

City of Ojai, California

**Transportation Development Act Fund
Article 4, Section 99260(a) of the Public Utilities Code**

Financial Statements and Independent Auditors' Reports

For the Years Ended June 30, 2017 and 2016

City of Ojai, California
Transportation Development Act Fund
Article 4, Section 99260(a) of the Public Utilities Code
Financial Statements
For the Years Ended June 30, 2017 and 2016

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FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the financial statements of the Transportation Development Act (TDA) Article 4, Section 99260(a) fund (Transportation Development Act Fund) of the City of Ojai, California (City), which comprise of the balance sheets as of June 30, 2017 and 2016, and the related statements of revenues, expenditures and changes in fund balances for the years 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

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 Transportation Development Act Fund of the City, as of June 30, 2017 and 2016, and the changes in financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

To the Honorable Mayor and Members of the City Council
of the City of Ojai
Ojai, California
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Emphasis of Matters

As discussed in Note 1, the financial statements present only the Transportation Development Act Fund of the City and do not purport to, and do not, present fairly the financial position of the City, as of June 30, 2017 and 2016, the change in its financial position 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 Matters

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements of the Transportation Development Act Fund of the City. The Budgetary Comparison Schedules and Schedule of Project Status on pages 15 through 17, respectively, are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements of the Transportation Development Act Fund of the City. This supplemental data has been subjected to the 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 or to 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 financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 31, 2017, on our consideration of the City's internal control over financial reporting for the Transportation Development Act Fund, 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 City's internal control over financial reporting and compliance.

The PwC Group, LLP

Santa Ana, California
December 31, 2017

**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 Ojai
Ojai, 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 balance sheets of the Transportation Development Act (TDA) Article 4, Section 99260(a) fund (Transportation Development Act Fund) of the City of Ojai, California (City) as of and for the years ended June 30, 2017 and 2016, and the related statements of revenues, expenditures and changes in fund balances, and the related notes to the financial statements, which collectively comprises the Transportation Development Act Fund of the City, and have issued our report thereon dated December 31, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered 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 City's internal control. Accordingly, we do not express an opinion on the effectiveness 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 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 financial statements of the Transportation Development Act Fund of the City are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, including §6666 of Part 21 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 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*, including §6666 of Part 21 of the California Code of Regulations.

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To the Honorable Mayor and Members of the City Council
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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 Pex Group, LLP

Santa Ana, California
December 31, 2017

FINANCIAL STATEMENTS

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City of Ojai, California
Transportation Development Act – Article 4
Transportation Development Act Fund
Balance Sheets
June 30, 2017 and 2016

	Article 4	
	2017	2016
<u>ASSETS</u>		
Assets:		
Cash and cash equivalents	\$ 75,225	\$ 50,013
Due from other governments	-	-
Total assets	\$ 75,225	\$ 50,013
<u>LIABILITIES AND FUND BALANCE</u>		
Liabilities:		
Accounts payable and accrued expenses	\$ -	\$ -
Total liabilities	-	-
Fund balance:		
Restricted for TDA Article 4 expenditures	75,225	50,013
Total fund balance	75,225	50,013
Total liabilities and fund balance	\$ 75,225	\$ 50,013

City of Ojai, California
Transportation Development Act – Article 4
Transportation Development Act Fund
Statements of Revenues, Expenditures and Changes in Fund Balances
For the Years Ended June 30, 2017 and 2016

	Article 4	
	2017	2016
Revenues:		
Local transportation funds allocation	\$ 202,000	\$ 209,951
Interest earnings	212	13
Total revenues	202,212	209,964
Expenditures:		
Operating	177,000	159,951
Capital outlay	-	-
Total expenditures	177,000	159,951
Changes in fund balances	25,212	50,013
Fund balance:		
Beginning of year	50,013	-
End of year	\$ 75,225	\$ 50,013

City of Ojai, California
Transportation Development Act Fund
Article 4, Section 99260(a) of the Public Utilities Code
Notes to the Financial Statements
For the Years Ended June 30, 2017 and 2016

Note 1 – Reporting Entity and Summary of Significant Accounting Policies

General Information

The accompanying financial statements are intended to reflect the financial position and changes in financial position for the Article 4, Section 99260(a) Transportation Development Act Fund of the City of Ojai, California (City) only and are not intended to present fairly the financial position and results of operations of the City in accordance with accounting principles generally accepted in the United States of America.

Pursuant to Section 99260(a) of the California Public Utilities Code, Article 4 monies are used only for public transportation. Funding for this program is authorized by the County of Ventura and is paid to the City from the Gold Coast Transit District.

Governmental Fund Financial Statements

The accounts of the City are organized on the basis of funds. A fund is defined as an independent fiscal and accounting entity wherein operations of each fund are accounted for in a separate set of self-balancing accounts that record resources, related liabilities, obligations, reserves and equity segregated for the purpose of carrying out specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. The City accounts for the activity of the Article 4, Section 99260(a) fund in its Transportation Development Act Fund, which is a Special Revenue Fund that is used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes.

