual financial report presents detailed information as context for understanding the information in the financial statements, note disclosures, and required supplementary information of the government's overall financial health.

Financial Trends – These schedules contain trend information to help the reader understand how the Authority's financial performance changed over time.

Revenue Capacity – These schedules contain information to help the reader assess the Authority's most significant local revenue source - sales tax.

Demographic and Economic Information – These schedules offer demographic and economic indicators to help the reader understand the environment within which the Authority's financial activities take place and to help make comparisons over time and with other governments.

Operating Information – These schedules contain information about the Authority's operation and resources to help the reader understand how the Authority's financial information relates to the services the Authority provides and the activities it performs.

Sources – Unless otherwise noted; the information in these schedules is derived from the comprehensive annual financial reports for the relevant year. The Authority implemented GASB Statement 34 in 2003; schedules presenting government-wide information include information beginning in that year.

SACRAMENTO TRANSPORTATION AUTHORITY
Net Position by Component
Last Ten Fiscal Years
(accrual basis of accounting)

	Fiscal Year			
	2007	2008	2009	2010
Governmental activities:				
Restricted: Sacramento Countywide Transportation Mitigation Fee Program	\$ -	\$ -	\$ -	\$ 3,073,658
Restricted: Sacramento Abandoned Vehicle Service Authority	-	-	-	-
Restricted: Freeway Service Patrol	-	-	-	-
Restricted: Debt Service	-	-	-	-
Unrestricted	(16,051,271)	(101,589,627)	(143,010,032)	(197,736,342)
Total governmental activities net position	<u>\$(16,051,272)</u>	<u>\$(101,589,627)</u>	<u>\$(143,010,032)</u>	<u>\$(194,662,684)</u>

Source: Audited Financial Statements

Continued

Fiscal Year

2011	2012	2013	2014	2015	2016
\$ 5,447,348	\$ 1,204,207	\$ 4,390,110	\$ 5,254,385	\$ 9,885,863	\$ 13,296,991
-	-	-	107,455	121,827	154,549
-	-	-	-	-	164,338
-	-	-	-	-	6,362,460
(246,561,887)	(269,290,732)	(283,641,409)	(294,193,790)	(309,078,758)	(345,923,547)
<u>\$ (241,114,539)</u>	<u>\$ (268,086,525)</u>	<u>\$ (279,251,299)</u>	<u>\$ (288,831,950)</u>	<u>\$ (299,071,068)</u>	<u>\$ (325,945,209)</u>

SACRAMENTO TRANSPORTATION AUTHORITY
Changes in Net Position
Last Ten Fiscal Years
(accrual basis of accounting)

	Fiscal Year			
	2007	2008	2009	2010
Expenses				
Governmental Activities:				
Measure A	\$155,849,100	\$183,888,775	\$124,301,815	\$126,262,982
Sacramento Countywide Transportation Mitigation Fee Program				
Freeway Service Patrol Program	1,643,363	1,824,305	1,770,438	1,836,329
Sacramento Abandoned Vehicle Service Authority	1,199,866	1,135,591	1,092,942	1,057,667
Administration *				
Interest on long-term debt	2,491,557	6,691,245	7,581,219	10,555,136
Total governmental activities expenses	161,183,886	193,539,916	134,746,413	139,712,114
Program Revenues				
Operating grants and contributions	2,856,376	3,065,942	2,964,590	6,008,096
Net (expense) revenue	(158,327,510)	(190,473,974)	(131,781,824)	(133,704,018)
General Revenues and Other				
Changes in Net Position				
Sales taxes	105,366,507	101,155,680	89,395,168	81,413,982
Investment earnings	3,540,796	3,779,938	966,250	637,384
Total general revenues	108,907,303	104,935,618	90,361,418	82,051,366
Change in Net Position	\$ (49,420,206)	\$ (85,538,356)	\$ (41,420,406)	\$ (51,652,652)

Source: Audited Financial Statements

Continued

* Amounts for administration expenses prior to 2015 are included in Measure A

Fiscal Year

2011	2012	2013	2014	2015	2016
\$120,337,679	\$107,891,757	\$ 94,224,572	\$ 94,743,971	\$103,968,271	\$112,316,542
			2,680,549	6,676	1,004,034
1,880,031	1,729,539	1,765,562	2,164,149	2,090,267	2,001,317
1,376,979	1,079,593	1,089,746	1,125,637	1,172,574	1,216,517
				713,350	1,387,221
16,245,290	15,119,256	16,257,749	16,196,388	15,538,373	15,215,203
<u>139,839,979</u>	<u>125,820,145</u>	<u>113,337,629</u>	<u>116,910,694</u>	<u>123,489,511</u>	<u>133,140,834</u>
5,327,190	5,966,229	6,221,395	6,835,898	7,895,612	7,628,294
(134,512,788)	(119,853,916)	(107,116,234)	(110,074,796)	(115,593,899)	(125,512,540)
87,299,421	92,239,996	97,390,177	100,063,237	105,564,247	110,707,633
761,514	641,940	662,384	430,908	556,829	956,364
<u>88,060,935</u>	<u>92,881,936</u>	<u>98,052,561</u>	<u>100,494,145</u>	<u>106,121,076</u>	<u>111,663,997</u>
<u>\$ (46,451,853)</u>	<u>\$ (26,971,980)</u>	<u>\$ (9,063,673)</u>	<u>\$ (9,580,651)</u>	<u>\$ (9,472,823)</u>	<u>\$ (13,848,543)</u>

SACRAMENTO TRANSPORTATION AUTHORITY
Fund Balances of Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)

	Fiscal Year			
	2007	2008	2009	2010
General Fund				
Nonspendable				
Restricted	\$ 75,060,592	\$ 71,904,809	\$ 39,077,280	\$ 119,756,036
Unassigned				
Total general fund	<u>75,060,592</u>	<u>71,904,809</u>	<u>39,077,280</u>	<u>119,756,036</u>
All Other Governmental Funds				
Restricted	11,058,768	12,820,431	4,734,070	4,501,393
Total all other governmental funds	<u>11,058,768</u>	<u>12,820,431</u>	<u>4,734,070</u>	<u>4,501,393</u>
Total Governmental Funds	\$ 86,119,360	\$ 84,725,240	\$ 43,811,350	\$ 124,257,429

Source: Audited Financial Statements

Continued

Fiscal Year

2011	2012	2013	2014	2015	2016
\$ 10,027	\$ 10,027	\$ 10,027	\$ 10,027	\$ 10,027	\$ 10,027
73,188,759	46,521,997	101,338,670	91,591,253	81,243,264	51,973,251
589,073	600,000	740,000	427,430	329,381	(195,546)
<u>73,787,859</u>	<u>47,132,024</u>	<u>102,088,697</u>	<u>92,028,710</u>	<u>81,582,672</u>	<u>51,787,732</u>
4,137,869	3,860,118	4,439,725	4,232,983	4,352,188	6,517,009
<u>4,137,869</u>	<u>3,860,118</u>	<u>4,439,725</u>	<u>4,232,983</u>	<u>4,352,188</u>	<u>6,517,009</u>
\$ 77,925,728	\$ 50,992,142	\$ 106,528,422	\$ 96,261,693	\$ 85,934,860	\$ 58,304,741

SACRAMENTO TRANSPORTATION AUTHORITY
Changes in Fund Balances of Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)

	Fiscal Year			
	2007	2008	2009	2010
Revenues				
Taxes	\$105,366,507	\$101,155,680	\$89,395,168	\$81,413,982
Development Impact Fees (Mitigation)	-	-	-	3,073,658
Vehicle registration fees	1,144,870	1,140,257	1,132,447	1,106,169
State grants	951,204	1,129,892	1,035,852	988,962
SAFE Funds	640,000	672,525	672,525	706,000
Use of money and property	3,540,796	3,779,937	966,250	637,426
Miscellaneous	120,302	123,268	123,766	133,264
Total Revenues	111,763,679	108,001,558	93,326,008	88,059,461
Expenditures				
General government:				
Administrative	493,837	554,092	643,936	599,424
Freeway Service Patrol	1,643,363	1,824,305	1,770,438	1,836,329
Intergovernmental	156,319,967	183,896,918	123,979,282	126,524,494
Debt Service:				
Interest and other charges	2,619,565	6,401,511	7,846,244	14,633,134
Total expenditures	161,076,732	192,676,827	134,239,899	143,593,381
Excess of Expenditures over Revenue	(49,313,053)	(84,675,269)	(40,913,891)	(55,533,921)
Other Financing Sources (Uses)				
Transfers in	11,970,833	7,147,055	589,465	12,031,436
Transfers out	(11,970,833)	(7,147,055)	(589,465)	(12,031,436)
Refunding of Bonds	-	-	-	(182,320,000)
Premium from issuance of long term debt	-	-	-	-
Issuance of Bonds	101,673,487	83,618,050		318,300,000
Total other financing sources (uses)	101,673,487	83,618,050	-	135,980,000
Net change in fund balances	\$ 52,360,434	\$ (1,057,219)	\$(40,913,892)	\$ 80,446,079
Debt Service as a Percentage of Noncapital Expenditures	1.63%	3.32%	5.84%	10.19%

Source: Audited Financial Statements

Continued

Fiscal Year					
2011	2012	2013	2014	2015	2016
\$87,299,421	\$92,239,996	\$97,390,177	\$100,063,237	\$105,564,247	\$110,707,633
2,334,437	2,957,362	3,176,382	3,540,542	4,624,139	4,363,650
1,070,911	1,166,769	1,130,254	1,172,833	1,220,900	1,272,697
1,122,358	1,109,848	1,167,759	1,375,523	1,303,573	1,234,947
706,000	732,250	747,000	747,000	747,000	757,000
761,414	641,940	660,928	430,196	555,414	941,859
93,583	-	1,452	712	1,415	14,505
93,388,125	98,848,165	104,273,952	107,330,043	114,016,688	119,292,291
542,380	658,391	745,552	1,008,517	805,331	1,334,542
1,880,031	1,729,539	1,765,562	2,164,149	2,090,267	2,001,317
121,087,058	108,225,941	94,103,672	97,543,286	104,405,460	114,537,093
16,210,359	15,167,878	16,804,043	16,880,820	17,042,463	16,023,860
139,719,828	125,781,749	113,418,829	117,596,772	124,343,521	133,896,812
(46,331,703)	(26,933,584)	(9,144,877)	(10,266,729)	(10,326,833)	(14,604,521)
16,215,856	14,869,554	16,950,657	16,694,009	16,439,131	18,182,376
(16,215,856)	(14,869,554)	(16,950,657)	(16,694,009)	(16,439,131)	(18,182,376)
-	-	-	-	(212,200,000)	-
-	-	11,326,155	-	-	-
-	-	53,355,000	-	212,200,000	-
-	-	64,681,155	-	-	-
\$(46,331,703)	\$(26,933,584)	\$ 55,536,278	\$(10,266,729)	\$(10,326,833)	\$(14,604,521)
11.60%	12.06%	14.82%	14.35%	13.71%	11.97%

SACRAMENTO TRANSPORTATION AUTHORITY
Revenue Capacity - Revenue Base and Revenue Rate
Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>Sales Tax Rate</u>	<u>Total Sales Tax Revenue</u>	<u>Total Taxable Sales*</u>
2016	0.5%	\$ 110,708	\$ 22,141,600
2015	0.5%	105,564	21,112,800
2014	0.5%	100,063	21,061,901
2013	0.5%	97,390	20,097,095
2012	0.5%	92,240	19,089,848
2011	0.5%	87,299	18,003,765
2010	0.5%	81,414	16,904,528
2009	0.5%	89,395	16,563,853
2008	0.5%	101,155	19,331,847
2007	0.5%	105,367	20,560,510

Source: Board of Equalization

* Fiscal Year 2015 and 2016 are estimated - actuals not available

SACRAMENTO TRANSPORTATION AUTHORITY
Revenue Capacity - Principal Revenue Payers
Calendar Years 2014 and 2006

	2014*			2006		
	Rank	Amount	Percentage of Taxable Sales	Rank	Amount	Percentage of Taxable Sales
All Other Outlets	1	\$ 6,412,208	30.4%	1	\$ 5,438,465	25.7%
Automotive	2	2,797,532	13.3%	2	2,636,783	12.5%
General Merchandise Stores	3	2,157,986	10.3%	4	2,454,816	11.6%
All Other Retail Stores	4	2,131,227	10.1%	3	2,852,716	13.5%
Eating and Drinking Places	5	2,071,554	9.8%	6	1,687,711	8.0%
Service Stations	6	1,857,065	8.8%	7	1,442,926	6.8%
Building Materials	7	1,168,008	5.6%	5	1,511,444	7.1%
Food Stores	8	959,756	4.6%	9	920,753	4.4%
Apparel Stores	9	921,913	4.4%	11	652,320	3.1%
Household & Home Furnishings	10	340,187	1.5%	10	653,574	3.1%
Nonstore Retailers	11	244,464	1.2%	8	888,878	4.2%
Total All Outlets		\$ 21,061,900	100.0%		\$ 21,140,386	100.0%

Source: Board of Equalization

*Latest information available

SACRAMENTO TRANSPORTATION AUTHORITY
Private Sector Principal Employers
Calendar Years 2015 and 2006

Employer	2015*			2006		
	Rank	Employees	Percentage of Total County Employment	Rank	Employees	Percentage of Total County Employment
UC Davis Health System	1	9,905	1.57%			
Sutter/California Health Services	2	7,352	1.16%	2	11,284	1.79%
Dignity/Mercy Healthcare	3	6,212	0.98%			
Intel Corporation	4	6,000	0.95%	5	6,500	1.03%
Kaiser Permanente	5	5,421	0.86%	1	11,729	1.86%
Raley's Inc/Belair	6	3,289	0.52%	3	8,203	1.30%
Apple Inc.	7	2,500	0.40%			
VSP Global	8	2,382	0.38%			
Health Net of California Inc.	9	2,299	0.36%			
Wells Fargo & Co.	10	2,190	0.35%			
University of California, Davis				4	8,000	1.27%
Hewlett Packard				8	4,500	0.71%
Wal-Mart				10	3,300	0.52%
Target Corporations				9	3,693	0.58%
SBC Communications				6	5,753	0.91%
CHW / Mercy Health Care				7	5,229	0.83%
Total		<u>47,550</u>	<u>7.53%</u>		<u>68,191</u>	<u>10.80%</u>

Source: Sacramento County June 30, 2015 Comprehensive Annual Financial Report

*Latest information available

SACRAMENTO TRANSPORTATION AUTHORITY
Demographic and Economic Statistics
Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>Population</u>	<u>Personal Income</u> (in thousands)	<u>Per Capita Personal Income</u>	<u>Unemployment Rate</u>
2016	1,501,335	\$ 69,870,482	\$ 46,539	6.0%
2015	1,481,474	65,391,250	44,139	7.3%
2014	1,462,338	61,654,690	42,162	8.9%
2013	1,448,466	59,775,785	41,268	10.5%
2012	1,435,548	57,498,308	40,053	12.1%
2011	1,422,010	54,666,004	38,443	12.6%
2010	1,408,601	53,826,177	38,213	11.0%
2009	1,394,438	54,773,648	39,280	7.2%
2008	1,381,161	52,721,398	38,172	5.4%
2007	1,369,563	50,965,290	37,213	4.8%

Sources: California State Employment Development Department

SACRAMENTO TRANSPORTATION AUTHORITY
Operating Information - Employees
Last Ten Fiscal Years

Activity	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Measure A/SAVSA	2.65	2.6	2.6	2.45	2.45	2.45	2.45	2.45	2.45	2.45
Freeway Service Patrol	1.15	1.2	1.2	1.35	1.35	1.35	1.35	1.35	1.35	1.35

Source - Adopted Budgets

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SACRAMENTO TRANSPORTATION AUTHORITY
Operating Information - Demand for Services
Measure A - By Jurisdiction
Last Ten Fiscal Years

Jurisdiction	Fiscal Year			
	2016	2015	2014	2013
SMAQMD	\$ 1,604,995	\$ 1,541,388	\$ 1,474,887	\$ 1,407,308
RT South Line	-	-	-	-
City of Folsom	2,105,522	2,018,853	1,978,191	1,905,848
City of Rancho Cordova	2,013,909	1,922,210	1,803,645	1,711,239
City of Galt	1,091,347	1,048,496	1,003,696	958,170
City of Isleton	43,654	41,940	40,150	38,327
Paratransit	3,744,989	3,596,572	3,441,403	3,283,718
Regional Transit	36,914,890	35,451,925	33,922,401	32,368,073
City of Citrus Heights	2,152,319	2,071,744	1,985,463	1,891,987
City of Elk Grove	4,318,918	4,135,491	3,927,291	3,706,060
City of Sacramento	12,539,139	12,037,403	11,534,598	11,011,678
County of Sacramento	16,530,072	15,862,799	15,134,616	14,424,979
Sacramento Regional Parks*	1,000,000	1,000,000	1,000,000	1,000,000
Neighborhood Shuttle Set Aside*	1,000,000	1,000,000	1,000,000	1,000,000
CTSA Set Aside*	1,069,997	1,027,592	983,258	938,205
Debt Service*	22,202,434	21,322,534	20,402,604	19,467,754
Administration*	802,498	770,694	737,444	703,654
Total allocations	109,134,683	104,849,641	100,369,647	95,817,000

* Note: Set Asides / Sacramento Regional Parks began in FY 09/10
Source: Cash Basis Financial Data

