

**CITY OF HANFORD
TRANSPORTATION DEVELOPMENT ACT FUND
NON-TRANSIT OPERATIONS**

**FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITORS' REPORT**

**FOR THE YEARS ENDED
JUNE 30, 2016 AND 2015**

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditors' Report	1
 Financial Statements:	
Fund Financial Statements:	
Article 8 Section 99400(a) of the Public Utilities Code	
Balance Sheets	3
Statements of Revenues, Expenditures and Changes in	
Fund Balance.....	4
Notes to Financial Statements.....	5
Independent Auditors' Report on Internal Control Over Financial	
Reporting and on Compliance with the Transportation Development	
Act and Other Matters Based on an Audit of Financial Statements	
Performed in Accordance with <i>Government Auditing Standards</i>	11
Schedule of Findings and Recommendations	13
Summary Schedule of Prior Year Findings	14



INDEPENDENT AUDITORS' REPORT

To the City Council
Hanford, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Transportation Development Act (TDA) Fund of the City of Hanford, California (the City), pertaining to Article 8 Section 99400(a) of the Public Utilities Code as recorded in the City's Local Transportation Fund (LTF) 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 Fund of the City's 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.

Auditors' 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.

Opinion

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

Emphasis-of-Matters

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information be presented to supplement the basic financial statements. Management has omitted such information. 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. Our opinion on the basic financial statements is not affected by this missing information.

As discussed in Note 1 to the financial statements, the financial statements present only the TDA Fund of the City referred to above and are not intended to present the financial position of the City and the respective changes in financial position, or where applicable, its cash flows for the years then ended, in accordance 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 April 11, 2017, on our consideration of the TDA Fund of the City'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 TDA Fund of the City's internal control over financial reporting and compliance.

HUDSON HENDERSON & COMPANY, INC.

Hudson Henderson & Company, Inc.

Fresno, California
April 11, 2017

CITY OF HANFORD
TRANSPORTATION DEVELOPMENT ACT FUND
NON-TRANSIT OPERATIONS
BALANCE SHEETS
JUNE 30, 2016 AND 2015

	2016	2015
ASSETS		
Current Assets		
Cash and Investments	\$ 2,939,617	\$ 2,431,827
Receivables	<u>461,750</u>	<u>242,365</u>
Total Assets	<u><u>\$ 3,401,367</u></u>	<u><u>\$ 2,674,192</u></u>
LIABILITIES AND FUND BALANCE		
Liabilities		
Accounts Payable	\$ 153,181	\$ 238,067
Advances - TDA Funding	<u>2,907,715</u>	<u>2,115,025</u>
Total Liabilities	<u><u>3,060,896</u></u>	<u><u>2,353,092</u></u>
Fund Balance		
Restricted	<u>340,471</u>	<u>321,100</u>
Total Fund Balance	<u><u>340,471</u></u>	<u><u>321,100</u></u>
Total Liabilities and Fund Balance	<u><u><u>\$ 3,401,367</u></u></u>	<u><u><u>\$ 2,674,192</u></u></u>

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

CITY OF HANFORD
TRANSPORTATION DEVELOPMENT ACT FUND
NON-TRANSIT OPERATIONS
STATEMENTS OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
REVENUES		
Allocation from County of Kings Local Transportation Fund	\$ 620,221	\$ 277,402
Grant Revenue	-	4,056
Interest	<u>19,371</u>	<u>8,527</u>
 Total Revenues	 <u>639,592</u>	 <u>289,985</u>
EXPENDITURES		
Street and Road Maintenance	<u>620,221</u>	<u>277,402</u>
 Total Expenditures	 <u>620,221</u>	 <u>277,402</u>
 Net Change in Fund Balance	 19,371	 12,583
Fund Balance, Beginning of Year	321,100	179,331
Prior Period Adjustment	<u>-</u>	<u>129,186</u>
 Fund Balance, End of Year	 <u>\$ 340,471</u>	 <u>\$ 321,100</u>

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

**CITY OF HANFORD
TRANSPORTATION DEVELOPMENT ACT FUND
NON-TRANSIT OPERATIONS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity: Article 8 allocations under Public Utilities Code Section 99400(a) of the Transportation Development Act (TDA) are recorded in the Local Transportation Fund (LTF) – Fund No. 25 (the Fund) of the City of Hanford, California (the City). The basic financial statements included in this report are intended to present the financial position and results of operations of only the transactions of the LTF of the City. They are not intended to present the financial position and the results of operations of the City taken as a whole. For additional information regarding the City, please refer to the Annual Financial Report available from the City.

