

CITY OF GRIDLEY

TRANSPORATION DEVELOPMENT ACT FUND

Audited Financial Statements
and Compliance Report

June 30, 2019 and 2018

CITY OF GRIDLEY
TRANSPORTATION DEVELOPMENT ACT FUND

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Audited Financial Statements

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INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Gridley, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Transportation Development Act Fund (the Fund) of the City of Gridley (the City), as of and for years ended June 30, 2019 and 2018, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express 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 audit 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 City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Transportation Development Act Fund of the City of Gridley as of June 30, 2019 and 2018, and the changes in financial position thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

To the City Council
City of Gridley, California

Emphasis-of-Matter

As discussed in Note B, the financial statements present only the Transportation Development Act Fund of the City of Gridley and do not purport to, and do not, present fairly the financial position of the City of Gridley as of June 30, 2019 and 2018, the changes in financial position, or where applicable, its cash flows 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 Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 23, 2020 on our consideration of the City's internal control over financial reporting related to the Fund and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters, and the Transportation Development Act. 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 City's internal control over financial reporting and compliance.

Richardson & Company, LLP

March 23, 2020

CITY OF GRIDLEY
TRANSPORATION DEVELOPMENT ACT FUND

BALANCE SHEETS

June 30, 2019 and 2018

	2019	2018
ASSETS		
CURRENT ASSETS		
Cash and investments	\$ 596,428	\$ 577,482
Interest receivable	33	264
Due from other City funds	3,297	-
TOTAL CURRENT ASSETS	599,758	577,746
TOTAL ASSETS	\$ 599,758	\$ 577,746
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 178	\$ 9
TOTAL CURRENT LIABILITIES	178	9
FUND BALANCE		
Restricted for streets and road	599,580	577,737
TOTAL FUND BALANCE	599,580	577,737
TOTAL LIABILITIES AND FUND BALANCE	\$ 599,758	\$ 577,746

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

CITY OF GRIDLEY
TRANSPORATION DEVELOPMENT ACT FUND

STATEMENTS OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE

For the Years Ended June 30, 2019 and 2018

	2019	2018
REVENUES		
Local Transportation Funds:		
Transit services	\$ 23,281	\$ 19,742
Streets and roads	127,265	107,264
Interest	1,295	821
TOTAL REVENUES	151,841	127,827
EXPENDITURES		
Transit administration	23,281	19,903
Streets and roads	106,717	41,675
TOTAL EXPENDITURES	129,998	61,578
EXCESS OF REVENUES OVER EXPENDITURES	21,843	66,249
Fund balance at beginning of year	577,737	511,488
FUND BALANCE AT END OF YEAR	\$ 599,580	\$ 577,737

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

CITY OF GRIDLEY
TRANSPORTATION DEVELOPMENT ACT FUND

NOTES TO FINANCIAL STATEMENTS

June 30, 2019 and 2018

NOTE A – ORGANIZATION

The City of Gridley (the City) receives funds under the provisions of the Transportation Development Act (TDA) from the Butte County Local Transportation Fund (LTF) under Article 8, Section 99402 and the State Transit Assistance Fund (STAF) under Article 4, Section 6731(b). The funds represent amounts available after the determination by the Butte County Association of Governments (BCAG), the transportation planning agency administering TDA funds, of amounts needed to meet the unmet transportation needs of the City not otherwise being met. The City's Article 8, Section 99402 LTF funds are to be used for local street and road projects. The STA Funds are to be used for public transit purposes only. The City contracts for bus services through BCAG's transit fund, Butte Regional Transit (BRT).

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation: The financial statements of the Transportation Development Act Fund of the City of Gridley (the Fund) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Reporting Entity: The financial statements are intended to present the financial position and results of operations of only those transactions recorded in the Fund. The Transportation Development Act Fund is included in the financial statements of the City.

Fund Accounting: The accounts of the City are organized on the basis of funds. A fund is an accounting entity with a self-balancing set of accounts established to record the financial position and results of operations of a specific governmental activity.