Continued

Fiscal Year					
2012	2011	2010	2009	2008	2007
\$ 1,342,830	\$ 1,258,355	\$ 1,203,395	\$ 1,210,653	\$ 1,520,895	\$ 1,786,043
-	-	-	-	-	5,399,139
1,816,009	1,667,429	1,627,374	3,962,307	4,954,655	370,298
1,627,805	1,401,876	1,321,950	2,081,152	2,533,060	2,948,026
914,734	857,824	820,800	1,312,785	1,639,684	1,946,664
36,592	34,313	32,835	45,589	58,005	69,539
3,133,270	2,936,161	2,807,922	1,467,435	1,844,116	2,169,072
30,885,085	28,942,154	27,678,086	25,680,118	32,272,033	37,888,003
1,802,800	1,726,097	1,655,413	3,066,507	3,905,241	4,680,394
3,523,059	3,103,271	2,927,716	4,803,891	5,882,560	6,500,846
10,506,441	10,004,574	9,498,469	16,469,321	20,564,463	24,214,996
13,742,240	12,975,067	12,455,087	19,803,338	25,204,338	29,981,516
1,000,000	1,000,000	1,000,000	-	-	-
1,000,000	1,000,000	1,000,000	-	-	-
895,220	838,903	802,264	-	-	-
18,575,812	17,407,237	16,646,965	-	-	-
671,415	629,177	601,698	-	-	-
91,473,312	85,782,438	82,079,974	79,903,096	100,379,049	117,954,536

SACRAMENTO TRANSPORTATION AUTHORITY
Ratios of Outstanding Debt
Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>Sales Tax Revenue Bonds</u>	<u>Percentage of Personal Income</u>	<u>Per Capita</u>
2016	\$ 380,023,772	N/A	N/A
2015	380,778,849	0.6%	\$ 257
2014	381,533,926	0.6%	260
2013	382,289,003	0.6%	264
2012	318,300,000	0.5%	222
2011	318,300,000	0.6%	224
2010	318,300,000	0.6%	226
2009	182,320,000	0.3%	131
2008	182,320,000	0.3%	132
2007	100,090,000	0.2%	73

Source: Bureau of Economic Analysis

SACRAMENTO TRANSPORTATION AUTHORITY
Operating Information - Abandoned Vehicle Abatements
Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>Abatements</u>
2016	8,586
2015	5,037
2014	5,247
2013	6,222
2012	6,239
2011	7,334
2010	8,718
2009	11,575
2008	13,736
2007	14,690

Source: Authority records

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OTHER

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*

To the Board of Directors
Sacramento Transportation Authority
Sacramento, California

We have audited, 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, the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Sacramento Transportation Authority (the Authority), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Association's basic financial statements, and have issued our report thereon dated December 23, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the auditing 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 Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

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. 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.

To the Board of Directors
Sacramento Transportation Authority

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of 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. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Richardson & Company, LLP

December 23, 2016



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INDEPENDENT ACCOUNTANTS' REPORT ON AGREED-UPON PROCEDURES
APPLIED TO APPROPRIATIONS LIMIT TESTING

Board of Directors
Sacramento Transportation Authority
Sacramento, California

We have applied the procedures enumerated below to the accompanying calculation of the Appropriation Limit of the Sacramento Transportation Authority for the year ended June 30, 2016. These procedures, which were agreed to by the Sacramento Transportation Authority and the League of California Cities (as presented in the League publication entitled *Article XIII B Appropriations Limitation Uniform Guidelines*) were performed solely to assist the Sacramento Transportation Authority in meeting the requirements of Section 1.5 of Article XIII B of the California Constitution.

This engagement to apply agreed-upon procedures was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the specified users of the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures performed and our findings were as follows:

1. We obtained the Sacramento Transportation Authority's calculation of the 2015/2016 appropriations limit and compared the limit and annual adjustment factors included in the calculation to the limit and annual adjustment factors that were adopted by resolution of the Board of Directors.

Finding: No exceptions were noted as a result of our procedures.

2. We compared the methodology used to determine the cost of living adjustment component to Article XIII B which states that the Sacramento Transportation Authority may annually adjust the component for either the change in California per capita personal income or, the percentage change in the Sacramento Transportation Authority's assessed valuation which is attributable to non-residential new construction. We recalculated the factor based on the above information.

Finding: No exceptions were noted as a result of our procedures.

3. We compared the methodology used to determine the population adjustment component to Article XIII B which states that the Sacramento Transportation Authority may annually choose to adjust the component for either the change in population in the County in which the Sacramento Transportation Authority is located, or the change in population within the unincorporated area of the County in which the Sacramento Transportation Authority is located. We recalculated the factor based on the above information.

Finding: No exceptions were noted as a result of our procedures.

4. We compared the prior year appropriations limit presented in the accompanying Appropriations Limit Calculation to the prior year appropriations limit adopted by the Board of Directors for the prior year.

Finding: No exceptions were noted as a result of our procedures.

5. We recalculated the 2015/2016 Appropriation Limit by multiplying the product of the two above factors by the 2014/2015 appropriation limit.

Finding: No exceptions were noted as a result of our procedures.

6. We compared the Sacramento Transportation Authority's actual expenditures to the computed appropriation limit for fiscal year 2015/2016.

Finding: For the 2015/2016 fiscal year the Sacramento Transportation Authority's actual expenditures and actual revenues did not exceed the appropriation limit calculated by us.

We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on the accompanying Appropriations Limit calculation. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you. No procedures have been performed with respect to the determination of the appropriation limit for the base year, as defined by the League publication entitled *Article XIII B Appropriations Limitation Uniform Guidelines*.

This report is intended solely for the use of the Sacramento Transportation Authority and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes. However, this report is a matter of public record and its distribution is not limited.

Richardson & Company, LLP

December 23, 2016

APPENDIX A

**SACRAMENTO TRANSPORTATION AUTHORITY
APPROPRIATION LIMIT CALCULATION**

Year Ended June 30, 2016

APPROPRIATION LIMIT

ADOPTED BY CITY:

Recorded in Final 2015/2016 Budget \$ 231,328,068

APPROPRIATION LIMIT

COMPUTATION PER REVIEW:

2014/2015 Appropriation Limit \$ 220,807,134

Cost of Living Factor:

Change in California per capita income 1.03820

Population Adjustment Factor:

Population change in Sacramento County 1.00910

Auditor computed limitation 231,328,068

Variance \$ 0



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GOVERNANCE LETTER

To the Board of Directors
Sacramento Transportation Authority
Sacramento, California

We have audited the financial statements of the Sacramento Transportation Authority for the year ended June 30, 2016, and have issued our report thereon dated December 23, 2016. Professional standards require that we provide you with the information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards (GAAS) and Government Auditing Standards

As stated in our engagement letter dated March 7, 2016, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of the Authority. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will also perform tests of the Authority's compliance with certain provisions of laws, regulations, contracts, and grants. However, providing an opinion on compliance with those provisions is not an objective of our audit.

Planned Scope and Timing of the Audit

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit involves judgment about the number of transactions to be examined and the areas to be tested.

Our audit included obtaining an understanding of the entity and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. Material misstatements may result from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the entity or to acts by management or employees acting on behalf of the entity. We noted no material weaknesses in internal control as a result of our audit. However, material weaknesses may exist that have not been identified.

We performed the audit according to the planned scope previously communicated to you in our engagement letter dated March 7, 2016.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Authority are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year, except for the timing of Measure A revenue and expenditure recognition, as discussed in Note 12 of the audited financial statements. This change in policy resulted in a restatement of net position and General Fund balance by \$13,025,598. We noted no transaction entered into by the Authority during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements is the accrual of the unfunded pension liability. We evaluated the key factors and assumptions used to develop the estimate in determining that it is reasonable in relation to the financial statements taken as a whole. The accrual for the unfunded pension liability was determined by an actuarial valuation performed by CalPERS.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were the following:

- Information on the Authority's pension plans, including the Authority's share of the unfunded pension liability, is shown in Note 4. The Authority's share of the unfunded pension liability at June 30, 2015, the most recent measurement date, was \$750,078, which is reflected as a liability in the Authority's financial statements as of June 30, 2016.
- The Authority has interest rate swaps that were entered into when the Series 2009 bonds were issued with a variable interest rate, to hedge the interest rate risk. Because of the decrease in interest rates since these bonds and related swaps were issued, the swaps have a negative fair value, which is described in Note 8 of the financial statements.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. We proposed six adjustments to the Authority's financial statements consisting of the following:

- To rollforward the general fund and SAVSA fund balances from prior year
- Correct sales tax accrual
- Record year-end vehicle license fee receivable

- Record market value adjustment on cash balances
- Adjust accounts payable general ledger balance to agree to the detail provided
- True-up restricted fund balance accounts
- True up interfund transfers

Disagreements With Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter December 23, 2016.

Management Consultations With Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Authority's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Authority's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to Management's Discussion and Analysis and Schedule of Proportionate Share of the Net Pension Liability, which is required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the Combining Statement of Charges in Assets and Liabilities –Agency Funds, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

We were not engaged to report on introductory and statistical sections, which accompany the financial statements but are not RSI. We did not audit or perform other procedures on this other information and we do not express an opinion or provide any assurance on it.

Restriction of Use

This information is intended solely for the use of the Board of Directors and management of the Authority and is not intended to be and should not be used by anyone other than these specified parties.

Richardson & Company, LLP

December 23, 2016



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MANAGEMENT LETTER

To the Board of Directors
Sacramento Transportation Authority
Sacramento, California

In planning and performing our audit of the financial statements of the Sacramento Transit Authority (the Authority) as of and for the year ended June 30, 2016, in accordance with auditing standards generally accepted in the United States of America, we considered the Authority's internal control over financial reporting (internal control) as a basis for designing 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 Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

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 Authority's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph 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 or significant deficiencies may exist that have not been identified.

However, during our audit, we became aware of the following matters that have been included in this letter for your consideration:

Financial Review

Because of the small staff size, it is difficult for the Authority to ensure complete segregation of duties. To mitigate this risk, it is important that management provide a certain level of review and oversight. Accordingly, we recommend that budget to actual comparisons be reviewed by the Executive Director on a quarterly basis and also be included in the Board/ITOC packets for review quarterly.

* * * *

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

Richardson & Company, LLP

December 23, 2016

September 30, 2016 Budget to Actual Review - STA					
	Approved 2016/17 Budget	Actual as of September 30, 2016	Difference	Actual as a percentage of budget	Analysis
2009 Bonds	7,980,000	8,017,066	(37,066)	100%	Good.
2012 Bonds	4,300,000	4,270,529	29,471	99%	Good.
2014A and 2015A Bonds	5,130,000	-	5,130,000	0%	The remaining bond money was used to fund capital projects during the first quarter of 2016/17.
Mitigation Fees	17,422,324	13,296,991	4,125,333	76%	This is the amount from the audited June 30, 2016 statements. The budgeted amount does not make any sense. The audited June 30, 2015 balance was \$9.8 million and we generally receive about \$4.5 million in proceeds per year.
Operating Fund Balance	23,613,044	21,650,924	1,962,120	92%	Therefore, the June 30, 2016 audited amount in this context makes more sense.
Total Beginning fund Balance	58,445,268	47,235,509	11,209,759	81%	See above.
Revenue					
Sales Tax	114,061,318	28,777,524	85,283,794	25%	Good.
Mitigation Fees	5,000,000	1,645,497	3,354,503	33%	Good.
Interest	600,000	325,675	274,325	54%	Good.
Total Revenue	119,661,318	30,748,697	88,912,621	26%	See above.
Transfer from SAVSA	75,000	-	75,000	0%	Internal transfer not completed as of September 30, 2016.
Total Fund Balance and Revenue	178,181,686	77,984,206	100,197,480	44%	See above.
Expenditures					
Salaries and Benefits	546,000	177,946	368,054	33%	Not all internal transfers from FSP and SAVSA recorded - should see them in
General Office	6,000	1,675	4,325	28%	Good.
Rent	59,650	10,537	49,113	18%	Timing of rent payment caused it to be lower than expected.
Utilities	3,500	920	2,580	26%	Good.
Training, Conference, and Travel	15,000	582	14,418	4%	Will see more activity in subsequent quarters.
Insurance	32,000	30,056	1,944	94%	Good.
Professional Services	200,000	62,561	137,439	31%	Good.
ITOC	65,000	-	65,000	0%	ITOC funds our annual audit. That expense will show up in quarter 3.
Other Operating	3,310	11,672	(8,362)	353%	All of this is credit card charges that don't fit well in other categories. Charges are for staff parking, software purchases and support, and self-help counties annual fee.
Total Administration	930,460	295,947	634,513	32%	See above.
Contributions to Measure A Entities					
Idleton	45,625	11,538	34,087	25%	Good.
Galt	1,140,613	288,447	852,166	25%	Good.
Neighborhood Shuttle	1,000,000	250,000	750,000	25%	Good.
SMAQMD	1,678,126	424,421	1,253,705	25%	Good.
Paratransit	3,915,628	990,316	2,925,312	25%	Good.
CTSA set aside	1,118,751	282,947	835,804	25%	Good.
Sac County Regional Parks	1,000,000	250,000	750,000	25%	Good.
Regional Transit	38,596,903	9,761,682	28,835,221	25%	Good.
Traffic Control and Safety	3,356,252	848,842	2,507,410	25%	Good.
Safety Streetscaping, Pedestrian, and Bike Facility	4,593,754	1,164,737	3,429,017	25%	Good.
Street and Road Maintenance	33,562,524	8,488,421	25,074,103	25%	Good.
Capital Projects	29,713,000	6,624,146	23,088,854	22%	Good.
Total Measure A Entities	119,721,176	29,365,497	90,355,679	25%	Good.
Total Expenditures	120,651,636	29,681,444	90,970,192	25%	Good.
Community Outreach and Research (Measure B)	150,000	-	150,000	0%	None this year.
Transfer to Debt Service	16,400,000	5,202,955	11,197,045	32%	This may trend higher than expected because the budgeted amount did not include accumulating additional cash for principal payments beginning in October 2016.
Total Other Uses	16,550,000	5,202,955	11,347,045	31%	See above.
Total Expenditures and Other Uses	137,201,636	34,884,399	102,317,237	25%	See above.
Ending Fund Balance	40,980,050	43,099,007	(2,119,757)	105%	See above.

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1-19-17

September 30, 2016 Budget to Actual Review - SAVSA

	Approved 2016/17 Budget	Actual as of September 30, 2016	Difference	Actual as a percentage of budget	Analysis
Beginning Fund Balance	1,939	154,549	(152,610)	7971%	Actual amount is from audited June 30, 2016 financial statements. Expenditures came in under expectations in the 4th quarter of 2015/16.
Revenue					
Vehicle License Fees	1,100,000	327,000	773,000	30%	Vehicle fee collections higher than expected.
Interest	400	-	400	0%	The County pays interest later in the fiscal year.
Total Available Funds	1,102,339	481,549	620,790	44%	See above.
Expenditures					
County of Sacramento	232,000	73,205	158,795	32%	Our SAVSA program manager has been working with cities that have an accumulated fund balance to reduce it by increasing recovery activity and community awareness.
City of Sacramento	444,000	113,837	330,163	26%	Good.
City of Galt	36,000	4,621	31,379	13%	Good.
City of Folsom	59,000	24,944	34,056	42%	Our SAVSA program manager has been working with cities that have an accumulated fund balance to reduce it by increasing recovery activity and community awareness.
City of Elk Grove	89,000	98,622	(9,622)	111%	Our SAVSA program manager has been working with cities that have an accumulated fund balance to reduce it by increasing recovery activity and community awareness.
City of Citrus Heights	67,000	18,407	48,593	27%	Good.
City of Rancho Cordova	100,000	38,022	61,978	38%	Our SAVSA program manager has been working with cities that have an accumulated fund balance to reduce it by increasing recovery activity and community awareness.
Total Expenditures	1,027,000	371,658	655,342	36%	See above.
Transfer to STA	75,000	-	75,000	0%	Internal transfer not yet completed.
Ending Fund Balance	2,278	109,891	(107,613)	4824%	See above. No issue.


 1-19-17
 1/20/17

September 30, 2016 Budget to Actual Review - FSP

	Approved 2016/17 Budget	Actual as of September 30, 2016	Difference	Actual as a percentage of budget	Analysis
Beginning Fund Balance	361,761	164,338	197,423	45%	Actual amount is from audited June 30, 2016 financial statements. Expenditures were higher than expected in the last quarter, in part, because of the across-the-top project.
Revenue					
State FSP Allocation	1,100,000	-	1,100,000	0%	The annual contract with Caltrans is typically executed around December each year. Therefore, the grant should show up in the second quarter report.
SAFE	827,000	827,000	-	100%	We generally receive this payment as an annual lump sum in August each year. Therefore, no issue.
Total Available Funds	2,288,761	827,000	1,461,761	36%	See above.
Expenditures					
Salaries and Benefits	170,100	11,399	158,701	7%	This amount represents a ratio of the overall STA salaries and benefits attributable to the FSP program. The amount is low because not all internal transfers related to salaries and benefits had been posted prior to quarter end.
General Office	1,000	558	442	56%	Immaterial.
Rent	16,920	4,304	12,616	25%	Good.
Conference, Training, and Travel	2,500	218	2,282	9%	Good.
Uniform Patches/Signs	1,000	-	1,000	0%	Good.
Communications	55,000	11,144	43,856	20%	Good.
Driver Incentive Program	2,000	25	1,975	1%	Expect most of this cost to be charged in the second quarter.
Contractors	1,820,000	412,251	1,407,749	23%	Good.
Professional Services	149,000	22,539	126,461	15%	Good.
Other Operating Expenditures	1,000	194	806	19%	Good.
Public Relations	10,000	-	10,000	0%	These charges are incurred as needed. None needed in first quarter.
Total Expenditures	2,228,520	462,632	1,765,888	21%	Good.
Ending Fund Balance	60,241	528,706	(468,465)	878%	Expenditures are expected to outpace revenue later in the fiscal year, thereby reducing the fund balance significantly.