Measurement Focus, Basis of Accounting and Financial Statement Presentation:

The basic financial statements of the TDA Fund of the City are prepared on the basis of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – Management Discussion and Analysis – for State and Local Governments*, and related standards.

- Fund Financial Statements-

The TDA Fund of the City is accounted for using a flow of current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities are generally included on the Balance Sheets. The Statements of Revenues, Expenditures and Changes in Fund Balance reflects the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the TDA Fund of the City considers revenues to be available if they are collected within sixty days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under the accrual basis of accounting. However, compensated absences are recorded only when payment is due.

When both restricted and unrestricted resources are available for use, it is the TDA Fund of the City's policy to use restricted resources first, then unrestricted resources as they are needed. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements, therefore, include a reconciliation with brief explanations to better identify the relationship between the government-wide financial statements and the fund financial statements for the governmental fund.

The TDA Fund of the City reports the following major governmental fund:

The **Special Revenue Fund** is the general operating fund of the TDA Fund of the City and accounts for all revenues and expenditures of the TDA Fund of the City.

**CITY OF HANFORD
TRANSPORTATION DEVELOPMENT ACT FUND
NON-TRANSIT OPERATIONS
NOTES TO FINANCIAL STATEMENTS (continued)**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and Investments: The TDA Fund of the City maintains its cash account with the City of Hanford Treasury as part of the common investment pool. The City is restricted by Government Code Section 53635 pursuant to Section 53601 to invest in time deposits, U.S. government securities, state registered warrants, notes or bonds, State Treasurer's investment pool, bankers' acceptances, commercial paper, negotiable certificates of deposit, and repurchase or reverse repurchase agreements.

State statutes and the City's investment policy authorize the City Treasury to invest in U.S. Government Treasury and Agency Securities, bankers' acceptances, commercial paper, corporate bonds and notes, repurchase agreements, and the State Treasurer's Local Agency Investment Fund (LAIF). In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, investments held by the City Treasury are stated at fair value. The fair value of pooled investments is determined quarterly and is based on current market prices received from the securities custodian. The balance available for withdrawal is based on the accounting records maintained by the City Treasury.

Credit quality ratings are not available for the TDA Fund of the City investments as all cash is invested as part of the common investment pool of the City. The TDA Fund of the City does not have any deposits with financial institutions as of June 30, 2016 and 2015.

Accounts Receivable: The TDA Fund of the City utilizes the allowance method of accounting for and reporting uncollectible or doubtful accounts. At June 30, 2016 and 2015, management considered all accounts to be fully collectible and, therefore, no allowance was recorded in the accompanying financial statements.

Non-Exchange Transactions: Non-exchange transactions, in which the TDA Fund of the City gives or receives value without directly receiving or giving equal value in exchange, include Article 8 allocations under Public Utilities Code Section 99400(a) of the TDA. With the accrual basis of accounting, revenue from taxes is recognized in the fiscal year for which the taxes are levied or assessed. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Deferred Outflows and Inflows of Resources: Pursuant to GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, the TDA Fund of the City recognizes deferred outflows and inflows of resources.

In addition to assets, the Balance Sheets will sometimes report a separate section for deferred outflows of resources. A deferred outflow of resources is defined as a consumption of net position by the TDA Fund of the City that is applicable to a future reporting period.

In addition to liabilities, the Balance Sheets will sometimes report a separate section for deferred inflows of resources. A deferred inflow of resources is defined as an acquisition of net position by the TDA Fund of the City that is applicable to a future reporting period.

**CITY OF HANFORD
TRANSPORTATION DEVELOPMENT ACT FUND
NON-TRANSIT OPERATIONS
NOTES TO FINANCIAL STATEMENTS (continued)**

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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Fund Equity: In the fund financial statements, in accordance with GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, governmental funds report fund balance as nonspendable, restricted, committed, assigned or unassigned based primarily on the extent to which the TDA Fund of the City is bound to honor constraints on how specific amounts can be spent.