Measurement Focus and Basis of Accounting

Special Revenue Funds are accounted for using the *current financial resources* measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, revenues are available if they are collected within 60 days of the end of the fiscal period. Expenditures generally are recorded when a liability is incurred.

Revenue Recognition

Recognition of revenues arising from nonexchange transactions, which include revenues from taxes, certain grants and contributions, is based on the primary characteristic from which the revenues are received by the City. For the City, funds received under Transportation Development Act Article 4, Section 99260(a) of the Public Utilities Code possess the characteristic of a voluntary nonexchange transaction similar to a grant. Revenues under TDA Article 4, Section 99260(a) are recognized in the period when all eligibility requirements have been met.

Unavailable revenue arises when potential revenues do not meet both the measurable and availability criteria for recognition in the current period. Unavailable revenues also arise when the City receives resources before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualified expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the City has a legal claim to the resources, the liability for unavailable revenue is removed from the balance sheet and revenue is recognized.

City of Ojai, California
Transportation Development Act Fund
Article 4, Section 99260(a) of the Public Utilities Code
Notes to the Financial Statements
For the Years Ended June 30, 2017 and 2016

Note 1 – Reporting Entity and Summary of Significant Accounting Policies (Continued)

Fund Balance

As prescribed by GASB Statement No. 54, governmental funds report fund balance in classifications based primarily on the extent to which the entity is bound to honor constraints on the specific purposes for which amounts in the fund can be spent. As of June 30, 2017 and 2016, the fund balance for the Transportation Development Act Fund of the City is Restricted.

Restricted fund balance includes amounts with constraints placed on their use that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions enabling legislation. Restrictions may effectively be changed or lifted only with the consent of the resource providers.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported changes in District net position during the reporting period. 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. The balance in the pool account is available to meet current operating requirements. Cash in excess of current requirements is invested in various interest-bearing accounts and other investments for varying terms. The Transportation Development Act Fund's cash and investments balance as of June 30, 2017 and 2016 was \$75,225 and \$50,013, respectively.

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

Note 3 – Restrictions

Funds received pursuant to PUC §99260(a) may only be used for public transportation activities.

Note 4 – Commitments and Contingencies

As of June 30, 2017, in the opinion of the City administration, there were no outstanding matters which would have a significant effect on the financial position of these financial statements.

City of Ojai, California
Transportation Development Act Fund
Article 4, Section 99260(a) of the Public Utilities Code
Notes to the Financial Statements
For the Years Ended June 30, 2017 and 2016

Note 5 – Transportation Development Act Compliance Requirements

California Public Utilities Code
Chapter 4 – Transportation Development
Article 4 – Claims for Funds
Section 99268.5(c) – Fare Ratio Requirement for Exclusive Services to Elderly and Disabled Persons

In a county which had less than 500,000 population as determined by the 1970 federal decennial census and more than 500,000 in population as determined by the 1980 or 1990 federal decennial census, an operator in the county shall maintain a ratio of fare revenues to operating cost, as defined by subdivision (a) of Section 99247 ("operating cost" means all costs in the operating expense object classes exclusive of the costs in the depreciation and amortization expense object class of the uniform system of accounts and records adopted by the Controller pursuant to Section 99243), at least equal to one-fifth (20%) if serving an urbanized area or one-tenth (10%) if serving a non-urbanized area.

Ojai Trolley

The following information is provided from the City of Ojai's Transit Fund.

For the years ended June 30, 2017 and 2016, the fare ratio requirement was calculated as follows:

Description	June 30, 2017	June 30, 2016
Operating revenues:		
Passenger fares for transit services	\$ 75,860	\$ 83,728
Local support revenues	-	205,719
Total operating revenues	<u>75,860</u>	<u>289,447</u>
Operating expenses:		
Operations expense	<u>641,870</u>	<u>701,764</u>
Total operating expenses	<u>\$ 641,870</u>	<u>\$ 701,764</u>
Total fare ratio	<u>12%</u>	<u>41%</u>
Total fare ratio requirement pursuant to Section 99268.5(c)	<u>20%</u>	<u>20%</u>

For purposes of the fare ratio requirement calculation, only the expenses of the City's bus system were included in the operating expenses.

For the fiscal year ending June 30, 2016, the City of Ojai operated the Ojai trolley with TDA funds passed-through from Gold Coast Transit District to the City of Ojai and the County of Ventura. The City of Ojai utilized the TDA funds passed-through from the County of Ventura as a local support to offset its fare box requirements. However, at the May 13, 2016 Ventura County Transportation Commission (VCTC) meeting the VCTC board approved a TDA policy that indicates that TDA funds allocated to eligible claimants and passed-through to other entities retain TDA requirements for policy implementation effective July 1, 2016.