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1-19-17

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December 31, 2016 Budget to Actual Review - STA

	Approved 2016/17 Budget	Actual as of December 30, 2016	Difference	Actual as a percentage of budget	Analysis
2009 Bonds	7,980,000	-	-	0%	We only analyze this balance in the first quarter of the fiscal year.
2012 Bonds	4,300,000	-	-	0%	We only analyze this balance in the first quarter of the fiscal year.
2014A and 2015A Bonds	5,130,000	-	-	0%	We only analyze this balance in the first quarter of the fiscal year.
Mitigation Fees	17,422,324	-	-	0%	We only analyze this balance in the first quarter of the fiscal year.
Operating Fund Balance	23,613,044	-	-	0%	We only analyze this balance in the first quarter of the fiscal year.
Total Beginning Fund Balance	58,445,368	-	-	0%	We only analyze this balance in the first quarter of the fiscal year.
Revenue					
Sales Tax	114,061,318	57,916,558	56,134,760	51%	Good.
Mitigation Fees	5,000,000	1,775,695	3,224,365	36%	This amount is low because we don't see our revenue until after the end of quarter 2.
Interest	600,000	375,141	224,859	63%	Good.
Total Revenue	119,661,318	60,077,394	59,583,984	50%	See above.
Transfer from SAVSA	75,000	-	75,000	0%	Internal transfer not completed as of September 30, 2016.
Total Fund Balance and Revenue	178,181,686	60,077,394	118,104,352	34%	See above.
Expenditures					
Salaries and Benefits	546,000	268,162	277,838	49%	Good.
General Office	6,000	3,964	2,036	66%	Good.
Rent	59,650	21,143	38,507	35%	FSP reimburses the admin fund for 29% of the rent charges. Therefore, we only expect to be at about 71% of the overall rent budget by the end of the year - which means 35% is where we should be at this time.
Utilities	3,500	1,027	2,473	29%	Good.
Training, Conference, and Travel	15,000	2,370	12,630	16%	STA staff are curtailing non-essential expenditures.
Insurance	32,000	6,884	25,116	22%	This is lower because the FSP program reimbursed the admin fund for its portion of the insurance costs.
Professional Services	200,000	124,336	75,664	62%	Good.
ITOC	65,000	-	65,000	0%	ITOC funds our annual audit. That expense will show up in quarter 3.
Other Operating	3,310	15,913	(12,603)	481%	All of this is credit card charges that don't fit well in other categories. Charges are for staff parking, software purchases and support, and self-help counties annual fee.
Total Administration	930,460	443,800	486,660	48%	See above.
Contributions to Measure A Entities					
Isleton	45,625	23,193	22,432	51%	Good.
Galt	1,140,613	579,824	560,789	51%	Good.
Neighborhood Shuttle	1,000,000	500,000	500,000	50%	Good.
SMAQMD	1,678,126	853,191	824,935	51%	Good.
Paratransit	3,915,628	1,990,778	1,924,850	51%	Good.
CTSA set aside	1,118,751	568,794	549,957	51%	Good.
Sac County Regional Parks	1,000,000	500,000	500,000	50%	Good.
Regional Transit	38,596,903	19,623,383	18,973,520	51%	Good.
Traffic Control and Safety	3,556,252	1,706,381	1,649,871	51%	Good.
Safety Streetscaping, Pedestrian, and Bike Facilities	4,593,754	2,343,969	2,249,785	51%	Good.
Street and Road Maintenance	33,562,524	17,063,812	16,498,712	51%	Good.
Capital Projects	29,713,000	10,069,161	19,643,839	34%	Good.
Total Measure A Entities	119,721,176	55,822,486	63,898,690	47%	Good.
Total Expenditures	120,651,636	56,266,286	64,385,350	47%	Good.
Other Uses					
Community Outreach and Research (Measure B)	150,000	-	150,000	0%	None this year.
Transfer to Debt Service	16,400,000	10,285,085	6,114,915	63%	This may trend higher than expected because the budgeted amount did not include accumulating additional cash for principal payments beginning in October 2016.
Total Other Uses	16,550,000	10,285,085	6,264,915	62%	See above.
Total Expenditures and Other Uses	137,201,636	66,551,371	70,650,265	49%	See above.
Ending Fund Balance	40,980,050	-	-	0%	We only analyze this balance in the first quarter of the fiscal year.

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1-15-17

December 31, 2016 Budget to Actual Review SAVSA

	Approved 2016/17 Budget	Actual as of December 30, 2016	Difference	Actual as a percentage of budget	Analysis
Beginning Fund Balance	1,939	-	-	0%	We only analyze this balance in the first quarter of the fiscal year.
Revenue					
Vehicle License Fees	1,100,000	681,186	418,814	62%	Vehicle fee collections higher than expected.
Interest	400	3,839	(3,439)	960%	This is interest paid by pooled County funds. It is paid periodically.
Total Available Funds	1,102,339	685,025	417,314	62%	See above.
Expenditures					
County of Sacramento	232,000	214,562	17,438	92%	Our SAVSA program manager has been working with cities that have an accumulated fund balance to reduce it by increasing recovery activity and community awareness.
City of Sacramento	444,000	328,001	115,999	74%	Our SAVSA program manager has been working with cities that have an accumulated fund balance to reduce it by increasing recovery activity and community awareness.
City of Galt	36,000	16,560	19,440	46%	Good.
City of Folsom	59,000	44,034	14,966	75%	Our SAVSA program manager has been working with cities that have an accumulated fund balance to reduce it by increasing recovery activity and community awareness.
City of Elk Grove	89,000	254,214	(165,214)	286%	Our SAVSA program manager has been working with cities that have an accumulated fund balance to reduce it by increasing recovery activity and community awareness.
City of Citrus Heights	67,000	46,448	20,552	69%	Our SAVSA program manager has been working with cities that have an accumulated fund balance to reduce it by increasing recovery activity and community awareness.
City of Rancho Cordova	100,000	107,302	(7,302)	107%	Our SAVSA program manager has been working with cities that have an accumulated fund balance to reduce it by increasing recovery activity and community awareness.
Total Expenditures	1,027,000	1,011,121	15,879	98%	See above.
Transfer to STA	75,000	-	75,000	0%	Internal transfer not yet completed.
Ending Fund Balance	2,278	-	-	0%	We only analyze this balance in the first quarter of the fiscal year.



 1/20/17

 1-19-17

December 31, 2016 Budget to Actual Review - FSP

	Approved 2016/17 Budget	Actual as of December 30, 2016	Difference	Actual as a percentage of budget	Analysis
Beginning Fund Balance	361,761	-	-	0%	We only analyze this balance in the first quarter of the fiscal year.
Revenue					
State FSP Allocation	1,100,000	1,184,815	(84,815)	108%	Good.
SAFE	827,000	827,000	-	100%	We generally receive this payment as an annual lump sum in August each year.
Total Available Funds	2,288,761	2,011,815	276,946	88%	See above.
Expenditures					
Salaries and Benefits	170,100	79,059	91,041	46%	Good.
General Office	1,000	558	442	56%	Good.
Rent	16,920	8,636	8,284	51%	Good.
Conference, Training, and Travel	2,500	1,321	1,179	53%	Good.
Uniform Patches/Signs	1,000	-	1,000	0%	No patches so far this year.
Communications	55,000	32,992	22,008	60%	The increased expenditures are related to radio upgrades to current technology in coordination with CHP.
Driver Incentive Program	2,000	80	1,920	4%	Expect most of this cost to be charged in quarter 3.
Contractors	1,820,000	884,140	935,860	49%	Good.
Professional Services	149,000	22,539	126,461	15%	We use these services on an as-needed basis.
Other Operating Expenditures	1,000	24,275	(23,275)	2427%	We allocated the portion of our liability insurance attributable to the FSP program this year. This was not anticipated within the approved budget.
Public Relations	10,000	-	10,000	0%	These charges are incurred as needed. None needed in first quarter.
Total Expenditures	2,228,520	1,053,600	1,174,920	47%	Good.
Ending Fund Balance	60,241		60,241		We only analyze this balance in the first quarter of the fiscal year.

 1-18-17




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INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES

Sacramento Transportation Authority
Sacramento, California

We have performed the procedures enumerated in Attachment I, which were agreed to in advance by the Sacramento Transportation Authority (Authority), solely to assist the Authority in determining whether the City of Isleton's internal controls are appropriate to ensure proper future expenditure of capital Measure A funds. The City of Isleton's management is responsible for establishing and maintaining internal controls over these activities. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures performed as outlined in Attachment I, either for the purpose for which this report has been requested or for any other purpose.

We were not engaged to, and did not, conduct an audit, the objective of which would be the expression of an opinion on the City's internal controls and compliance with the provisions of Measure A. Accordingly, we do not express such an opinion. Had we performed additional procedures or had we conducted an audit of the aforementioned information in accordance with generally accepted auditing standards, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the City of Isleton and the Sacramento Transportation Authority and is not intended to be and should not be used by anyone other than these specified parties.

Richardson & Company, LLP

January 16, 2017

ATTACHMENT I
PROCEDURES PERFORMED

1. Procedure: Review copy of the City's audit report, including management letter and determine impact of any comments on the City's ability to properly manage Measure A funds.

Finding: The City has not had a financial statement audit since the year ended June 30, 2014. We obtained and reviewed the audit report, which included four findings. One of the findings that could relate to Measure A is that the City needs to develop policies and procedures. The City has now developed policies and procedures and we were provided a copy of the policies and procedures related to the Measure A funds, so it appears this finding has been addressed. The City has indicated they are in the process of preparing for the 2015 audit.

As of January 2017, the June 30, 2015 and 2016 audits were not completed, which could be an indication of issues affecting the City's ability to properly track and record Measure A funds, among other City funds. The current Assistant City Manager assumed the accounting for the City in August of 2016 and the City Manager retired on December 14, 2016, so personnel changes have taken place since the 2014 audit has been completed. The City has provided their 2015 documents for audit to their auditor and expected to have it completed within the next month. The reason for the delay is that the City has been working on establishing self-balancing funds within their accounting system.

The City plans to establish a new fund within their accounting system to track payroll and other costs associated with capital Measure A revenues. The City also has a separate bank account for Measure A funding that facilitates the separate tracking of these funds.

2. Procedure: Walk through how the direct labor hours are charged in the general ledger (GL), and how they are included in the amount claimed for Measure A reimbursement for a sample of 2 employees. We performed the following procedures:
 - a. Obtained an understanding of how labor costs are tracked.
 - b. Determined how these amounts are allocated to Measure A.
 - c. Tested two employees to determine appropriateness of amounts charged to Measure A fund.

Finding: We performed a walkthrough of controls over the labor hours and how they are charged in the GL system to determine the process for allocating costs to the Measure A fund. We reviewed time sheets, payroll reports, fund payroll allocation spreadsheets that documents the allocation of payroll costs to funds based on hours worked, postings to the GL, approved pay rates and pay stubs for one pay period and for two employees who worked on Measure A projects.

Hours for Measure A are tracked by project. Payroll taxes and benefits are prorated based on the numbers of hours worked by fund. Payroll tax rates are multiplied by the wages earned for the period by fund. Workers comp, vacation, sick, dental, and medical costs are allocated by applying a rate based on these costs to hours worked by fund. We noted pay rates are approved, timesheets are approved, payroll is processed by a third party, and calculated amounts are properly posted to the GL.

3. Procedure: Walk through how the City determines the costs to be reimbursed by Measure A and tracks them in the general ledger to prevent expenditures from being reimbursed by more than one revenue source, such as by separate tracking by fund or project code, for a sample of two expenditures. Includes determining the City's procedures for review and approval of expenditures. We performed the following procedures:

ATTACHMENT I
PROCEDURES PERFORMED

- a. Determined that the invoice paid was reviewed and approved according to the City's Policies and Procedures by requiring the City Manager/Assistant City Manager to sign and attach a purchase order and an invoice prior to payment.
- b. Evaluated whether the payee/vendor appeared to be appropriate considering the description of the expense paid.
- c. Determined that the invoice and check copy were properly retained by the City for each payment.
- d. Determined the check was accrued to the proper fiscal year in the general ledger according to the period of service on the related invoice and properly recorded as a Measure A expenditure.
- e. Concluded on the whether procedures allow for proper tracking of Measure A funds.
- f. Determined costs to be reimbursed by Measure A can be tracked in the GL and procedures are in place to prevent expenditures from being reimbursed by more than one revenue source.

Finding: We reviewed a sample of 2 judgmentally selected expense checks from the City's check register from July 1, 2016 to December 19, 2016 to verify whether the payee/vendor appeared appropriate based on the description of the expense, the amount was supported by an invoice, check copy and other documentation was properly retained in the file, the check was signed by approved check signors and the check was posted to the proper general ledger account and period. These procedures were performed to determine whether segregation of duties exists between the approval and disbursements functions and that the disbursement was properly documented.

All disbursements tested had a purchase order form attached, check copies and invoices were available, payees appeared appropriate and all invoices appeared to be posted to the proper account and period. While the former Assistant City Manager was employed by the City, there was not proper separation between approval and disbursement functions (she initiated purchase orders, approved purchase orders, posted them to the GL, printed and signed checks). The current Assistant City Manager, who has been employed by the City since August 2016, does not initiate or approve expenditures. Invoices are now reviewed/approved by a Council member, who also signs checks. Although the Assistant City Manager prepares and mails the checks, she does not have signatory authority, thus improving internal controls. The City's Director of Public Works (currently the Acting City Manager) oversees Measure A projects and prepares purchase orders for these projects.

Recommendation: Additional improvement could be made by having the City Council more involved in the financial oversight of the City. The Council has been provided with check registers by fund since the new Assistant City Manager has taken over the accounting function and a Council member now reviews and signs the checks, but adding a comparison of budget to actual review by the City Council throughout the year (either monthly or quarterly) would strengthen controls.

4. Procedure: Determine whether the City seeks reimbursement or plans to seek reimbursement of indirect costs. If so, determine how the City segregates direct versus indirect costs and how indirect costs are allocated to funds or projects.

Finding: The City's indirect cost allocation methodology consists of using a fixed 15% rate to apply to actual employee hours coded on timesheets. However, the 15% rate is not supported by current expenses as the basis of the allocations.

Based on our discussion with City employees, the indirect cost allocation methodology has remained unchanged for a very long time, so even if a time study was done in the past it has not been reviewed or updated since any of the current employees have been with the City. Generally accepted

ATTACHMENT I
PROCEDURES PERFORMED

accounting principles requires indirect costs to be allocated using appropriate allocation bases for the pool of costs being allocated (i.e. current cost information) and the indirect cost allocation should be well documented to support the allocations made.

Recommendation: We recommend the City updated its indirect allocation percentage to use actual costs as the allocation basis.

DON COLE & COMPANY

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**CITY OF ISLETON
ISLETON, CALIFORNIA
FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORTS
FOR THE FISCAL YEAR ENDED
JUNE 30, 2014**

**CITY OF ISLETON
ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
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INDEPENDENT AUDITORS' REPORT

To the City Council
City of Isleton, California

Report on the Financial Statements

I have audited the accompanying financial statements of the City of Isleton, California which comprise the Statement of Net Position and Governmental Fund Balance Sheet, as of June 30, 2014, and the related Statement of Activities and Governmental Fund Revenues, Expenditures, and Changes in Fund Balance for the year then ended, and the related notes to the financial statements.

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

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America, and *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 relevant to the entity'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 entity's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the City of Isleton, California as of June 30, 2014, and the results of its operations for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated August 12, 2016, on my consideration of the City of Isleton's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, 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 considered in assessing the results of my audit.

Other Matters

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-6 and the Required Supplementary Information as listed in the table of contents on page 33 be presented to supplement the basic financial statements. Such 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. 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 basic financial statements, and other knowledge we obtained during our audit of the basic 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Isleton, California's government-wide basic financial statements. The fund financial statements and the accompanying supplementary information as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to 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 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.


Don Cole & Company
Sacramento, California

August 12, 2016

**CITY OF ISLETON
MANAGEMENT DISCUSSION & ANALYSIS
JUNE 30, 2014**

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Isleton we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2014. This discussion and analysis is designed to assist the reader in focusing on significant financial issues, provide an overview of the City's financial activity, identify changes in the City's financial position, and to identify any material changes in the approved operating and capital budgets.

Financial Highlights – Primary Government

- The City's net position at the end of the year was \$1,573,386, a decrease of \$480,341. The portion of the City's net position that were unrestricted and available to meet ongoing obligations to citizens and creditors totaled a deficit of \$1,401,025.
- The governmental net position decreased by \$163,939 due to operations and the business-type net position decreased by \$53,482 due to operations.
- Program revenues from governmental activities increased \$63,475 or 28.6%. Program revenues from business-type activities increased by \$4,658 or 0.9%.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements; 2) fund financial statements; and 3) notes to the basic financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements. The *Government-wide Financial Statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business. They are comprised of the *Statement of net position* and *Statement of activities and changes in net position*. The *statement of net position* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or weakening. This statement, unlike previous financial statements prior to implementing GASB 34, combines and consolidates the governmental funds' current financial resources with capital assets and long-term obligations. The *Statement of activities and changes in net position* presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., interest expense due but unpaid). Both of the above government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, streets and roads, community development and recreation and parks. The business-type activities of the City include the municipal utility - wastewater collection and treatment.