- *Nonspendable* – Amounts that are not in spendable form (such as inventory) or are required to be maintained intact.
- *Restricted* – Amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- *Committed* – Amounts constrained to specific purposes by the TDA Fund of the City itself, using its highest level of decision-making authority (City Council). To be reported as committed, amounts cannot be used for any other purpose unless the TDA Fund of the City takes the same highest level action to remove or change the constraint.
- *Assigned* – Amounts the TDA Fund of the City intends to use for a specific purpose. Intent can be expressed by the TDA Fund of the City or by an official or body to which the Board of Commissioners delegates the authority.
- *Unassigned* – Amounts that are available for any purpose. Positive amounts are reported only in the General Fund of the City.

The TDA Fund of the City establishes and modifies or rescinds fund balance commitments by passage of an ordinance or policy. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget as a designation or commitment of the fund, such as approved contracts. Assigned fund balance is established by the TDA Fund of the City through adoption or amendment of the budget, or future year budget, plan as intended for a specific purpose.

The TDA Fund of the City's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

Budgeting Procedures: Each year management of the TDA Fund of the City prepares a proposed budget, which is presented to the City Council. The annual budget is then legally enacted through adoption of a budget resolution.

An operating budget is adopted each fiscal year on the modified accrual basis of accounting. Additionally, encumbrance accounting is utilized to assure effective budgetary control. Operating budgets that have not been encumbered lapse at the end of the fiscal year.

**CITY OF HANFORD
TRANSPORTATION DEVELOPMENT ACT FUND
NON-TRANSIT OPERATIONS
NOTES TO FINANCIAL STATEMENTS (continued)**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Governmental Accounting Standards Update: During the year ending June 30, 2016, the District implemented the following standards:

GASB Statement No. 72 – *Fair Value Measurement and Application*. The provisions of this statement are effective for financial statements for reporting periods beginning after June 15, 2015.

GASB Statement No. 73 – *Accounting and Financial Reporting for Pension and Related Assets That Are Not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68*. The provisions of this statement are effective for fiscal years beginning after June 15, 2015, except those provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of GASB Statement No. 68, which are effective for fiscal years beginning after June 15, 2016.

GASB Statement No. 79 – *Certain External Investment Pools and Pool Participants*. The requirements of this statement are effective for reporting periods beginning after June 15, 2015, except for the provisions in paragraphs 18, 19, 23-26 and 40, which are effective for reporting periods beginning after December 15, 2015.

Released GASB Statements to be implemented in future financial statements are as follows:

GASB Statement No. 74 – *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*. The provisions of this statement are effective for financial statements for reporting periods beginning after June 15, 2016.

GASB Statement No. 75 – *Accounting and Financial Reporting for Postemployment Benefits other than Pension Plans*. The provisions of this statement are effective for financial statements for reporting periods beginning after June 15, 2017.

GASB Statement No. 76 – *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The provisions of this statement are effective for financial statements for reporting periods beginning after June 15, 2015.

GASB Statement No. 77 – *Tax Abatement Disclosures*. The requirements of this statement are effective for reporting periods beginning after December 15, 2015.

GASB Statement No. 78 – *Pensions Provided through Certain Multiple-Employer Defined Benefit Plans*. The requirements of this statement are effective for reporting periods beginning after December 15, 2015.

GASB Statement No. 80 – *Blending Requirements for Certain Component Units- an amendment of GASB Statement No. 14*. The requirements of this statement are effective for reporting periods beginning after June 15, 2016.

GASB Statement No. 81 – *Irrevocable Split-Interest Agreements*. The requirements of this statement are effective for reporting periods beginning after December 15, 2016.

**CITY OF HANFORD
TRANSPORTATION DEVELOPMENT ACT FUND
NON-TRANSIT OPERATIONS
NOTES TO FINANCIAL STATEMENTS (continued)**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Governmental Accounting Standards Update (continued):

GASB Statement No. 82 – *Pension Issues- an amendment of GASB Statements No. 67, No. 68, and No. 73.* The requirements of this statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of paragraph 7 in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements of paragraph 7 are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017.