The City utilizes the special revenue fund type of the governmental fund group to account for the activities of the Fund, which is accounted for in the City's SB325 Fund. Special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for a specific purpose.

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

The modified accrual basis of accounting is used by special revenue funds. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual, i.e., when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period, which is generally 60 days. LTF and STAF revenues are recognized when all eligibility requirements have been met and the amounts are received within 60 days. Revenues that do not meet this availability period are recorded as deferred inflows of resources. Expenditures are recorded when the related fund liability is incurred.

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

Short-term Interfund Receivable: During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due to other funds" and "due from other funds" on the balance sheet. The "due from other City funds" at June 30, 2019 represents street and road revenue recorded in the Senior Taxi Fund.

CITY OF GRIDLEY
TRANSPORTATION DEVELOPMENT ACT FUND
NOTES TO FINANCIAL STATEMENTS (Continued)

June 30, 2019 and 2018

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Balance: Restrictions of fund balance represent amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers or through enabling legislation. The restrictions of fund balance are according to the provisions of the Transportation Development Act and the purpose of each restriction is indicated by the account title on the face of the balance sheets.

NOTE C – CASH AND INVESTMENTS

The Fund's cash is held in the City Treasury. The City maintains cash and investments in the State of California's Local Agency Investment Fund (LAIF) and other Money Market Funds and allocates interest to the various funds based upon the average daily cash balances. Investments held in the City's cash accounts are available on demand to the Fund and are stated at cost, which approximates fair value. The City's investment policy, interest rate risk and credit risk may be found in the notes to the City of Gridley's basic financial statements.

NOTE D – FARE REVENUE RATIO

Transit operators are required to maintain a fare revenue to operating expenses ratio in order to be eligible for TDA funding. Since the City contracts with the BRT for its transit services, no fare revenues are recorded in the City of Gridley's TDA Fund financial statements. A fare revenue ratio is calculated for BRT in the BCAG audited financial statements.

NOTE E – CONCENTRATIONS

The Fund receives a substantial amount of its support from a statewide retail sales tax for the LTF and a gas sales tax for the STA which were created by the Transportation Development Act. A significant reduction in the level of this support, if this were to occur, may have a significant affect on the Fund's activities.

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

To the City Council
City of Gridley, 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 Transportation Development Act Fund of the City of Gridley as of and for the year ended June 30, 2019, and the related notes to the financial statements and have issued our report thereon dated March 23, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Fund's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as item 2019-1 that we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fund'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. Our audit was further made to determine that Transportation Development Act (TDA) funds allocated to and received by the City were expended in conformance with the applicable statutes, rules and regulations of the TDA and Sections 6666 and 6667 of the California Code of Regulations. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that is required to be reported under *Government Auditing Standards* and the TDA.

To the City Council
City of Gridley, California

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* and the TDA in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Richardson & Company, LLP

March 23, 2020

CITY OF GRIDLEY
TRANSPORTATION DEVELOPMENT ACT FUND
SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended June 30, 2019

INTERNAL CONTROL OVER FINANCIAL REPORTING

CURRENT YEAR FINDINGS:

Finding 2019-1

Criteria: Internal controls over financial reporting should be in place to ensure management has the ability to initiate, record, process and report financial data consistently with the assertions of management in the financial statements.

Condition: The City did not record audit adjustments made during the June 30, 2018 and prior audits causing the fund balance to not rollforward correctly.

Effect: Audit adjustments were required to correct fund balance roll-forward from the prior year so that the City's general ledger is consistent with amounts reported in the audited financial statements.

Cause: The City did not update the TDA Fund for all activity that occurred during the year.

Recommendation: We recommend the City record audit adjustments made during the TDA audit so the general ledger is consistent with how the fund is reported in the audited financial statements.

Management's Response: The City will accept the recommendation to record all future audit adjustments during the TDA audit so that the general ledger is consistent with how the fund is reported in the audited financial statements.