Fund Financial Statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds and proprietary funds. The fund financial statements provide detail information about each of the City's most significant funds, called *major funds*. The concept of major funds, and the determination of which are major funds, was established by GASB 34 and replaces the concept of combining like funds and presenting them in total. Instead, each *major fund* is presented individually, with all *nonmajor funds* summarized and presented in a single column.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund statements focus on near-term inflows and outflows of expendable resources, as well as on balances of expendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements. Because the focus of

governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*. The City has ten governmental funds, of which three are considered major funds for presentation purposes. Each major fund is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the City's major funds – the General Fund and the Transportation Development Fund.

Proprietary Funds. The City maintains proprietary enterprise funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for the wastewater collection and treatment.

Notes to the Basic Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* providing budgetary comparison schedules for the General Fund, and Transportation Development Fund.

Government-Wide Statements

Statement of Net Position:

The City's net position at the end of the year was \$2,053,727, an increase of \$211,731. The governmental net position increased by \$309,909 or 31.4% and the business-type net position decreased by \$98,178 or 11.5%. The increase in governmental net position is primarily due \$434,902 in special items.

Statement of Net Position 6/30/2014

	Government Activities		Business Type Activities		Total Primary Government	
	<u>FY 12/13</u>	<u>FY 13/14</u>	<u>FY 12/13</u>	<u>FY 13/14</u>	<u>FY 12/13</u>	<u>FY 13/14</u>
Current and other assets	\$ 571,573	\$ 130,515	\$ 841,923	\$ 448,346	\$ 1,413,496	\$ 578,861
Capital assets	<u>2,629,660</u>	<u>2,535,683</u>	<u>2,950,942</u>	<u>2,843,116</u>	<u>5,580,602</u>	<u>5,378,799</u>
Total assets	<u>\$ 3,201,233</u>	<u>\$ 2,666,198</u>	<u>\$ 3,792,865</u>	<u>\$ 3,291,462</u>	<u>\$ 6,994,098</u>	<u>\$ 5,957,660</u>
Total deferred outflow of resources	\$ -	\$ 57,349	\$ -	\$ 122,686	\$ -	\$ 180,035
Current and other liabilities	\$ 1,897,846	\$ 560,304	\$ 102,066	\$ 86,761	\$ 1,999,912	\$ 647,065
Liabilities due after one year	<u>6,459</u>	<u>7,131</u>	<u>2,934,000</u>	<u>2,902,500</u>	<u>2,940,459</u>	<u>2,909,631</u>
Total liabilities	<u>\$ 1,904,305</u>	<u>\$ 567,435</u>	<u>\$ 3,036,066</u>	<u>\$ 2,989,261</u>	<u>\$ 4,940,371</u>	<u>\$ 3,556,696</u>
Total deferred inflow of resources	\$ -	\$ 1,007,613	\$ -	\$ -	\$ -	\$ 1,007,613
Net Position:						
Investment in capital assets net of related debt	2,629,660	2,535,683	(18,758)	(90,884)	2,610,902	2,444,799
Restricted	529,612	529,612	-	-	529,612	529,612
Unrestricted	<u>(1,862,344)</u>	<u>(1,916,796)</u>	<u>775,557</u>	<u>515,771</u>	<u>(1,086,787)</u>	<u>(1,401,025)</u>
Total net position	<u>\$ 1,296,928</u>	<u>\$ 1,148,499</u>	<u>\$ 756,799</u>	<u>\$ 424,887</u>	<u>\$ 2,053,727</u>	<u>\$ 1,573,386</u>

Fund Financial Statements

Governmental Funds

The fund financial statements present financial data for the general, special revenue, capital projects and fiduciary funds. At the close of Fiscal Year 2013/2014, the City's governmental funds reported a combined ending fund balance of (\$468,916) – an decrease of \$101,294 or 27.6%.

Business Type Funds

The City's proprietary funds, excluding internal service funds, provide the same type of information found in the government-wide financial statements, but in more detail. As discussed in the business-type activities previously, the business-type net position decreased by \$53,482 due to operations or 7.1%.

Capital Assets and Debt Administration

Capital assets net of depreciation as of June 30,

	Governmental		Business-type		Total	
	<u>FY 12/13</u>	<u>FY 13/14</u>	<u>FY 12/13</u>	<u>FY 13/14</u>	<u>FY 12/13</u>	<u>FY 13/14</u>
Capital assets, not being depreciated:						
Land	\$ 310,360	\$ 310,360	\$ 63,000	\$ 63,000	\$ 373,360	\$ 373,360
Total nondepreciable assets	<u>310,360</u>	<u>310,360</u>	<u>63,000</u>	<u>63,000</u>	<u>373,360</u>	<u>373,360</u>
Depreciable capital assets:						
Buildings and improvements	2,162,241	2,100,192	2,772,842	2,683,275	4,935,083	4,783,467
Equipment	<u>157,059</u>	<u>125,131</u>	<u>115,100</u>	<u>96,841</u>	<u>272,159</u>	<u>221,972</u>
Total depreciable assets	<u>2,319,300</u>	<u>2,225,323</u>	<u>2,887,942</u>	<u>2,780,116</u>	<u>5,207,242</u>	<u>5,005,439</u>
Total	<u>\$ 2,629,660</u>	<u>\$ 2,535,683</u>	<u>\$ 2,950,942</u>	<u>\$ 2,843,116</u>	<u>\$ 5,580,602</u>	<u>\$ 5,378,799</u>

Outstanding debt as of June 30,

	Governmental		Business-type		Total	
	<u>FY 12/13</u>	<u>FY 13/14</u>	<u>FY 12/13</u>	<u>FY 13/14</u>	<u>FY 12/13</u>	<u>FY 13/14</u>
Compensated absences	\$ 6,459	\$ 7,131	\$ -	\$ -	\$ 6,459	\$ 7,131
Certificates of participation	-	-	1,019,700	1,004,000	1,019,700	1,004,000
Series 2013 Bonds	-	-	<u>1,950,000</u>	<u>1,930,000</u>	<u>1,950,000</u>	<u>1,930,000</u>
Total	<u>\$ 6,459</u>	<u>\$ 7,131</u>	<u>\$ 2,969,700</u>	<u>\$ 2,934,000</u>	<u>\$ 2,976,159</u>	<u>\$ 2,941,131</u>

Contacting the City

This financial report is designed to provide the citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, contact the City at 101 Second Street, Isleton, California 95641, telephone (916) 777-7771.

**CITY OF ISLETON
BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

**CITY OF ISLETON
GOVERNMENT-WIDE STATEMENT OF NET POSITION
JUNE 30, 2014**

	Governmental Activities	Business-type Activities	Total
ASSETS:			
Cash and cash equivalents	\$ 54,876	\$ 160,083	\$ 214,959
Receivables:			
Accounts	30,168	95,952	126,120
Taxes	39,427	-	39,427
Prepays	6,044	-	6,044
Due from governmental funds	-	22,337	22,337
Restricted cash	-	169,974	169,974
Capital assets	4,273,520	3,540,581	7,814,101
Accumulated depreciation	<u>(1,737,837)</u>	<u>(697,465)</u>	<u>(2,435,302)</u>
Total assets	<u>\$ 2,666,198</u>	<u>\$ 3,291,462</u>	<u>\$ 5,957,660</u>
DEFERRED OUTFLOWS OF RESOURCES:			
Deferred loss	\$ 57,349	\$ 122,686	\$ 180,035
Total deferred outflows of resources	<u>\$ 57,349</u>	<u>\$ 122,686</u>	<u>\$ 180,035</u>
LIABILITIES:			
Payables:			
Accounts	\$ 529,945	\$ 6,331	\$ 536,276
Salaries and benefits	7,823	-	7,823
Interest	-	48,930	48,930
Deposits	199	-	199
Due to business-type funds	22,337	-	22,337
Long-term debt:			
Due within one year	-	31,500	31,500
Due after one year	7,131	2,902,500	2,909,631
Total liabilities	<u>\$ 567,435</u>	<u>\$ 2,989,261</u>	<u>\$ 3,556,696</u>
DEFERRED INFLOWS OF RESOURCES:			
Deferred gain	\$ 1,007,613	\$ -	\$ 1,007,613
Total deferred inflows of resources	<u>\$ 1,007,613</u>	<u>\$ -</u>	<u>\$ 1,007,613</u>
NET POSITION:			
Invested in capital assets, net of related debt	\$ 2,535,683	\$ (90,884)	\$ 2,444,799
Restricted for low/moderate housing	529,612	-	529,612
Unrestricted	<u>(1,916,796)</u>	<u>515,771</u>	<u>(1,401,025)</u>
Total net position	<u>\$ 1,148,499</u>	<u>\$ 424,887</u>	<u>\$ 1,573,386</u>

See accompanying notes to basic financial statements

**CITY OF ISLETON
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
JUNE 30, 2014**

	<u>Expenses</u>	<u>Program Revenues</u>	
		<u>Fees, Fines and Charges for Services</u>	<u>Operating Grants and Contributions</u>
Functions/Programs			
Governmental activities			
General government	\$ 460,867	\$ 17,937	\$ 155,023
Public safety	301,473	1,297	92,564
Parks & recreation	10,765	-	-
Public ways and facilities	156,529	18,426	-
Community development	<u>-</u>	<u>-</u>	<u>-</u>
Total governmental activities	<u>\$ 929,634</u>	<u>\$ 37,660</u>	<u>\$ 247,587</u>
Business-type activities			
Sewer	\$ 454,201	\$ 513,013	\$ -
USDA Sewer Project	85,544	-	-
Solid Waste	<u>-</u>	<u>-</u>	<u>-</u>
Total business-type activities	<u>\$ 539,745</u>	<u>\$ 513,013</u>	<u>\$ -</u>

General revenues:

Taxes:

Property

Sales and use

Franchise

Interest and investment earnings

Other:

Transfers - internal activity

Miscellaneous revenue

Sale of equipment

Total general revenues and other

Change in net position

Net position, beginning of year

Prior period adjustment

Net position, beginning of year - restated

Net position, end of year

Net (Expenses) Revenue

<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
\$ (287,907)	\$ -	\$ (287,907)
(207,612)	-	(207,612)
(10,765)	-	(10,765)
(138,103)	-	(138,103)
-	-	-
(644,387)	-	(644,387)
-	58,812	58,812
-	(85,544)	(85,544)
-	-	-
-	(26,732)	(26,732)
260,463	-	260,463
105,229	-	105,229
27,157	-	27,157
-	-	-
56	87	143
31,933	(31,933)	-
50,610	5,096	55,706
5,000	-	5,000
480,448	(26,750)	453,698
(163,939)	(53,482)	(217,421)
1,296,928	756,799	2,053,727
15,510	(278,430)	(262,920)
1,312,438	478,369	1,790,807
<u>\$ 1,148,499</u>	<u>\$ 424,887</u>	<u>\$ 1,573,386</u>

See accompanying notes to basic financial statements

**CITY OF ISLETON
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2014**

	Major					Nonmajor	Total Govern- mental Funds
	General Fund	Sacramento Trans- portation	Supple- mental Law Enforcement	Redevelo- ment Agency	Redevelo- ment Low Income	Total Other Funds	
ASSETS:							
Cash and investments	\$ 46,381	\$ 1,424	\$ 201	\$ -	\$ 444	\$ 6,426	\$ 54,876
Receivables:							
Accounts	30,168	-	-	-	-	-	30,168
Taxes	23,033	-	16,394	-	-	-	39,427
Prepays	6,044	-	-	-	-	-	6,044
Due from other funds	-	156,007	-	580,798	529,168	469,939	1,735,912
Restricted cash	-	-	-	-	-	-	-
Total assets	<u>\$ 105,626</u>	<u>\$ 157,431</u>	<u>\$ 16,595</u>	<u>\$ 580,798</u>	<u>\$ 529,612</u>	<u>\$ 476,365</u>	<u>\$ 1,866,427</u>
LIABILITIES AND FUND EQUITY							
Liabilities:							
Payables:							
Accounts	\$ 460,184	\$ -	\$ 52,076	\$ -	\$ -	\$ 17,685	\$ 529,945
Salaries & benefits	7,823	-	-	-	-	-	7,823
Deposits	-	-	-	-	-	199	199
Due to other funds	<u>1,174,657</u>	-	<u>346,309</u>	-	-	<u>276,410</u>	<u>1,797,376</u>
Total liabilities	<u>1,642,664</u>	-	<u>398,385</u>	-	-	<u>294,294</u>	<u>2,335,343</u>
Fund Balances:							
Restricted	-	-	-	-	529,612	-	529,612
Unassigned	<u>(1,537,038)</u>	<u>157,431</u>	<u>(381,790)</u>	<u>580,798</u>	-	<u>182,071</u>	<u>(998,528)</u>
Total fund balances	<u>(1,537,038)</u>	<u>157,431</u>	<u>(381,790)</u>	<u>580,798</u>	<u>529,612</u>	<u>182,071</u>	<u>(468,916)</u>
Total liabilities and fund balances	<u>\$ 105,626</u>	<u>\$ 157,431</u>	<u>\$ 16,595</u>	<u>\$ 580,798</u>	<u>\$ 529,612</u>	<u>\$ 476,365</u>	<u>\$ 1,866,427</u>

See accompanying notes to basic financial statements

**CITY OF ISLETON
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2014**

Total fund balances, governmental funds \$ (468,916)

Amounts reported for governmental activities in the statement of net assets are different because:

Amounts reported for governmental activities associated with the funding of the Isleton Financing Authority's purchase of the City's sewer system are not short term financial resources or uses and therefore are not reported as assets/liabilities in the governmental funds.

Deferred outflows of resources	57,349	
Deferred inflows of resources	(1,007,613)	(950,264)
		(950,264)

Amounts reported for governmental activities are not short term financial resources and therefore are not reported as assets in governmental funds.

Historical acquisition cost	4,273,520	
Accumulated depreciation	(1,737,837)	2,535,683
		2,535,683

Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds.

Due to Agency funds		39,127
		39,127

Compensated absences payable		(7,131)
		(7,131)

Total net position – governmental funds \$ 1,148,499

See accompanying notes to basic financial statements

**CITY OF ISLETON
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE – GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2014**

	Major					Nonmajor	Total Govern- mental Funds
	General Fund	Sacramento Trans- portation	Supple- mental Law Enforcement	Redevel- ment Agency	Redevel- ment Low Income	Total Other Funds	
REVENUES							
Taxes	\$ 298,617	\$ -	\$ -	\$ -	\$ -	\$ 31,366	\$ 329,983
Licenses and permits	81,294	-	-	-	-	-	81,294
Fines and penalties	1,297	-	-	-	-	-	1,297
Use of money	43	-	5	-	-	8	56
Charges for services	-	-	-	-	-	17,937	17,937
Intergovernmental	20,023	135,000	92,564	-	-	-	247,587
Miscellaneous	55,610	-	-	-	-	-	55,610
Total revenues	456,884	135,000	92,569	-	-	49,311	733,764
EXPENDITURES							
General government	343,165	131,218	-	-	-	23,362	497,745
Public safety	113,913	-	151,875	-	-	-	265,788
Parks & recreation	6,363	-	-	-	-	-	6,363
Public ways and facilities	95,045	-	-	-	-	17,560	112,605
Community development	-	-	-	-	-	-	-
Debt service:							
Principal	-	-	-	-	-	-	-
Interest	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-
Total expenditures	558,486	131,218	151,875	-	-	40,922	882,501
Excess of revenues over (under) expenditures	(101,602)	3,782	(59,306)	-	-	8,389	(148,737)
OTHER FINANCING SOURCES (USES)							
Transfers in	67,824	-	-	-	-	-	67,824
Transfers out	(1,716)	(13,526)	-	-	-	(20,649)	(35,891)
Total other financing sources (uses)	66,108	(13,526)	-	-	-	(20,649)	31,933
Net change in fund balance	(35,494)	(9,744)	(59,306)	-	-	(12,260)	(116,804)
Fund balance (deficit), beginning of year	(1,517,054)	167,175	(322,484)	580,798	529,612	194,331	(367,622)
Prior period adjustment	15,510	-	-	-	-	-	15,510
Fund balance (deficit) beginning of year, restated	(1,501,544)	167,175	(322,484)	580,798	529,612	194,331	(352,112)
Fund balance (deficit), end of the year	<u>\$(1,537,038)</u>	<u>\$ 157,431</u>	<u>\$(381,790)</u>	<u>\$ 580,798</u>	<u>\$ 529,612</u>	<u>\$ 182,071</u>	<u>\$(468,916)</u>

See accompanying notes to basic financial statements

**CITY OF ISLETON
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT
OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCE TO THE STATEMENT OF ACTIVITIES
JUNE 30, 2014**

Total net change in fund balance, governmental funds \$ (116,804)

Amounts reported for governmental activities in the statement of activities are different from amounts reported in government funds because:

Capital outlays are reported in government funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over the estimated useful lives as depreciation expense. The difference between capital outlay expenditures and depreciation expense for the period is:

Capital asset deletions	(5,422)	
Depreciation	(88,555)	(93,977)

In governmental funds, long-term debt is measured by the amounts paid during the period. In the government-wide statement of activities, long-term debt is measured by the change in the liability. The difference between long-term debt paid and long-term debt earned is:

Change in compensated absences	(672)
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Gains and losses as well as certain costs associated with the Isleton Financing Authority's sale of the City's sewer system are not short term financial resources or uses and therefore are not reported as revenues/expenditures in the governmental funds.