Subsequent Events: In compliance with accounting standards, management has evaluated events that have occurred after year-end to determine if these events are required to be disclosed in the financial statements. Management has determined that no events require disclosure in accordance with accounting standards. These subsequent events have been evaluated through April 11, 2017, which is the date the financial statements were available to be issued.

NOTE 2 – CASH AND INVESTMENTS

Cash and investments as of June 30, 2016 and 2015, consist of the following:

	2016	2015
Cash in City of Hanford Treasury	<u>\$ 2,939,617</u>	<u>\$ 2,431,827</u>
Total Interest and Investment Earnings from City of Hanford	<u>\$ 19,371</u>	<u>\$ 8,527</u>

See the City of Hanford Annual Financial Report for disclosure related to risks and fair value measurements.

NOTE 3 – ADVANCES – TDA FUNDING

Advances – TDA Funding for the TDA Fund of the City for the years ended June 30, 2016 and 2015 are as follows:

	2016	2015
Local Transportation Fund		
Advances - TDA Funding, beginning of year	\$ 2,115,025	\$ 948,851
TDA funds allocated	1,412,911	1,443,576
TDA funds earned	(620,221)	(277,402)
Advances - TDA Funding, end of year	<u>\$ 2,907,715</u>	<u>\$ 2,115,025</u>

**CITY OF HANFORD
TRANSPORTATION DEVELOPMENT ACT FUND
NON-TRANSIT OPERATIONS
NOTES TO FINANCIAL STATEMENTS (continued)**

NOTE 4 – TRANSPORTATION DEVELOPMENT ACT ALLOCATIONS

The City receives TDA funds from the County of Kings LTF in accordance with resolutions by the Kings County Association of Governments. The amounts identified are to be expended in accordance with Public Utilities Code Section 99400(a).

NOTE 5 – ECONOMIC DEPENDENCY

The TDA Fund of the City received the majority of its funding from one source, by Section 99400(a) of the Public Utilities Code. The total amount of revenue from the Public Utilities Code was \$620,221 and \$277,402, or 96.97% and 95.66%, of the total revenue for the years ending June 30, 2016 and 2015. The TDA Fund of the City is thus subject to possible risk of reductions in services and/or closure due to potential future changes of Section 99400(a) of the Public Utilities Code.

NOTE 6 – PRIOR PERIOD ADJUSTMENT

A prior period adjustment of \$129,186 was recorded to the beginning fund balance for the year ended June 30, 2015 to correctly account for expenditures incurred in the prior year that were incorrectly recorded in a previous year.



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

To the City Council
Hanford, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Transportation Development Act (TDA) Fund of the City of Hanford, California (the City), pertaining to Article 8 Section 99400(a) of the Public Utilities Code as recorded in the City's Local Transportation Fund (LTF) 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 Fund of the City's basic financial statements, and have issued our report thereon dated April 11, 2017.

Internal Control over Financial Reporting

In planning and performing our audits of the financial statements, we considered the TDA Fund of the City'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the TDA Fund of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the TDA Fund of the City'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 audits 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 Fund of the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, including, the applicable provisions of the TDA, including Public Utilities Code Section 99245 as enacted and amended by statute through June 30, 2016; and the allocation instructions and resolutions of the Transportation Planning Agency as required by Section 6666 of the California Administrative Code, 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 audits, 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 TDA Fund of the City'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.

HUDSON HENDERSON & COMPANY, INC.

Hudson Henderson & Company, Inc.

Fresno, California
April 11, 2017

**CITY OF HANFORD
TRANSPORTATION DEVELOPMENT ACT FUND
NON-TRANSIT OPERATIONS
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2016**

FINANCIAL STATEMENT FINDINGS

There are no financial statement findings to be reported in accordance with *Governmental Accounting Standards*.

**CITY OF HANFORD
TRANSPORTATION DEVELOPMENT ACT FUND
NON-TRANSIT OPERATIONS
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS
FOR THE YEAR ENDED JUNE 30, 2015**

FINANCIAL STATEMENT FINDINGS

There were no financial statement findings to be reported in accordance with *Governmental Accounting Standards*.