

**City of Calexico
Transportation Development Act
Article 8c**

Calexico, California

**Financial Statements
and Independent Auditor's Reports**

For the Years Ended June 30, 2016 and 2015



City of Calexico
Transportation Development Act – Article 8c
For the Years Ended June 30, 2016 and 2015

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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Members of the City Council
of the City of Calexico
Calexico, California

Report on Financial Statements

We have audited the accompanying financial statements of the Transportation Development Act (TDA) Article 8c Fund (the "TDA Transit Fund") of the City of Calexico, California (the "City") as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the TDA Transit Fund'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 audits. We conducted our audits 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control 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.

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To the Honorable Mayor and Members of the City Council
of the City of Calexico
Calexico, California
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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the TDA Transit Fund of the City, as of June 30, 2016 and 2015, and the results of its operations for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

As described in Note 1, the accompanying financial statements present only the TDA Transit Fund and are not intended to, and do not, present fairly the financial position of the City as of June 30, 2016 and 2015, and the changes in net position thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 2, 2017 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the City's internal control over financial reporting and compliance.



San Diego, California
May 2, 2017

FINANCIAL STATEMENTS

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City of Calexico
Transportation Development Act – Article 8c
Statements of Net Position
June 30, 2016 and 2015

	2016	2015
ASSETS		
Cash and investments	\$ 17,586	\$ 17,586
Total assets	17,586	17,586
LIABILITIES		
Due to other governmental agencies	17,586	-
Unearned revenue	-	15,595
Total liabilities	17,586	15,595
NET POSITION		
Restricted	-	1,991
Total net position	\$ -	\$ 1,991

City of Calexico
Transportation Development Act – Article 8c
Statements of Revenues, Expenses, and Changes in Net Position
For the Years Ended June 30, 2016 and 2015

	2016	2015
OPERATING REVENUES:		
Charges for services	\$ -	\$ 10,306
Total operating revenues	-	10,306
OPERATING EXPENSES:		
Material, supplies, and operational expenses	-	96,234
Total operating expenses	-	96,234
OPERATING (LOSS)	-	(85,928)
NONOPERATING REVENUES:		
TDA funds	-	85,928
Total nonoperating revenues	-	85,928
Changes in net position	-	-
NET POSTION:		
Beginning of year, as restated	-	1,991
End of year	\$ -	\$ 1,991

City of Calexico
Transportation Development Act Fund – Article 8c
Statements of Cash Flows
For the Years Ended June 30, 2016 and 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from riders	\$ -	\$ 10,306
Cash payments to suppliers for goods and services	-	(129,808)
Net cash (used in) operating activities	-	(119,502)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
TDA funds received	-	344,533
Payment of amount due to City of Calexico	-	(207,445)
Net cash provided by non-capital financing activities	-	137,088
Net increase in cash and cash equivalents	-	17,586
CASH AND CASH EQUIVALENTS:		
Beginning of year	17,586	-
End of year	\$ 17,586	\$ 17,586
RECONCILIATION OF OPERATING INCOME		
(LOSS) TO NET CASH PROVIDED BY (USED IN)		
OPERATING ACTIVITIES:		
Operating (loss)	\$ -	\$ (85,928)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Changes in operating assets and liabilities:		
Accounts payable	-	(33,574)
Total adjustments	-	(33,574)
Net cash (used in) operating activities	\$ -	\$ (119,502)

City of Calexico
Transportation Development Act Fund – Article 8c
Notes to the Financial Statements
For the Years Ended June 30, 2016 and 2015

Note 1 – Summary of Significant Accounting Policies

The Reporting Entity

The financial statements of the Transportation Development Act (TDA) Article 8c Fund (the “TDA Transit Fund”) are intended to present the financial position and changes in financial position of only those transactions attributable to the TDA fund related to transit operations administered and disbursed by the City of Calexico, California (the “City”).

The accounting policies of the TDA Transit Fund of the City are in conformity with generally accepted accounting principles in the United States applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing accounting and financial reporting principles. The following is a summary of the more significant accounting policies.

Financial Statements

The TDA Transit Fund is an enterprise fund type. The TDA Transit Fund accounts for the City’s share of the TDA Article 8c allocations. The TDA Transit Fund is legally restricted for specific purposes and is included in the basic financial statements of the City.

The comparative financial statements of the TDA Transit Fund include Statements of Net Position, Statements of Revenues, Expenses and Changes in Net Position, and Statements of Cash Flows.

The financial statements are prepared using the “*economic resources*” measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or non-current) are included on the Statement of Net Position. The Statements of Revenues, Expenses and Changes in Net Position present increases (revenues) and decreases (expenses) in total net position.

Basis of Accounting

The City accounts for the activities of the TDA Transit Fund in an enterprise fund maintained on the accrual basis of accounting. Under this basis of accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the providers have been met.