Amortization of deferred expenses	<u>47,514</u>
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Change in net position – governmental activities	<u>\$ (163,939)</u>
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**CITY OF ISLETON
COMBINING STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2014**

	Major Funds			
	Sewer	USDA Sewer Project	Total Other Funds	Total
ASSETS:				
Cash and investments	\$ 49,652	\$ 108,786	\$ 1,645	\$ 160,083
Accounts receivable	95,952	-	-	95,952
Due from other funds	904,847	-	-	904,847
Restricted cash	169,974	-	-	169,974
Capital assets	1,529,168	2,011,413	-	3,540,581
Accumulated depreciation	<u>(351,696)</u>	<u>(345,769)</u>	-	<u>(697,465)</u>
Total assets	<u>\$ 2,397,897</u>	<u>\$ 1,774,430</u>	<u>\$ 1,645</u>	<u>\$ 4,173,972</u>
DEFERRED OUTFLOWS OF RESOURCES:				
Deferred loss	\$ 122,686	\$ -	\$ -	\$ 122,686
Total deferred outflows of resources	<u>\$ 122,686</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 122,686</u>
LIABILITIES AND FUND EQUITY:				
Liabilities:				
Payables:				
Accounts	\$ 6,331	\$ -	\$ -	\$ 6,331
Interest	48,930	-	-	48,930
Due to other funds	-	881,185	1,325	882,510
Long-term debt:				
Certificate of participation	-	1,004,000	-	1,004,000
2014 Bonds	<u>1,930,000</u>	<u>-</u>	<u>-</u>	<u>1,930,000</u>
Total liabilities	<u>\$ 1,985,261</u>	<u>\$ 1,885,185</u>	<u>\$ 1,325</u>	<u>\$ 3,871,771</u>
DEFERRED INFLOWS OF RESOURCES:				
Deferred gain	\$ -	\$ -	\$ -	\$ -
Total deferred inflows of resources	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Net Position:				
Unrestricted	\$ 535,322	\$ (110,755)	\$ 320	\$ 424,887
Total net position	<u>\$ 535,322</u>	<u>\$ (110,755)</u>	<u>\$ 320</u>	<u>\$ 424,887</u>

See accompanying notes to basic financial statements

**CITY OF ISLETON
 COMBINING STATEMENT OF REVENUES, EXPENSES, AND
 CHANGE IN FUND NET POSITION - PROPRIETARY FUNDS
 JUNE 30, 2014**

	Major Funds		Total Other Funds	Total
	Sewer	USDA Sewer Project		
Operating revenues:				
Charges for service	\$ 513,013	\$ -	\$ -	\$ 513,013
Other	<u>5,096</u>	<u>-</u>	<u>-</u>	<u>5,096</u>
Total operating revenues	<u>518,109</u>	<u>-</u>	<u>-</u>	<u>518,109</u>
Operating expenses:				
Salaries and benefits	93,744	-	-	93,744
Services and supplies	13,163	-	-	13,163
Maintenance and operations	53,899	-	-	53,899
General and administration	72,519	-	-	72,519
Depreciation/amortization	<u>74,273</u>	<u>39,658</u>	<u>-</u>	<u>113,931</u>
Total operating expenses	<u>307,598</u>	<u>39,658</u>	<u>-</u>	<u>347,256</u>
Operating income (loss)	<u>210,511</u>	<u>(39,658)</u>	<u>-</u>	<u>170,853</u>
Non-operating revenues (expenses):				
Interest revenue	18	68	1	87
Intergovernmental	-	-	-	-
Transfers in/(out)	(28,349)	(3,584)	-	(31,933)
Interest expense	<u>(146,603)</u>	<u>(45,886)</u>	<u>-</u>	<u>(192,489)</u>
Total non-operating revenues (expense)	<u>(174,934)</u>	<u>(49,402)</u>	<u>1</u>	<u>(224,335)</u>
Changes in net position	<u>35,577</u>	<u>(89,060)</u>	<u>1</u>	<u>(53,482)</u>
Net position, beginning of year	778,175	(21,695)	319	756,799
Prior period adjustment	<u>(278,430)</u>	<u>-</u>	<u>-</u>	<u>(278,430)</u>
Net position, beginning of year restated	<u>499,745</u>	<u>(21,695)</u>	<u>319</u>	<u>478,369</u>
Net position, end of year	<u>\$ 535,322</u>	<u>\$ (110,755)</u>	<u>\$ 320</u>	<u>\$ 424,887</u>

See accompanying notes to basic financial statements

**CITY OF ISLETON
STATEMENT OF CASH FLOWS
PROPRIETARY FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2014**

	Major Funds		Total Other Funds	Total
	Sewer	USDA Sewer Project		
Cash flows from operating activities				
Cash received from operating revenues	\$ 551,392	\$ -	\$ -	\$ 551,392
Cash paid to employees for services	(93,744)	-	-	(93,744)
Cash paid for operating expenses	<u>(150,252)</u>	<u>-</u>	<u>-</u>	<u>(150,252)</u>
Net cash provided by operating activities	<u>307,396</u>	<u>-</u>	<u>-</u>	<u>307,396</u>
Cash flows from non-capital financing activities				
Reclassification of pooled cash	95,636	65,482	-	161,118
Transfer from/(to) other fund types	<u>(28,349)</u>	<u>(3,584)</u>	<u>-</u>	<u>(31,933)</u>
Net cash provided by non-capital financing activities	<u>67,287</u>	<u>61,898</u>	<u>-</u>	<u>129,185</u>
Cash flows from capital and related financing activities				
Payments on long-term debt	(20,000)	(15,700)	-	(35,700)
Interest and fiscal charges	<u>(147,037)</u>	<u>(45,886)</u>	<u>-</u>	<u>(192,923)</u>
Net cash provided (used) by capital and related financing activities	<u>(167,037)</u>	<u>(61,586)</u>	<u>-</u>	<u>(228,623)</u>
Cash flows from investing activities				
Interest earnings	<u>18</u>	<u>68</u>	<u>1</u>	<u>87</u>
Net cash provided by investing activities	<u>18</u>	<u>68</u>	<u>1</u>	<u>87</u>
Net increase (decrease) in cash and cash equivalents	207,664	380	1	208,045
Cash and cash equivalents – beginning of the year	<u>11,962</u>	<u>108,406</u>	<u>1,644</u>	<u>122,012</u>
Cash and cash equivalents – end of the year	<u>\$ 219,626</u>	<u>\$ 108,786</u>	<u>\$ 1,645</u>	<u>\$ 330,057</u>
Reconciliation of operating income to net cash				
Provided (used) by operating activities:				
Operating income	\$ 210,511	\$ (39,658)	\$ -	\$ 170,853
Adjustments to reconcile operating income to Net cash provided (used) by operating activities:				
Depreciation and amortization	74,273	39,658	-	113,931
(Increase) decrease in accounts receivable	33,283	-	-	33,283
Increase (decrease) in accounts payable	<u>(10,671)</u>	<u>-</u>	<u>-</u>	<u>(10,671)</u>
Net cash provided by operating activities	<u>\$ 307,396</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 307,396</u>

See accompanying notes to basic financial statements

**CITY OF ISLETON
STATEMENT OF NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2014**

	<u>Agency</u>
ASSETS:	
Cash and investments	\$ -
Due from other funds	18,327
Loan to general fund	<u>20,800</u>
Total assets	<u>\$ 39,127</u>
LIABILITIES	
Agency fund held for others	<u>\$ 39,127</u>
Total liabilities	<u>\$ 39,127</u>

See accompanying notes to basic financial statements

CITY OF ISLETON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

Note 1 SIGNIFICANT ACCOUNTING POLICIES

A. Accounting Policies

The accounting policies of the City conform to generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA).

B. Reporting Entity

The City operates under a Council Manager form of government and provides the following services: public safety, highways and streets, health and sanitation, culture-recreation, public improvements, planning and zoning, general administrative services, and sewer.

The government-wide financial statements include the City only (known as the primary government). There are no component or blended component units that are part of the City's operations.

C. Basis of Presentation

Government-wide Financial Statements

The statement of net assets and statement of activities display information about the primary government, the City, and its component units. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the governmental and business-type activities of the City. Governmental activities, which are normally supported by taxes and inter-governmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for each different identifiable activity of the City's business-type activities and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and; therefore, are clearly identifiable to a particular function. Program revenues include 1) charges paid by the recipients of goods and services offered by the program and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented instead as general revenues.

Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

- Total assets, liabilities, revenues and expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- Total assets, liabilities, revenues or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

CITY OF ISLETON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

Note 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Presentation (continued)

The City reports the following major governmental funds:

- General fund
- Sacramento Transportation fund
- Supplemental Law Enforcement fund
- Redevelopment Agency fund
- Redevelopment Agency – Low Income Housing fund

The City reports the following major proprietary funds:

- Sewer fund
- USDA Sewer Project fund

D. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting.

The government-wide, proprietary, and agency fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property and sales tax, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenues from sales tax are recognized when the underlying transactions take place. Revenues from grants, entitlements, and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Property and sales taxes, interest, certain state and federal grants, and charges for services are accrued when their receipt occurs within sixty days after the end of the accounting period so as to be both measurable and available. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures as well as expenditures related to claims and judgments are recorded only when payment is due. General capital assets acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and capital leases are reported as other financing sources.

For its business-type activities and enterprise funds, the City has elected under Governmental Accounting Standards Board (GASB) Statement No. 20, "Accounting and Financial Reporting For Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting", to apply all applicable GASB pronouncements as well as any applicable pronouncements of the Financial Accounting Standards Board, the Accounting Principles Board or any Accounting Research Bulletins issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to the same limitation. The City has elected not to follow subsequent private-sector guidance. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes accounting principles generally accepted in the United States of America (GAAP) for governmental units.

CITY OF ISLETON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

Note 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Basis of Accounting (continued)

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 enterprise funds are charges to customers for sales and services.

Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

E. Budgets and Budgetary Accounting

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. By state law, the City's governing board must adopt a final budget no later than July 1. A public hearing must be conducted to receive comments prior to adoption.

These budgets are revised by the City's governing board during the year to give consideration to unanticipated income and expenditures. The original and final revised budgets are presented for the General Fund in the required supplementary information.

F. Fair Value Measurements

The City uses a framework for defining and measuring fair value, in accordance with generally accepted accounting principles, which maximizes the use of observable inputs and minimizes the use of unobservable inputs. There are three levels of inputs that may be used to measure fair value; Level 1 uses quoted prices and active markets for identical assets or liabilities when determining fair market value; Level 2 uses non active quoted prices for similar assets and liabilities that can be corroborated with market data; and Level 3 uses unobservable information with little or no market data. The City reports assets and liabilities using Level 1 inputs.

G. Cash and Investments

Cash balances of the majority of City funds are pooled in order to maximize investment opportunities. Interest earned from investments purchased with pooled cash is allocated to each of the funds based on the fund's overall cash balance.

Certain proceeds of enterprise funds, revenue bonds, certificates of participation, and loans, as well as certain resources set aside for their repayment, are classified as restricted cash and investments because their use is legally restricted. Restricted cash and investments are not available for general operational expenses.

For purposes of the statement of cash flows, the City considers all highly liquid investment instruments purchased with a maturity of ninety days or less to be cash and cash equivalents.

H. Receivables

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable. Major receivable balances for the governmental activities include taxes, grants, and interest. Business-type activities report user fees and interest earnings as their major receivables.

**CITY OF ISLETON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014**

Note 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

H. Receivables (continued)

In the fund financial statements, material receivables in governmental funds include revenue accruals such as taxes, grants, interest, and other similar intergovernmental revenues since they are usually both measurable and available. Nonexchange transactions collectible but not available are deferred in the fund financial statements in accordance with modified accrual, but not deferred in the government-wide financial statements in accordance with the accrual basis. Interest and investment earnings are recorded when earned only if paid within 60 days since they would be considered both measurable and available. Proprietary fund material receivables consist of all revenues earned at year-end and not yet received. User fee receivable and interest earnings compose the majority of proprietary fund receivables. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable.

I. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (roads, bridges, sidewalks and similar items) are defined by the City as an asset with a cost greater than \$1,000 and a useful life of more than one year.

Equipment reported in the financial statements is reported at actual historical cost. Structures and improvements, land, and infrastructure have been stated at actual cost when available or estimated historical cost. Estimated historical cost was arrived at by a variety of methods. Contributed capital assets are recorded at estimated fair market value at the date of donation. Sewer funds assets are recorded at their fair market value.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized.

The accounting treatment over property, plant, and equipment (capital assets) depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Government-wide Financial Statements

In the government-wide financial statements, property, plant, and equipment are accounted for as capital assets.

GASB No. 34 requires most governmental agencies to report and depreciate new infrastructure assets. Infrastructure assets include roads, bridges, underground pipe (other than related to utilities), traffic signals, etc. These infrastructure assets are likely to be the largest asset class of the City. Neither their historical cost nor related depreciation has historically been reported in the financial statements. The retroactive reporting of infrastructure is subject to an extended implementation period.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Asset Class	Estimated Useful Life in Years
Buildings and Improvements	20-50
Machinery & equipment	3-20
Infrastructure	20-75

Upon sale or retirement of capital assets, the cost and related accumulated depreciation are removed from the respective accounts and any resulting gain or loss is included in the results of operations.

CITY OF ISLETON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

Note 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

I. Capital Assets (continued)

Fund Financial Statements

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition.

J. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Assets. Bond premiums and discounts as well as issuance costs are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of applicable bond premium or discount. Bond issuance costs are reported as deferred expenses and amortized over the term of the related debt.

In the fund financial statements, governmental funds recognize bond premiums and discounts as well as bond issuance costs, during the current period. The face amount of the debt issued, premiums, or discounts is reported as other financing sources/uses.

K. Compensated Absences

The City's policy regarding vacation is to permit employees to accumulate earned but unused vacation leave. The liability for these compensated absences is recorded as long-term debt in the government-wide statements. The current portion of this debt is estimated based on historical trends. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources, while the proprietary funds report the liability as it is incurred. The City includes its share of social security and medicare taxes payable on behalf of the employees in the accrual for compensated absences.

L. Net Assets/Fund Balances

The government-wide and business-type activities fund financial statements utilize a net assets presentation. Net assets are categorized as invested in capital assets (net of related debt), restricted and unrestricted.

- Invested in capital assets, net of related debt - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.
- Restricted net assets - Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- Unrestricted net assets - All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

In the governmental fund financial statements, restricted and unassigned segregate portions of fund balance. Restricted fund balances are for amounts that are not available or are legally restricted by outside parties for use for a specific purpose. Unassigned includes positive fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

As of June 30, 2014, restricted fund balance included:

- Redevelopment - to reflect the portion of assets which do not represent available, spendable resources.

**CITY OF ISLETON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014**

Note 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

M. Revenue Limit/Property Tax

The State of California's Constitution Article XIII A provides that the combined maximum property tax rate on any given property may not exceed 1% of its assessed value unless an additional amount for general obligation debt has been approved by voters. Assessed value is calculated at 100% of market value, as defined by Article XIII A, and may be adjusted by no more than 2% per year unless the property is sold or transferred. The State Legislature has determined the method of distribution of receipts from a 1% tax levy among the county, cities, school districts, and other districts.

	<u>Secured</u>	<u>Unsecured</u>
Valuation/lien dates	January 1	January 1
Levy dates	January 1	January 1
Due dates	November 1 (1 st installment) February 1 (2 nd installment)	July 1
Delinquent dates	December 10 (1 st installment) April 10 (2 nd installment)	August 31

N. Interfund Receivables and Payables

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Those related to goods and service type transactions are classified as "due to and from other funds". Short-term interfund loans are reported as "interfund receivables and payables". Long-term interfund loans (noncurrent portion) are reported as "advances from and to other funds". Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not available financial resources. Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets.

O. Use of Estimates

Management uses estimates and assumptions in preparing financial statements in accordance with generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenue and expenses. Actual results could vary from the estimates assumed in preparing the financial statements.

P. New Accounting Pronouncements

The following Governmental Accounting Standards Board (GASB) Statements have been implemented in the current financial statements:

Statement No. 65 "*Items Previously Reported as Assets and Liabilities.*" The objective of this Statement is to either (a) properly classify certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or (b) recognize certain items that were previously reported as assets and liabilities as outflows of resources (expenses or expenditures) or inflows of resources (revenues). These determinations are based on the definitions of those elements in Concepts Statement No. 4, *Elements of Financial Statements*. This Statement is effective for periods beginning on or after December 15, 2012.