Therefore, for the year ended June 30, 2017, the City of Ojai did not comply with the fare ratio requirement. (See Finding – 2017-001)

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SUPPLEMENTARY INFORMATION

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City of Ojai, California
Transportation Development Act – Article 4
Transportation Development Act Fund
Budgetary Comparison Schedule
For the Year Ended June 30, 2017

	<u>Original Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:			
Local transportation funds allocation	\$ 177,000	\$ 202,000	\$ 25,000
Interest earnings	-	212	212
Total revenues	<u>177,000</u>	<u>202,212</u>	<u>25,212</u>
Expenditures:			
Operating	178,350	177,000	1,350
Capital outlay	75,000	-	75,000
Total expenditures	<u>253,350</u>	<u>177,000</u>	<u>76,350</u>
Changes in fund balance	<u>\$ (76,350)</u>	25,212	<u>\$ 101,562</u>
Fund balance:			
Beginning of year		<u>50,013</u>	
End of year		<u>\$ 75,225</u>	

City of Ojai, California
Transportation Development Act – Article 4
Transportation Development Act Fund
Budgetary Comparison Schedule
For the Year Ended June 30, 2016

	<u>Original Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:			
Local transportation funds allocation	\$ 209,951	\$ 209,951	\$ -
Interest earnings	<u>-</u>	<u>13</u>	<u>13</u>
Total revenues	<u>209,951</u>	<u>209,964</u>	<u>13</u>
Expenditures:			
Operating	159,951	159,951	-
Capital outlay	<u>50,000</u>	<u>-</u>	<u>50,000</u>
Total expenditures	<u>209,951</u>	<u>159,951</u>	<u>50,000</u>
Changes in fund balance	<u>\$ -</u>	50,013	<u>\$ 50,013</u>
Fund balance:			
Beginning of year		<u>-</u>	
End of year		<u>\$ 50,013</u>	

City of Ojai, California
Transportation Development Act – Article 4
Transportation Development Act Fund
Schedules of Project Status
For the Years Ended June 30, 2017 and 2016

For the Year Ended June 30, 2017

Project Description	Beginning Balance	Local Transportation Funds Allocation	Allocation Adjustments	Interest Earnings Allocation	Expenditures	Ending Balance
Operating:						
Ojai Trolley	\$ -	\$ 177,000	\$ -	\$ -	\$ 177,000	\$ -
Total operating	<u>\$ -</u>	<u>\$ 177,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 177,000</u>	<u>\$ -</u>
Capital:						
Ojai Trolley Five-Bay Bus	50,013	-	(50,013)	-	-	-
Ojai Trolley Washpad and Collection System	-	20,000	25,007	127	-	45,134
Ojai Trolley Storage Area	-	5,000	25,006	85	-	30,091
Total capital	<u>50,013</u>	<u>25,000</u>	<u>-</u>	<u>212</u>	<u>-</u>	<u>75,225</u>
Total	<u>\$ 50,013</u>	<u>\$ 202,000</u>	<u>\$ -</u>	<u>\$ 212</u>	<u>\$ 177,000</u>	<u>\$ 75,225</u>

For the Year Ended June 30, 2016

Project Description	Beginning Balance	Local Transportation Funds Allocation	Allocation Adjustments	Interest Earnings Allocation	Expenditures	Ending Balance
Operating:						
Ojai Trolley	\$ -	\$ 159,951	\$ -	\$ -	\$ 159,951	\$ -
Total operating	<u>\$ -</u>	<u>\$ 159,951</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 159,951</u>	<u>\$ -</u>

City of Ojai, California
Transportation Development Act Fund
Article 4, Section 99260(a) of the Public Utilities Code
Notes to the Financial Statements
For the Years Ended June 30, 2017 and 2016

Finding – 2017-001

Fare Ratio Requirement

For the year ended June 30, 2017, the fare ratio calculation for the City of Ojai was 12% which is lower than the fare ratio requirement of 20% for the type of transit service provided.

Criteria

Section 99268.5(c) of the TDA Act indicates that an operator in Ventura County providing regular public transportation service shall be eligible for Local Transportation Funds if it maintains for the fiscal year, a ratio of fare revenue to operating costs at least equal to 20.00%.

During the year ended June 30, 2017 the funds received from the Local Transportation Fund did not comply with the above provision.

City of Ojai did not meet the TDA Act required farebox recovery ratio during the year ended June 30, 2017.

If the year ended June 30, 2018 is deemed a non-compliant year, Section 6634 requires that the claimant be penalized in a future year (the year ended June 30, 2020). This will result in the claimants' TDA funds being reduced by the difference between the required farebox revenues and the actual revenues. Additionally, pursuant to Section 6633.9(4), the claimant shall be required to demonstrate how it will achieve the required farebox recovery ratio during any penalty year.

Recommendation

We recommend that the City of Ojai take the necessary steps to comply with the fare ratio requirement pursuant to Section 99268.5(c). of the TDA Act.