Cash and Cash Equivalents

The cash is held by the TDA Transit Fund as part of the City’s pooled cash and investments. The pooled funds are invested in accordance with the City’s investment policy established pursuant to state law. All monies not required for immediate expenses are invested or deposited to earn maximum yield consistent with safety and liquidity. Interest income is allocated to the fund based on its proportionate share of the pool. Refer to the City’s Basic Financial Statements for disclosures of cash and investments and related risk categorization. For the Statement of Cash Flows, the City considers all pooled cash and investments of the TDA Transit Fund as cash and cash equivalents because the pool is used essentially as a demand deposit account from the standpoint of the TDA Transit Fund.

City of Calexico
Transportation Development Act Fund – Article 8c
Notes to the Financial Statements (Continued)
For the Years Ended June 30, 2016 and 2015

Note 1 – Summary of Significant Accounting Policies (Continued)

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Note 2 – Cash and Investments

The City has pooled its cash and investments in order to achieve a higher return on investments while facilitating management of cash. Cash in excess of current requirements is invested in various interest-bearing accounts and other investments for varying terms. The balance of the TDA Transit Fund’s cash, as of June 30, 2016 and 2015, respectively, was as follows:

	2016	2015
TDA Article 8c	\$ 17,586	\$ 17,586

The TDA Transit Fund’s cash is deposited in the City’s internal investment pool, which is reported at fair value. Interest income is allocated based on average cash balances. Investment policies and associated risk factors applicable to the TDA Transit Fund are those of the City and are included in the City’s basic financial statements.

Note 3 – Due from Other Governmental Agencies

Due from other governmental agencies consisted of the following at June 30:

	2016	2015
Imperial Valley Association of Governments	\$ -	\$ -

Note 4 – Unearned Revenue

Allocation of funds received from the State and Local Governments that are unspent as of the end of the fiscal year are recorded as unearned revenue.

Balance at June 30, 2014	101,523
Allocations received	10,306
Funds available	111,829
Less: eligible costs	(96,234)
Balance at June 30, 2015	\$ 15,595
Less: funds to be reimbursed to Imperial County	(15,595)
Balance at June 30, 2016	\$ -

City of Calexico
Transportation Development Act Fund – Article 8c
Notes to the Financial Statements (Continued)
For the Years Ended June 30, 2016 and 2015

Note 5 - Restrictions

Funds received pursuant to TDA Article 8c may only be used to pay for entities under contract to provide public transportation to support any group requiring special transportation assistance.

Note 6 – Transportation Development Act Compliance Requirements

The TDA Transit Fund is subject to the provisions pursuant to Section 6634 and 6637 of the California Code of Regulations and Section 99268.3, 99268.4, and 99268.5 of the Public Utilities Code.

Section 6634

Pursuant to Section 6634, a transit claimant is precluded from receiving monies from the Local Transportation Fund and the State Transit Assistance Fund in an amount that exceeds the claimant’s capital and operating costs less the required fares, local support and the amount received during the year from a city or county to which the operator has provided service beyond its boundaries. The TDA Transit Fund’s overage of upper limit for TDA from the year ended June 30, 2015 indicates the TDA Transit Fund was not in compliance for the provisions of the TDA for the years ended June 30, 2015. The overages of upper limits for TDA will be deducted from the TDA Transit Fund’s subsequent years’ TDA allocations for the years ended June 30, 2016 and 2015.

	2016	2015
Operating costs	\$ -	\$ 96,234
Less:		
Fare revenue	-	-
Upper limit for TDA funding	<u>\$ -</u>	<u>\$ 96,234</u>
TDA Allocation	<u>\$ -</u>	<u>\$ 101,523</u>
Over (under) upper limit for TDA	<u>\$ -</u>	<u>\$ 5,289</u>

Section 6637

Pursuant to Section 6637, the claimant must maintain accurate and complete records and shall prepare and submit an annual report of its operations in accordance with the Uniform System of Accounts and Records. The TDA Transit Fund maintained its accounts and records in accordance with the Uniform System of Accounts and Records and was in compliance with the requirement related to the preparation and submission of an annual report of its operations for the years ended June 30, 2016 and 2015.

Note 7 – Fare Ratio

The TDA Transit Fund is subject to the TDA provisions requiring the calculation of and adherence to fare and local support ratios. Accordingly, the TDA Transit Fund must maintain a minimum fare ratio of 10%. The TDA Transit Fund’s fare ratio of operating revenues to operating expenses for the years ended June 30, 2015, indicates the TDA Transit Fund was in compliance with the TDA provisions for the year ended June 30, 2015.