**CITY OF ISLETON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014**

Note 2 CASH AND INVESTMENTS

Cash and investments consisted of the following at June 30, 2014:

Deposits	\$ 383,615
Local agency investment fund	<u>1,318</u>
Total Cash	<u>\$ 384,933</u>

Per the City's financial statements:

Primary government	\$ 214,959
Restricted cash	<u>169,974</u>
Total Cash	<u>\$ 384,933</u>

Deposits

The California Government Code requires California banks and savings and loan associations to collateralize a City's deposits by pledging government securities. The market value of pledged securities must equal at least 110 percent of a City's deposits. California law also allows financial institutions to collateralize City deposits by pledging first trust deed mortgage notes having a value of 150 percent of a City's total deposits. The City may waive collateral requirements for deposits which are fully insured up to \$250,000 by Federal Deposit insurance.

At year end, the carrying amount of the City's cash deposits (including amount in checking accounts and money market accounts) was \$384,933 and the bank balance was \$373,664. The difference between the bank balance and the carrying amount represents outstanding checks and deposits in transit.

Investments

California statutes authorize state agencies and Cities to invest idle or surplus funds in a variety of credit instruments as provided for in the California Government Code Section 53600, Chapter 4 - Financial Affairs.

The Government Code allows investments in the following instruments:

- Securities of the U.S. Government, or its agencies
- Small Business Administration loans
- Certificate of Deposit placed with commercial banks and/or savings and loan companies
- Negotiable Certificates of Deposit
- Bankers Acceptances
- Commercial paper and medium term corporate notes
- Local Agency Investment Fund (State Pool) Demand Deposits
- Repurchase Agreements (Repos)
- Passbook Savings Account Demand Deposits
- Reverse Repurchase Agreements

All of the City's investments are with the Local Agency Investment Fund which is regulated by the California Government Code under the oversight of the Treasurer of the State of California.

CITY OF ISLETON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

Note 3 CAPITAL ASSETS AND DEPRECIATION

Governmental capital asset activity for the fiscal year ended June 30, 2014 was as follows:

	<u>July 1, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2014</u>
Capital assets, not being depreciated:				
Land	\$ 310,360	\$ -	\$ -	\$ 310,360
Total nondepreciable assets	<u>310,360</u>	<u>-</u>	<u>-</u>	<u>310,360</u>
Depreciable capital assets:				
Buildings and improvements	2,881,129	-	-	2,881,129
Equipment	<u>1,113,092</u>	<u>-</u>	<u>(31,061)</u>	<u>1,082,031</u>
Total depreciable assets	<u>3,994,221</u>	<u>-</u>	<u>(31,061)</u>	<u>3,963,160</u>
Less: accumulated depreciation:				
Buildings and improvements	(718,888)	(62,049)	-	(780,937)
Equipment	<u>(956,033)</u>	<u>(26,506)</u>	<u>25,639</u>	<u>(956,900)</u>
Total accumulated depreciation	<u>(1,674,921)</u>	<u>(88,555)</u>	<u>25,639</u>	<u>(1,737,837)</u>
Net depreciable assets	<u>2,319,300</u>	<u>(88,555)</u>	<u>(4,125)</u>	<u>2,319,300</u>
Net governmental capital assets	<u>\$ 2,629,660</u>	<u>\$ (88,555)</u>	<u>\$ (5,422)</u>	<u>\$ 2,225,323</u>

Proprietary fund type capital asset activity for the fiscal year ended June 30, 2014 was as follows:

	<u>July 1, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2014</u>
Capital assets, not being depreciated:				
Land	\$ 63,000	\$ -	\$ -	\$ 63,000
Total nondepreciable assets	<u>63,000</u>	<u>-</u>	<u>-</u>	<u>63,000</u>
Depreciable capital assets:				
Buildings and improvements	3,244,931	-	-	3,244,931
Equipment	<u>232,650</u>	<u>-</u>	<u>-</u>	<u>232,650</u>
Total depreciable assets	<u>3,477,581</u>	<u>-</u>	<u>-</u>	<u>3,477,581</u>
Less: accumulated depreciation:				
Buildings and improvements	(472,089)	(89,567)	-	(561,656)
Equipment	<u>(117,550)</u>	<u>(18,259)</u>	<u>-</u>	<u>(135,809)</u>
Total accumulated depreciation	<u>(589,639)</u>	<u>(107,826)</u>	<u>-</u>	<u>(697,465)</u>
Net depreciable assets	<u>2,887,942</u>	<u>(107,826)</u>	<u>-</u>	<u>2,780,116</u>
Net proprietary fund type capital assets	<u>\$ 2,950,942</u>	<u>\$ (107,826)</u>	<u>\$ -</u>	<u>\$ 2,843,116</u>

**CITY OF ISLETON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014**

Note 3 CAPITAL ASSETS AND DEPRECIATION (continued)

Depreciation expense was charged to governmental functions as follows:

General government	\$	10,275
Public safety		30,137
Public ways and facilities		43,741
Recreation and culture		<u>4,402</u>
Total depreciation expense – governmental functions	\$	<u>88,555</u>

Depreciation/amortization expense was charged to business-type funds as follows:

Sewer depreciation	\$	68,168	
Sewer amortization		<u>16,049</u>	84,217
USDA Sewer Project			<u>39,658</u>
Total depreciation and amortization – business-type funds	\$		<u>123,875</u>

Note 4 DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES

	<u>July 1, 2013</u>	<u>Adjustment</u>	<u>Amortization</u>	<u>June 30, 2014</u>
Deferred outflow of resources:				
Governmental activities	\$ 196,438	\$ (136,222)	\$ (2,867)	\$ 57,349
Business-type activities	<u>407,221</u>	<u>(278,430)</u>	<u>(6,105)</u>	<u>122,686</u>
Total deferred expenses	<u>\$ 603,659</u>	<u>\$ (414,652)</u>	<u>\$ (8,972)</u>	<u>\$ 180,035</u>
Deferred inflow of resources:				
Governmental	<u>\$ 1,194,216</u>	<u>\$ (136,222)</u>	<u>\$ (50,381)</u>	<u>\$ 1,007,613</u>
Total deferred revenues	<u>\$ 1,194,216</u>	<u>\$ (136,222)</u>	<u>\$ (50,381)</u>	<u>\$ 1,007,613</u>

Note 5 LONG-TERM DEBT

A. GOVERNMENTAL FUNDS

Operating Leases

The City has an operating lease for the lease of telephone equipment with a yearly base payment of \$3,211.

Compensated Absences

Accumulated employee vacation leave and earned sick leave represents a liability to the city contingent upon an employee's termination. A liability for these amounts is reported in the governmental funds. Accumulated employee vacation leave and sick leave at June 30, 2014 amounts to \$7,131.

B. ENTERPRISE FUNDS

2004 Certificates of Participation

Public Property Financing Corporation of California Certificates of Participation, City of Isleton Sewer Project Series 2004, dated November 18, 2004, in the amount of \$1,113,500, payable in annual installments of \$1,000 to \$59,000, with an interest rate of 4.5% and maturity on May 1, 2044.

**CITY OF ISLETON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014**

Note 5 LONG-TERM DEBT (continued)

B. ENTERPRISE FUNDS (continued)

Series 2014 Wastewater Refunding Revenue Bonds

Isleton Public Financing Authority Series 2014 Wastewater Refunding Revenue Bonds, dated May 16, 2014, in the amount of \$1,950,000, payable in annual installments of \$139,893 to \$169,969, with an interest rate of 6.5% to 7.75% and maturity on September 1, 2042.

C. CHANGES IN LONG-TERM DEBT

Debt paid during the year 2013-14 and the related balance at June 30, 2014, is presented as follows:

	<u>July 1, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2014</u>	<u>Due in One Year</u>
GOVERNMENTAL FUNDS					
Compensated absences	\$ 6,459	\$ -	\$ 672	\$ 7,131	\$ -
Total governmental funds	<u>\$ 6,459</u>	<u>\$ -</u>	<u>\$ 672</u>	<u>\$ 7,131</u>	<u>\$ -</u>
ENTERPRISE FUNDS					
Certificates of participation	\$ 1,019,700	\$ -	\$ (15,700)	\$ 1,004,000	\$ 16,500
Series 2012 Bonds	<u>1,950,000</u>	<u>-</u>	<u>(20,000)</u>	<u>1,930,000</u>	<u>15,000</u>
Total enterprise funds	<u>\$ 2,969,700</u>	<u>\$ -</u>	<u>\$ (35,700)</u>	<u>\$ 2,934,000</u>	<u>\$ 31,500</u>

D. FUTURE DEBT SERVICE REQUIREMENTS

The annual debt service requirements to maturity including principal and interest for the enterprise certificate of participation as of June 30, 2014 are as follows:

<u>Year ending June 30,</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2015	\$ 45,180	\$ 16,500	\$ 61,680
2016	44,438	17,200	61,638
2017	43,663	18,000	61,663
2018	42,854	18,800	61,534
2019	42,007	19,600	61,607
2020-2024	195,980	112,200	308,180
2025-2029	168,363	139,800	308,163
2030-2034	133,942	174,200	308,142
2035-2039	91,049	217,100	308,149
2040-2044	<u>37,598</u>	<u>270,600</u>	<u>308,198</u>
Total	<u>\$ 845,073</u>	<u>\$1,004,000</u>	<u>\$ 1,849,073</u>

**CITY OF ISLETON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014**

Note 5 LONG-TERM DEBT (continued)

The annual debt service requirements to maturity including principal and interest for enterprise bonds as of June 30, 2014 are as follows:

<u>Year ending June 30,</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2015	\$ 145,900	\$ 15,000	\$ 160,900
2016	144,763	20,000	164,763
2017	143,625	15,000	158,625
2018	142,487	20,000	162,487
2019	141,025	25,000	166,025
2020-2024	676,038	160,000	836,038
2025-2029	606,244	235,000	841,244
2030-2034	494,062	350,000	844,062
2035-2039	330,150	510,000	840,150
2040-2044	<u>93,775</u>	<u>580,000</u>	<u>673,775</u>
Total	<u>\$ 2,918,069</u>	<u>\$ 1,930,000</u>	<u>\$ 4,848,069</u>

CITY OF ISLETON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

Note 6 INTERFUND TRANSACTIONS

Interfund transactions are reported as loans, services provided, reimbursements, or transfers. Loans are reported as interfund receivables (due from other funds) and payables (due to other funds), as appropriate, and are subject to elimination upon consolidation.

Interfund receivable and payable balances were comprised of the following as of June 30, 2014:

	<u>Due from other funds</u>	<u>Due to other funds</u>
MAJOR GOVERNMENTAL FUNDS		
General Fund	\$ -	\$ 1,174,657
Sacramento Transportation Authority	156,007	-
Supplemental Law Enforcement	-	346,309
Redevelopment Agency	580,798	-
Redevelopment – Low Income	<u>529,168</u>	<u>-</u>
Total major governmental funds	<u>1,265,973</u>	<u>1,520,966</u>
OTHER GOVERNMENTAL FUNDS		
Gas Tax	297,536	-
Local Transportation	122,400	-
Police Evidence Account	-	96
California Law Enforcement Equipment	-	2,277
Parking	820	-
Asset Forfeiture	-	59
Traffic Safety Grant	3,114	-
Parks & Recreation - Wilson	-	17,688
Parks & Recreation - Main Street	1,215	-
Parks & Recreation – Waterfront	22,678	-
Ball Park Account	15	-
FEMA Firefighters	3,646	-
Oil Recovery	18,515	-
Gas Lease	-	250
Waterfront Project - Landside	-	39,659
Waterfront Project – Waterside	-	5,703
Used Oil Block Grant	-	1,552
Development Deposits	<u>-</u>	<u>209,126</u>
Total other governmental funds	<u>469,939</u>	<u>276,410</u>
Total governmental funds	<u>\$ 1,735,912</u>	<u>\$ 1,797,376</u>
MAJOR BUSINESS-TYPE FUNDS		
Sewer	\$ 904,847	\$ -
USDA Sewer Project	<u>-</u>	<u>881,185</u>
Total major business-type funds	<u>904,847</u>	<u>881,185</u>
OTHER BUSINESS-TYPE FUNDS		
Solid Waste	<u>-</u>	<u>1,325</u>
Total business-type funds	<u>\$ 904,847</u>	<u>\$ 882,510</u>
AGENCY FUNDS		
Sphere & Annexation	\$ 13,598	\$ -
Gas Royalties	6,438	-
Cable TV Deposit	<u>19,091</u>	<u>-</u>
Total agency funds	<u>\$ 39,127</u>	<u>\$ -</u>

**CITY OF ISLETON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014**

Note 6 INTERFUND TRANSACTIONS (continued)

Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements occur when one fund incurs a cost, charges to appropriate benefiting fund, and reduces its related costs as a reimbursement. All other interfund transactions are treated as transfers. Transfers among governmental or proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

Interfund transfers in and out were comprised of the following for the year ending June 30, 2014:

	Transfers In	Transfers Out
MAJOR GOVERNMENTAL FUNDS		
General Fund	\$ 67,824	\$ 1,716
Sacramento Transportation Authority	-	11,526
Supplemental Law Enforcement	-	2,000
Total major governmental funds	67,824	15,242
OTHER GOVERNMENTAL FUNDS		
Gas Tax	-	20,649
Total other governmental funds	-	20,649
Total governmental funds	\$ 67,824	\$ 35,891
MAJOR BUSINESS-TYPE FUNDS		
Sewer	\$ 1,716	\$ 30,065
USDA Sewer Project	2,000	5,584
Total major business-type funds	\$ 3,716	\$ 35,649

Note 7 DEFICIT FUND BALANCES

The following funds had deficits in fund balances or retained earnings at June 30, 2014:

Major governmental funds:		Other governmental funds:	
General Fund	1,537,038	Parks & Recreation – Wilson	33,198
Supplemental Law Enforcement	381,790	Gas Lease	250
		Waterfront Project – Landside	39,659
Major business-type funds:		Waterfront Project – Waterside	5,703
USDA Sewer Project	110,755	Used Oil Block Grant	1,552
		Development Deposits	205,917
Other governmental funds:		Other business-type funds:	
Police Evidence Account	96	Solid Waste	1,325
California Law Enforcement Equipment	2,277		
Asset Forfeiture	59		

CITY OF ISLETON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

Note 8 RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, and natural disasters. The City manages risk by participating in the public entity risk pools described below and by retaining certain risks.

Public entity risk pools are formally organized separate entities established under the Joint Exercise of Powers Act of the State of California. As separate legal entities, these risk pools exercise full powers and authorities within the scope of the related Joint Powers Agreements including the preparation of annual budgets, accountability for all funds, the power to make and execute contracts and the right to sue and be sued. Each risk pool is governed by a board consisting of representatives from member municipalities. Each board controls the operations of the respective risk pool, including selection of management and approval of operating budgets, independent of any influence by member municipalities beyond their representation on the board. Obligations and liabilities of these risk pools are the City's responsibility.

Small Cities Organized Risk Effort (SCORE) covers general liability up to \$500,000 per occurrence. The City has no deductible for general liability but is charged back through a retrospective adjustment up to \$25,000 per occurrence. The City has a deductible or uninsured liability of up to \$25,000 per claim for employer practices liability. Once the City deductible is met SCORE becomes responsible for payments of all claims up to the limit. The California Joint Powers Risk Management Authority (CJPRMA) provides coverage above SCORE to \$40,000,000 per occurrence with a sub-limit of \$6,000,000 for employment practices liability. .

Condensed audited financial information of SCORE at and for the fiscal year ended June 30, 2014 is as follows:

Total assets	\$ 12,347,722
Total liabilities	<u>7,190,806</u>
Net position	<u>\$ 5,156,916</u>
Total revenues	\$ 2,921,651
Total expenses	<u>4,286,290</u>
Net income (loss)	<u>\$ (1,364,639)</u>

The City's contributions with each risk pool equal the ratio of the City's payroll to the total payrolls of all entities participating in the same layer of each program, in each program year. Actual surpluses or losses are shared according to a formula developed from overall loss costs and spread to member entities on a percentage basis after a retrospective rating.

Audited financial statements for the risk pool may be obtained from S.C.O.R.E., c/o Alliant Insurance Services, Inc., 1792 Tribute Road, Suite 450, Sacramento, CA 95815.

Note 9 COMMITMENTS AND CONTINGENCIES

The City has received state and federal funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under terms of the grants, it is believed that any required reimbursements will not be material.

In the natural course of events, the City can be named in lawsuits resulting in legal action against the City from normal operations. No amounts are provided in the accompanying financial statements for such contingencies.

Note 10 RELATED PARTIES

During the 2013/14 fiscal year the duties of the City Manager were performed by the City's contracted engineer.

**CITY OF ISLETON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014**

Note 11 PRIOR PERIOD ADJUSTMENT

At June 30, 2013 the City included a payable to the California Department of Recreation in the amount of \$15,510 in both the General Fund and the Parks & Recreation – Wilson Fund. The inclusion of this payable in the General Fund was in error and is corrected through this prior period adjustment.

In conformity with the Government Accounting Standards Board (GASB) the City implemented GASB Statement Number 65 *Items Previously Reported as Assets and Liabilities*. Under this statement debt issuance costs, except any portion related to prepaid insurance costs, should be recognized as an expense in the period incurred. Previously unamortized debt issuance costs in the Sewer Fund were \$278,430.

Note 12 SUBSEQUENT EVENTS

Management of the City has evaluated the events subsequent to June 30, 2014 for disclosure and has determined that as of August 12, 2016 there are no material subsequent events that should be disclosed. If events requiring disclosure have occurred between the balance sheet date and the date the financial statements were available to be issued they would be disclosed here.

**CITY OF ISLETON
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2014**

**CITY OF ISLETON
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

	Budget Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Taxes	\$ 358,500	\$ 358,500	\$ 298,617	\$ (59,883)
Licenses and permits	79,300	79,300	81,294	1,994
Fines and penalties	70	70	1,297	1,227
Use of money	-	-	43	43
Charges for services	51,000	51,000	-	(51,000)
Intergovernmental	-	-	20,023	20,023
Miscellaneous	<u>26,900</u>	<u>26,900</u>	<u>55,610</u>	<u>28,710</u>
Total revenues	<u>515,770</u>	<u>515,770</u>	<u>456,884</u>	<u>(58,886)</u>
EXPENDITURES				
General government	212,323	212,323	343,165	(130,842)
Public safety	119,713	119,713	113,913	5,800
Parks & recreation	4,652	4,652	6,363	(1,711)
Public ways and facilities	61,575	61,575	95,045	(33,470)
Community development	-	-	-	-
Debt service:				
Principal	40,000	40,000	-	40,000
Interest	-	-	-	-
Capital outlay	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>438,263</u>	<u>438,263</u>	<u>558,486</u>	<u>(120,223)</u>
Excess of revenues over (under) expenditures	<u>77,507</u>	<u>77,507</u>	<u>(101,602)</u>	<u>179,109</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	67,824	67,824
Transfers out	<u>-</u>	<u>-</u>	<u>(1,716)</u>	<u>(1,716)</u>
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>66,108</u>	<u>66,108</u>
Net change in fund balance	<u>\$ 77,507</u>	<u>\$ 77,507</u>	<u>\$ (35,494)</u>	<u>\$ 113,001</u>

**CITY OF ISLETON
SUPPLEMENTARY INFORMATION SECTION
JUNE 30, 2014**

**CITY OF ISLETON
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2014**

	Special Revenue Funds	Capital Project Funds	Total
ASSETS:			
Cash and investments	\$ 843	\$ 5,583	\$ 6,426
Receivables:			
Accounts	-	-	-
Due from other funds	<u>469,939</u>	<u>-</u>	<u>469,939</u>
Total assets	<u>\$ 470,782</u>	<u>\$ 5,583</u>	<u>\$ 476,365</u>
LIABILITIES AND FUND EQUITY			
Liabilities:			
Accounts payable	15,510	2,175	17,685
Deposits payable	-	199	199
Due to other funds	<u>20,370</u>	<u>256,040</u>	<u>276,410</u>
Total liabilities	<u>35,880</u>	<u>258,414</u>	<u>294,294</u>
Fund Balances:			
Unassigned	<u>434,902</u>	<u>(252,831)</u>	<u>182,071</u>
Total fund balances	<u>434,902</u>	<u>(252,831)</u>	<u>182,071</u>
Total liabilities and fund balances	<u>\$ 470,782</u>	<u>\$ 5,583</u>	<u>\$ 476,365</u>

**CITY OF ISLETON
COMBINING STATEMENT OF REVNEUES, EXPENDITURES AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

	Special Revenue Funds	Capital Project Funds	Total
REVENUES			
Taxes	\$ 31,366	\$ -	\$ 31,366
Use of money	4	4	8
Charges for services	-	17,937	17,937
Intergovernmental	-	-	-
Total revenues	<u>31,370</u>	<u>17,941</u>	<u>49,311</u>
EXPENDITURES			
General government	-	23,362	23,362
Public safety	-	-	-
Parks & recreation	-	-	-
Public ways and facilities	<u>17,560</u>	<u>-</u>	<u>17,560</u>
Total expenditures	<u>17,560</u>	<u>23,362</u>	<u>40,922</u>
Excess of revenues over (under) expenditures	<u>13,810</u>	<u>(5,421)</u>	<u>8,389</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	-	-	-
Transfers out	<u>(20,649)</u>	<u>-</u>	<u>(20,649)</u>
Total other financing sources (uses)	<u>(20,649)</u>	<u>-</u>	<u>(20,649)</u>
Net change in fund balance	(6,839)	(5,421)	(12,260)
Fund balance, beginning of the year	<u>441,741</u>	<u>(247,410)</u>	<u>194,331</u>
Fund balance, end of the year	<u>\$ 434,902</u>	<u>\$ (252,831)</u>	<u>\$ 182,071</u>

**CITY OF ISLETON
COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
JUNE 30, 2014**

	<u>Gas Tax</u>	<u>Local Transportation</u>	<u>Police Evidence Account</u>	<u>California Law Enforcement Equipment</u>	<u>Parking</u>
ASSETS:					
Cash and investments	\$ 843	\$ -	\$ -	\$ -	\$ -
Receivables:					
Accounts	-	-	-	-	-
Due from other funds	<u>297,536</u>	<u>122,400</u>	<u>-</u>	<u>-</u>	<u>820</u>
Total assets	<u>\$ 298,379</u>	<u>\$ 122,400</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 820</u>
LIABILITIES AND FUND EQUITY					
Liabilities:					
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -
Deposits payable	-	-	-	-	-
Due to other funds	<u>-</u>	<u>-</u>	<u>96</u>	<u>2,277</u>	<u>-</u>
Total liabilities	<u>-</u>	<u>-</u>	<u>96</u>	<u>2,277</u>	<u>-</u>
Fund Balances:					
Unassigned	<u>298,379</u>	<u>122,400</u>	<u>(96)</u>	<u>(2,277)</u>	<u>820</u>
Total fund balances	<u>298,379</u>	<u>122,400</u>	<u>(96)</u>	<u>(2,277)</u>	<u>820</u>
Total liabilities and fund balances	<u>\$ 298,379</u>	<u>\$ 122,400</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 820</u>

**CITY OF ISLETON
COMBINING BALANCE SHEET (continued)
NONMAJOR SPECIAL REVENUE FUNDS (continued)
JUNE 30, 2014**

	<u>Asset Forfeiture</u>	<u>Traffic Safety Grant</u>	<u>Parks & Recreation - Wilson</u>	<u>Parks & Recreation - Main Street</u>	<u>Parks & Recreation - Waterfront</u>
ASSETS:					
Cash and investments	\$ -	\$ -	\$ -	\$ -	\$ -
Receivables:					
Accounts	-	-	-	-	-
Due from other funds	<u>-</u>	<u>3,114</u>	<u>-</u>	<u>1,215</u>	<u>22,678</u>
Total assets	<u>\$ -</u>	<u>\$ 3,114</u>	<u>\$ -</u>	<u>\$ 1,215</u>	<u>\$ 22,679</u>
LIABILITIES AND FUND EQUITY					
Liabilities:					
Accounts payable	\$ -	\$ -	\$ 15,510	\$ -	\$ -
Deposits payable	-	-	-	-	-
Due to other funds	<u>59</u>	<u>-</u>	<u>17,688</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>59</u>	<u>-</u>	<u>33,198</u>	<u>-</u>	<u>-</u>
Fund Balances:					
Unassigned	<u>(59)</u>	<u>3,114</u>	<u>(33,198)</u>	<u>1,215</u>	<u>22,678</u>
Total fund balances	<u>(59)</u>	<u>3,114</u>	<u>(33,198)</u>	<u>1,215</u>	<u>22,678</u>
Total liabilities and fund balances	<u>\$ -</u>	<u>\$ 3,114</u>	<u>\$ -</u>	<u>\$ 1,215</u>	<u>\$ 22,678</u>

**CITY OF ISLETON
 COMBINING BALANCE SHEET (continued)
 NONMAJOR SPECIAL REVENUE FUNDS (continued)
 JUNE 30, 2014**

	<u>Ball Park Account</u>	<u>FEMA Firefighters</u>	<u>Oil Recovery</u>	<u>Gas Lease</u>	<u>Total</u>
ASSETS:					
Cash and investments	\$ -	\$ -	\$ -	\$ -	\$ 843
Receivables:					
Accounts	-	-	-	-	-
Due from other funds	<u>15</u>	<u>3,646</u>	<u>18,515</u>	<u>-</u>	<u>469,939</u>
Total assets	<u>\$ 15</u>	<u>\$ 3,646</u>	<u>\$ 18,515</u>	<u>\$ -</u>	<u>\$ 470,782</u>
LIABILITIES AND FUND EQUITY					
Liabilities:					
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ 15,510
Deposits payable	-	-	-	-	-
Due to other funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>250</u>	<u>20,370</u>
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>250</u>	<u>35,880</u>
Fund Balances:					
Unassigned	<u>15</u>	<u>3,646</u>	<u>18,515</u>	<u>(250)</u>	<u>434,902</u>
Total fund balances	<u>15</u>	<u>3,646</u>	<u>18,515</u>	<u>(250)</u>	<u>434,902</u>
Total liabilities and fund balances	<u>\$ 15</u>	<u>\$ 3,646</u>	<u>\$ 18,515</u>	<u>\$ -</u>	<u>\$ 470,782</u>

**CITY OF ISLETON
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 NONMAJOR SPECIAL REVENUE FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

	<u>Gas Tax</u>	<u>Local Transportation</u>	<u>Police Evidence Account</u>	<u>California Law Enforcement Equipment</u>	<u>Parking</u>
REVENUES					
Taxes	\$ 31,366	\$ -	\$ -	\$ -	\$ -
Use of money	4	-	-	-	-
Intergovernmental	-	-	-	-	-
Total revenues	<u>31,370</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
EXPENDITURES					
General government	-	-	-	-	-
Public safety	-	-	-	-	-
Parks & recreation	-	-	-	-	-
Public ways and facilities	-	17,560	-	-	-
Capital outlay	-	-	-	-	-
Total expenditures	<u>-</u>	<u>17,560</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess of revenues over (under) expenditures	<u>31,370</u>	<u>(17,560)</u>	<u>-</u>	<u>-</u>	<u>-</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	-	-	-	-	-
Transfers out	<u>(20,649)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>(20,649)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	10,721	(17,560)	-	-	-
Fund balance, beginning of the year	<u>287,658</u>	<u>139,960</u>	<u>(96)</u>	<u>(2,277)</u>	<u>820</u>
Fund balance, end of the year	<u>\$ 298,379</u>	<u>\$ 122,400</u>	<u>\$ (96)</u>	<u>\$ (2,277)</u>	<u>\$ 820</u>

**CITY OF ISLETON
 COMBINING STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCE (continued)
 NONMAJOR SPECIAL REVENUE FUNDS (continued)
 FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

	Asset Forfeiture	Traffic Safety Grant	Parks & Recreation - Wilson	Parks & Recreation - Main Street	Parks & Recreation - Waterfront
REVENUES					
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Use of money	-	-	-	-	-
Intergovernmental	-	-	-	-	-
Total revenues	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
EXPENDITURES					
General government	-	-	-	-	-
Public safety	-	-	-	-	-
Parks & recreation	-	-	-	-	-
Public ways and facilities	-	-	-	-	-
Capital outlay	-	-	-	-	-
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess of revenues over (under) expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	-	-	-	-	-
Transfers out	-	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	-	-	-	-	-
Fund balance, beginning of the year	<u>(59)</u>	<u>3,114</u>	<u>(33,198)</u>	<u>1,215</u>	<u>22,678</u>
Fund balance, end of the year	<u>\$ (59)</u>	<u>\$ 3,114</u>	<u>\$ (33,198)</u>	<u>\$ 1,215</u>	<u>\$ 22,678</u>

**CITY OF ISLETON
 COMBINING STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCE (continued)
 NONMAJOR SPECIAL REVENUE FUNDS (continued)
 FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

	Ball Park Account	FEMA Firefighters	Oil Recovery	Gas Lease	Total
REVENUES					
Taxes	\$ -	\$ -	\$ -	\$ -	\$ 31,366
Use of money	-	-	-	-	4
Intergovernmental	-	-	-	-	-
Total revenues	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>31,370</u>
EXPENDITURES					
General government	-	-	-	-	-
Public safety	-	-	-	-	-
Parks & recreation	-	-	-	-	-
Public ways and facilities	-	-	-	-	17,560
Capital outlay	-	-	-	-	-
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>17,560</u>
Excess of revenues over (under) expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>13,810</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	-	-	-	-	-
Transfers out	-	-	-	-	(20,649)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(20,649)</u>
Net change in fund balance	-	-	-	-	(6,839)
Fund balance, beginning of the year	<u>15</u>	<u>3,646</u>	<u>18,515</u>	<u>(250)</u>	<u>441,741</u>
Fund balance, end of the year	<u>\$ 15</u>	<u>\$ 3,646</u>	<u>\$ 18,515</u>	<u>\$ (250)</u>	<u>\$ 434,902</u>

**CITY OF ISLETON
COMBINING BALANCE SHEET
NONMAJOR CAPITAL PROJECT FUNDS
JUNE 30, 2014**

	Waterfront Project - Landside	Waterfront Project - Waterside	Used Oil Block Grant	Developer Deposits	Total
ASSETS:					
Cash and investments	\$ -	\$ -	\$ -	\$ 5,583	\$ 5,583
Receivables:					
Accounts	-	-	-	-	-
Due from other funds	-	-	-	-	-
Total assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,583</u>	<u>\$ 5,583</u>
LIABILITIES AND FUND EQUITY					
Liabilities:					
Accounts payable	\$ -	\$ -	\$ -	\$ 2,175	\$ 2,175
Deposits payable	-	-	-	199	199
Due to other funds	<u>39,659</u>	<u>5,703</u>	<u>1,552</u>	<u>209,126</u>	<u>256,040</u>
Total liabilities	<u>39,659</u>	<u>5,703</u>	<u>1,552</u>	<u>211,500</u>	<u>258,414</u>
Fund Balances:					
Unassigned	<u>(39,659)</u>	<u>(5,703)</u>	<u>(1,552)</u>	<u>(205,917)</u>	<u>(252,831)</u>
Total fund balances	<u>(39,659)</u>	<u>(5,703)</u>	<u>(1,552)</u>	<u>(205,197)</u>	<u>(252,831)</u>
Total liabilities and fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,583</u>	<u>\$ 5,583</u>

**CITY OF ISLETON
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
NONMAJOR CAPITAL PROJECT FUNDS
FOR THE YEAR ENDED JUNE 30, 2014**

	Waterfront Project - Landside	Waterfront Project Waterside	Used Oil Block Grant	Developer Deposits	Total
REVENUES					
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Use of money	-	-	-	4	3
Charges for services	-	-	-	17,937	17,937
Intergovernmental	-	-	-	-	-
Total revenues	<u>-</u>	<u>-</u>	<u>-</u>	<u>17,941</u>	<u>17,941</u>
EXPENDITURES					
General government	-	-	-	23,362	23,362
Public safety	-	-	-	-	-
Parks & recreation	-	-	-	-	-
Capital outlay	-	-	-	-	-
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>23,362</u>	<u>23,362</u>
Excess of revenues over (under) expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>(5,421)</u>	<u>(5,421)</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	-	-	-	-	-
Transfers out	-	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	-	-	-	(5,421)	(5,421)
Fund balance, beginning of the year	<u>(39,659)</u>	<u>(5,703)</u>	<u>(1,552)</u>	<u>(200,496)</u>	<u>(247,410)</u>
Fund balance, end of the year	<u>\$ (39,659)</u>	<u>\$ (5,703)</u>	<u>\$ (1,552)</u>	<u>\$ (205,917)</u>	<u>\$ (252,831)</u>

**CITY OF ISLETON
 COMBINING STATEMENT OF NET POSITION
 NONMAJOR PROPRIETARY FUNDS
 JUNE 30, 2014**

	<u>Sewer Capital Reserve</u>	<u>Sewer Capital Recovery</u>	<u>Solid Waste</u>	<u>Total</u>
ASSETS:				
Cash and investments	\$ 522	\$ 1,123	\$ -	\$ 1,645
Accounts receivable	-	-	-	-
Capital assets	-	-	-	-
Accumulated depreciation	-	-	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 522</u>	<u>\$ 1,123</u>	<u>\$ -</u>	<u>\$ 1,645</u>
LIABILITIES AND FUND EQUITY:				
Liabilities:				
Payables:				
Accounts	\$ -	\$ -	\$ -	\$ -
Due to other funds	-	-	1,325	1,325
Long-term debt:				
Certificate of participation	-	-	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities	<u> </u>	<u> </u>	<u>1,325</u>	<u>1,325</u>
Net Position:				
Unrestricted	<u>522</u>	<u>1,123</u>	<u>(1,325)</u>	<u>320</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities and net position	<u>\$ 522</u>	<u>\$ 1,123</u>	<u>\$ -</u>	<u>\$ 1,645</u>

**CITY OF ISLETON
COMBINING STATEMENT OF REVENUES, EXPENSES, AND
CHANGE IN FUND NET POSITION – NONMAJOR PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2014**

	Sewer Capital Reserve	Sewer Capital Recovery	Solid Waste	Total
Operating revenues:				
Charges for service	\$ -	\$ -	\$ -	\$ -
Total operating revenues	-	-	-	-
Operating expenses:				
Salaries and benefits	-	-	-	-
Services and supplies	-	-	-	-
Maintenance and operations	-	-	-	-
General and administration	-	-	-	-
Depreciation	-	-	-	-
Total operating expenses	-	-	-	-
Operating income (loss)	-	-	-	-
Non-operating revenues (expenses):				
Interest revenue	-	1	-	1
Intergovernmental	-	-	-	-
Transfers in/(out)	-	-	-	-
Interest expense	-	-	-	-
Total non-operating revenues (expense)	-	1	-	1
Changes in net position	-	1	-	1
Net position, beginning of year	<u>522</u>	<u>1,122</u>	<u>(1,325)</u>	<u>319</u>
Net position, end of year	<u>\$ 522</u>	<u>\$ 1,123</u>	<u>\$ (1,325)</u>	<u>\$ 320</u>