	2016	2015
Operating Revenues		
Fare revenues	\$ -	\$ 10,306
Total operating revenues	<u>\$ -</u>	<u>\$ 10,306</u>
Operating expenses	\$ -	\$ 96,234
Applicable operating expenses	<u>\$ 96,234</u>	<u>\$ 96,234</u>
Fare ratio	<u>0.0%</u>	<u>10.7%</u>

City of Calexico
Transportation Development Act Fund – Article 8c
Notes to the Financial Statements (Continued)
For the Years Ended June 30, 2016 and 2015

Note 8 – Prior Period Adjustment

The beginning net position at July 1, 2015 for the governmental funds was restated as follows:

Fund balance at July 1, 2015	\$	1,991
Discontinuance of transit operations - Remaining funds to be reimbursed to Imperial County Association of Governments		(1,991)
		(1,991)
Fund balance at July 1, 2015, as restated	\$	-

Note 9 – Contingencies

A. *Litigation*

The City is a defendant in certain legal actions arising in the normal course of operations. Liabilities for the probable amounts of loss associated with these claims are covered through the City’s self-insurance and the California State Association of Counties Excess Insurance Authority. The City management believes that the City’s insurance programs are sufficient to cover any potential losses should an unfavorable outcome materialize.

B. *TDA Funds*

The TDA funds are subject to program compliance audits by the grantors and their representatives. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

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**REPORT ON INTERNALCONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE**

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**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**

Independent Auditors' Report

To the Honorable Mayor and Members of the City Council
of the City of Calexico
Calexico, California

We have audited, in accordance with generally accepted auditing standards 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 accompanying financial statements of the Transportation Development Act (TDA) Article 8c Funds (the "TDA Transit Fund") of the City of Calexico, California (the "City"), as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the TDA Transit Fund's basic financial statements, and have issued our report thereon dated May 2, 2017.

Internal Control Over Financial Reporting

In planning and performing our audits of the financial statements, we considered the TDA Transit Fund's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the TDA Transit Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the TDA Transit Fund'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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the TDA Transit Fund's financial statements are free of material misstatement, we performed tests of their compliance with certain provisions of laws, regulations, contracts and grants, including the requirements governing the TDA Transit Fund as described in §6666 and §6667 of Title 21, Division 3, Chapter 2, Article 5.5 of the California Code of Regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with these provisions was not an objective of our audits of the TDA Transit Fund and, accordingly, we do not express such an opinion. The results of our tests disclosed two instances of noncompliance that are required to be reported under *Government Auditing Standards* and is disclosed as follows.

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Finding 2016-01 Exceed Upper Limit of TDA Funding

Criteria:

Pursuant to Section 6634 of the California Code of Regulations, a transit claimant is precluded from receiving monies from the Local Transportation Fund and the State Transit Assistance Fund in an amount that exceeds the claimant's capital and operating costs less the required fares, local support and the amount received during the year from a city or county to which the operator has provided service beyond its boundaries.

Condition:

The TDA Transit Fund's excess of upper limit funding for TDA from the year ended June 30, 2015 in the amount of \$15,595, indicates the TDA Transit Fund was not in compliance for the provisions of the TDA for the years ended June 30, 2015.

Effect:

The overages of upper limits for TDA will be deducted from the TDA Transit Fund's subsequent years' TDA allocations for the years ended June 30, 2015.

Recommendation:

We recommend the City utilize the unspent portion of the TDA funds before drawing down any new funding for the next fiscal year.

Finding 2016-02 Late Submission of Certified Fiscal Audit

Criteria:

Pursuant to the IVAG Guidebook for the Transportation Development Act: "Certified Fiscal Audit - The TDA statute requires that all claimants submit a certified fiscal audit annually to their regional transportation planning agency and to the State Controller within 180 days after the end of the fiscal year. The fiscal report must include the audited amounts for the prior fiscal year."

Condition:

The City has experienced significant delays in the preparation and issuance of 2016 financial statements and completion of their annual fiscal audit required under the Transportation Development Act.

Effect:

The City is not in compliance with the requirements of the Transportation Development Act.

Recommendation:

The City's Finance Department should develop standard operating procedures to facilitate monthly and year-end closing processes and the preparation of its basic financial statements.

To the Honorable Mayor and Members of the City Council
of the City of Calexico
Calexico, California
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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.

The Per Group, LLP

San Diego, California
March 2, 2017

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**INDEPENDENT ACCOUNTANTS' COMPLIANCE REPORT ON THE
TRANSPORTATION DEVELOPMENT ACT ARTICLE 8C FUND**

To the Honorable Mayor and Members of the City Council
of the City of Calexico
Calexico, California

We have examined the City of Calexico's (the "City") Transportation Development Act 8c Funds (the "TDA Program") compliance with the types of compliance requirements described in Section 6666 of the *Rules and Regulations of the California Administrative Code in the Transportation Development Act Statutes and Administrative Code for 1987* (the Act) and the allocation instructions and resolutions of the Imperial Valley Association of Governments (IVAG) during the year ended June 30, 2016.

Management's Responsibility

The City's management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to the TDA Program.

Accountant's Responsibility

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining on a test basis, evidence about TDA Program's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination of the TDA Program's compliance with specified requirements.

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

Opinion

In our opinion the TDA Program complied, in all material respects, with the aforementioned requirements for the year ended June 30, 2016.

Purpose of this Report

The purpose of this report on compliance is solely to describe the scope of our testing of compliance and the results of that testing based on the requirements of the TDA Program. Accordingly, this report is not suitable for any other purpose.

The Pun Group, LLP

San Diego, California
March 2, 2017