**CITY OF ISLETON
STATEMENT OF CASH FLOWS
NONMAJOR PROPRIETARY FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2014**

	Sewer Capital Reserve	Sewer Capital Recovery	Solid Waste	Total
Cash flows from operating activities				
Cash received from operating revenues	\$ -	\$ -	\$ -	\$ -
Cash paid to employees for services	-	-	-	-
Cash paid for operating expenses	-	-	-	-
Net cash provided by operating activities	-	-	-	-
Cash flows from non-capital financing activities				
Reclassification of pooled cash	-	-	-	-
Transfer from/(to) other fund types	-	-	-	-
Net cash provided by non-capital financing activities	-	-	-	-
Cash flows from capital and related financing activities				
Purchase of fixed assets	-	-	-	-
Payments on long-term debt	-	-	-	-
Interest and fiscal charges	-	-	-	-
Net cash provided (used) by capital and related financing activities	-	-	-	-
Cash flows from investing activities				
Interest earnings	-	1	-	1
Net cash provided by investing activities	-	1	-	1
Net increase (decrease) in cash and cash equivalents	-	1	-	1
Cash and cash equivalents – beginning of the year	522	1,122	-	1,644
Cash and cash equivalents – end of the year	\$ 522	\$ 1,123	\$ -	\$ 1,645
Reconciliation of operating income to net cash				
Provided (used) by operating activities:				
Operating income	\$ -	\$ -	\$ -	\$ -
Adjustments to reconcile operating income to				
Net cash provided (used) by operating activities:				
Depreciation	-	-	-	-
Debt forgiveness	-	-	-	-
(Increase) decrease in accounts receivable	-	-	-	-
Increase (decrease) in accounts payable	-	-	-	-
Net cash provided by operating activities	\$ -	\$ -	\$ -	\$ -

**CITY OF ISLETON
 COMBINING STATEMENT OF NET POSITION
 AGENCY FUNDS
 JUNE 30, 2014**

	<u>Sphere & Annexation</u>	<u>Gas Royalties</u>	<u>Cable TV Deposits</u>	<u>Total</u>
ASSETS:				
Due from other funds	\$ 10,798	\$ 6,438	\$ 1,091	\$ 18,327
Loan to general fund	<u>2,800</u>	<u>-</u>	<u>18,000</u>	<u>20,800</u>
Total assets	<u>\$ 13,598</u>	<u>\$ 6,438</u>	<u>\$ 19,091</u>	<u>\$ 39,127</u>
LIABILITIES				
Agency fund held for others	<u>\$ 13,598</u>	<u>\$ 6,438</u>	<u>\$ 19,091</u>	<u>\$ 39,127</u>
Total liabilities	<u>\$ 13,598</u>	<u>\$ 6,438</u>	<u>\$ 19,091</u>	<u>\$ 39,127</u>

**CITY OF ISLETON
 COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
 AGENCY FUNDS
 FOR THE YEAR ENDED JUNE 30, 2014**

	Balance June 30, 2013	<u>Additions</u>	<u>Deductions</u>	Balance June 30, 2014
<u>Sphere & Annexation</u>				
ASSETS:				
Cash and investments	\$ -	\$ -	\$ -	\$ -
Due from other funds	10,798	-	-	10,798
Loan to general fund	2,800	-	-	2,800
Total assets	<u>\$ 13,598</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,598</u>
LIABILITIES				
Agency fund held for others	\$ 13,598	\$ -	\$ -	\$ 13,598
Total liabilities	<u>\$ 13,598</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,598</u>
<u>Gas Royalties</u>				
ASSETS:				
Cash and investments	\$ -	\$ -	\$ -	\$ -
Due from other funds	6,438	-	-	6,438
Total assets	<u>\$ 6,438</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,438</u>
LIABILITIES				
Agency fund held for others	\$ 6,438	\$ -	\$ -	\$ 6,438
Total liabilities	<u>\$ 6,438</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,438</u>
<u>Cable TV Deposit</u>				
ASSETS:				
Cash and investments	\$ -	\$ -	\$ -	\$ -
Due from other funds	1,091	-	-	1,091
Loan to general fund	18,000	-	-	18,000
Total assets	<u>\$ 19,091</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 19,091</u>
LIABILITIES				
Agency fund held for others	\$ 19,091	\$ -	\$ -	\$ 19,091
Total liabilities	<u>\$ 19,091</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 19,091</u>
<u>Total Trust and Agency</u>				
ASSETS:				
Cash and investments	\$ -	\$ -	\$ -	\$ -
Due from other funds	18,327	-	-	18,327
Loan to general fund	20,800	-	-	20,800
Total assets	<u>\$ 39,127</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 39,127</u>
LIABILITIES				
Agency fund held for others	\$ 39,127	\$ -	\$ -	\$ 39,127
Total liabilities	<u>\$ 39,127</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 39,127</u>

CITY OF ISLETON
ISLETON, CALIFORNIA
JUNE 30, 2014

CITY COUNCIL

	<u>Position</u>	<u>Term Expires</u>
Mark Bettencourt	Mayor	November, 2015
Robert Jankovitz	Vice Mayor	November, 2014
Elizabeth Samano	Member	November, 2014
Pamela Bulahan	Member	November, 2015

CITY ADMINISTRATOR
Dan Hinrichs

CITY CLERK
Yvonne Zepeda

CITY TREASURER
Pamela Bulahan

**CITY OF ISLETON
OTHER REPORTS
JUNE 30, 2014**

**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**

To the City Council
City of Isleton, California

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, the aggregate remaining fund information, the fiduciary funds and the component units of City of Isleton, California ("City"), as of and for the year ended June 30, 2014, which collectively comprise the City's basic financial statements and have issued our report thereon dated August 12, 2016. 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 a basis for designing our audit procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies and others that we consider to be material weaknesses.

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 significant deficiency in internal control* is a deficiency, or 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. We consider the deficiencies number 14-01 through 14-02 described in the accompanying schedule of findings to be significant deficiencies in the City's internal control.

A *material weakness* is a deficiency, or 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. We consider deficiency number 14-03 to be a material weakness in the City's internal control.

Compliance and Other Matters

As part of reasonably assuring whether the City of Isleton, California's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and are listed as number 14-04.

The City of Isleton, California's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the City's responses and, accordingly, we express no opinion on them.

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


Don Cole & Company
Sacramento, California

August 12, 2016

**CITY OF ISLETON
FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED
JUNE 30, 2014**

**CITY OF ISLETON
FINDINGS AND RECOMMENDATIONS
JUNE 30, 2014**

Our examination disclosed the following conditions we considered serious enough to bring to your attention:

14-01. BUDGET

Finding: In reviewing actual revenues versus the budgeted revenues of the General Fund it was noted that there are significant disparities between the actual amounts and the budget amounts. Expenditures were 37% more than budgeted. Good fiscal management requires the continued monitoring of actual revenues versus budgeted amounts to better anticipate changing circumstances and make timely necessary adjustments to the budget and spending plans.

Recommendation: We recommended that a procedure be implemented wherein there is a periodic review of actual performance and budgeted performance. This will allow for needed adjustments to the budget and spending plan and provided improved control over city finances.

City response: The City budgetary process, beginning in 2014/15, the budget estimates are based on more accurate revenue projections than in the past. The City now does a mid-year budget review and update. The City also tracks actual expenditures against revenue on a monthly basis.

14-02. POLICIES AND PROCEDURES

Finding: It was noted that the City does not have written procedures for performing many of the current financial processes.

Recommendation: It is recommended that the City develop written policies and procedures for all current financial processes.

City response: The City with the help of a consultant has commenced development of a policies and procedures manual for financial processes as well as all other City functions.

14-03. ACCURACY OF FINANCIAL REPORTING

Finding: Shortcomings in the accounting system are demonstrated by the following:

- a) The City does not properly record receivables turned over to the County for collection,
- b) Amounts transferred to other funds did not equal amounts transferred from other funds.

Recommendation: We recommend the level of supervision for the accounting and financial reporting functions for the City be evaluated to determine that personnel in these positions possess adequate knowledge and understanding of governmental financial reporting.

City response: In the 2014/15 fiscal year the City is working with a consultant in training City personnel in generally accepted accounting procedures.

**CITY OF ISLETON
FINDINGS AND RECOMMENDATIONS
JUNE 30, 2014**

14-04. USDA SEWER PROJECT EXPENDITURES

Finding: It was noted by the preceding auditors that amounts claimed for reimbursement on the USDA sewer project were not reconciled to fund 412 of the primary accounting records of the City. It was further noted in testing of disbursements for this project that \$85,703 was paid to the City General fund to reimburse for the previous year's expenses, however, no support or documentation was provided to substantiate that amount.

Recommendation: It is recommended that all grant accounting be reconciled to the primary accounting records of the City and that all amounts charged to this project be properly supported. In addition, we recommend that unless proper documentation is provided for the \$85,703 transferred to the General fund, that the amount be returned to the USDA sewer project fund.

City response: The previous City Manager's first notification regarding this issue was in the fall of 2008 from the USDA. Steps are now being taken to research and verify that appropriate documentation exists to support expenditure of the \$85,703. This is a preexisting situation that occurred under previous administrations and we are working closely with the USDA to rectify this problem. Should our research substantiate the audit findings we will make the appropriate reimbursements. It should be noted that this project is now closed therefore the City can no longer, according to the USDA, reimburse the fund. Therefore the City will, if documentation cannot be found, pay directly to the USDA the sum of \$85,703.

**CITY OF ISLETON
STATUS OF PRIOR FINDINGS AND RECOMMENDATIONS
JUNE 30, 2014**

13-01. BUDGET

Finding: The budget for the 2012/13 fiscal year was adopted at the November 7, 2013 Special City Council meeting. In reviewing actual revenues versus the budgeted revenues of the General Fund it was noted that there are significant disparities between the actual amounts and the budget amounts. Expenditures were 37% more than budgeted. Good fiscal management requires the continued monitoring of actual revenues versus budgeted amounts to better anticipate changing circumstances and make timely necessary adjustments to the budget and spending plans.

Recommendation: We recommend that budgets are adopted on a timely basis. We further recommended that a procedure be implemented wherein there is a periodic review of actual performance and budgeted performance. This will allow for needed adjustments to the budget and spending plan and provided improved control over city finances.

Status: The 2013/14 budget was passed on June 19, 2013. Revenues continue to be overly optimistic and expenditures in the current year were 27% more than budgeted.

13-02. POLICIES AND PROCEDURES

Finding: It was noted that the City does not have written procedures for performing many of the current financial processes.

Recommendation: It is recommended that the City develop written policies and procedures for all current financial processes.

Status: Repeat current year.

13-03. ACCURACY OF FINANCIAL REPORTING

Finding: Shortcomings in the accounting system are demonstrated by the following:

- a) The City does not properly record receivables turned over to the County for collection,
- b) Amounts transferred to other funds did not equal amounts transferred from other funds,
- c) City is unable to prepare their financial statements,
- d) Accruals are not being properly recorded,
- e) Bank reconciliations were not performed on a timely basis.

Recommendation: We recommend the level of supervision for the accounting and financial reporting functions for the City be evaluated to determine that personnel in these positions possess adequate knowledge and understanding of governmental financial reporting.

- Status:**
- a) Repeat current year,
 - b) Repeat current year,
 - c) Implemented,
 - d) Implemented,
 - e) Implemented.

CITY OF ISLETON
STATUS OF PRIOR FINDINGS AND RECOMMENDATIONS
JUNE 30, 2014

13-04. USDA SEWER PROJECT EXPENDITURES

Finding: It was noted by the preceding auditors that amounts claimed for reimbursement on the USDA sewer project were not reconciled to fund 412 of the primary accounting records of the City. It was further noted in testing of disbursements for this project that \$85,703 was paid to the City General fund to reimburse for the previous year's expenses, however, no support or documentation was provided to substantiate that amount.

Recommendation: It is recommended that all grant accounting be reconciled to the primary accounting records of the City and that all amounts charged to this project be properly supported. In addition, we recommend that unless proper documentation is provided for the \$85,703 transferred to the General fund, that the amount be returned to the USDA sewer project fund.

Status: Repeat current year.

DEPARTMENT OF TRANSPORTATION**DISTRICT 3**

703 B STREET
MARYSVILLE, CA 95901
PHONE (530) 741-4233
FAX (530) 741-4245
TTY 711
www.dot.ca.gov



*Serious Drought.
Serious drought.
Help save water!*

January 19, 2017

Mr. Jeffrey Spencer
Sacramento Transportation Authority
431 I Street, Suite 106
Sacramento, CA 95814

Dear Mr. Spencer:

I am writing to request that the Sacramento Transportation Authority (STA) consider three allocation requests from the California Department of Transportation (Caltrans):

1. US 50 - Caltrans is requesting that the STA consider allocating \$7.3 million of additional funding from Measure A to complete the design and right of way (R/W) phases of the US 50 Bus and Carpool Lane project so that the entire segment between Watt Avenue and Interstate 5 (I-5) will be ready to compete for any new State or federal funding that may become available. Caltrans is currently finalizing the Project Report and the Environmental Impact Studies to complete the Project Approval and Environmental Document (PA&ED) Phase. If the additional funding is allocated, the project can be ready to list for construction in spring of 2018. The current STA allocation of \$16,340,156 was based on extending the high occupancy vehicle (HOV) lanes on US 50 from Watt only to near the State Route 99 (SR 99) Interchange, but the City of Sacramento now supports extending the project limits to I-5.
2. I-5 – Caltrans is requesting that the STA consider allocating up to \$30 million for construction of Phase 1 of the I-5 Bus and Carpool Lane Project. The most recent STA Capital Allocation Worksheet anticipates expenditures of over \$185 million of additional Measure A funding for I-5 between 2023 and 2037 to complete the HOV lanes from Elk Grove Blvd to US 50 in phases. Caltrans goal is to deliver all phases of the I-5 HOV lanes between Elk Grove and US 50 for less than the \$85 million currently programmed for just Phase 1. Caltrans is currently finalizing design on a major rehabilitation project on I-5 that will go to construction in 2018 or 2019 and there is an opportunity to complete a significant portion of the I-5 HOV lanes at the same time, if up to \$30 million of Measure A funding could be allocated 5 years earlier than originally planned for construction of elements like bridges and soundwalls that are not eligible for funding from the State Highway Operation and Protection Program (SHOPP).

3. Funding Swap between I-5 and US 50 – Currently there are no federal funds programmed for the US 50 HOV project so there are procedural obstacles to getting clearance for the project under the National Environmental Protection Act (NEPA). It is important to have NEPA clearance so that federal funds could be added to the funding plan for construction without undue delay to revisit the environmental clearance. The Sacramento Area Council of Governments (SACOG) is currently funding the design and R/W phases for the I-5 HOV project with federal Congestion Mitigation and Air Quality (CMAQ) dollars. One alternative to meet the procedural requirement of federal funding for NEPA clearance for the 50 HOV project would be a fund swap between the I-5 and US 50 HOV projects where SACOG would approve shifting \$50-100,000 of CMAQ funds from the I-5 HOV project to the 50 HOV project in exchange for the STA backfilling the funds on I-5 with New Measure A. Caltrans is exploring other alternatives for federal funding on US 50, but we would like to know if the STA would support a funding swap.

I know that the STA is under pressure to fund many projects as soon as possible, but I am hoping that Independent Taxpayer Oversight Committee (ITOC) and the STA Board will see the value in accelerating the delivery of the Bus and Carpool Lanes on both US 50 and I-5. These projects will both allow more traffic to be handled by the State Highway System (SHS) which reduces congestion and maintenance requirements on local streets.

The projects are both also the types of major improvements that should compete well for any new State and federal funding sources once they are “shovel ready”. More importantly, if we can compete successfully for other funds and leverage the funding in Caltrans SHOPP projects, more Measure A funds will be available for completing rest of the US 50 and I-5 HOV lanes as well as the interchange upgrades necessary to optimize the HOV network in Sacramento.

Caltrans has worked effectively with the STA in the past to use Measure A funding to put projects like 80 Across the Top and the HOV lanes on US 50 between Sunrise and Watt in position to compete for funding from other sources and we are optimistic that new funding sources will become available to complete construction of the HOV network if we continue to leverage Measure A funding effectively to get projects shovel ready.

We recognize that it might take several months to finalize a decision on these current requests, but we are anxious to start the dialog with the ITOC and the STA Board so final decisions can be made in March or April. We anticipate SHOPP funding will be allocated for the I-5 Rehab Project in May or June, so it will be important to have funding approved for the HOV elements not eligible for SHOPP funding before that to ensure the HOV elements are included in the construction package.

Mr. Jeffrey Spencer
January 19, 2017
Page 3

Wayne Lewis and Sutha Suthahar plan on attending the ITOC meeting on January 26th to provide additional information and answer any questions that you or the ITOC may have. If you have any questions before then, please do not hesitate to contact Wayne at 916-217-3791 or Sutha at 916-799-5794. Our goal is to present a refined proposal to the ITOC in February in preparation for Board action in March or April.

Sincerely,



THOMAS L. BRANNON
Deputy District Director
Program Project Management

c: Wayne Lewis – Caltrans by email
Sutha Suthahar – Caltrans by email
Timothy Jones – STA by email